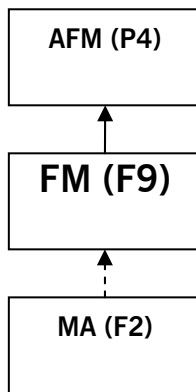


Syllabus



AIM

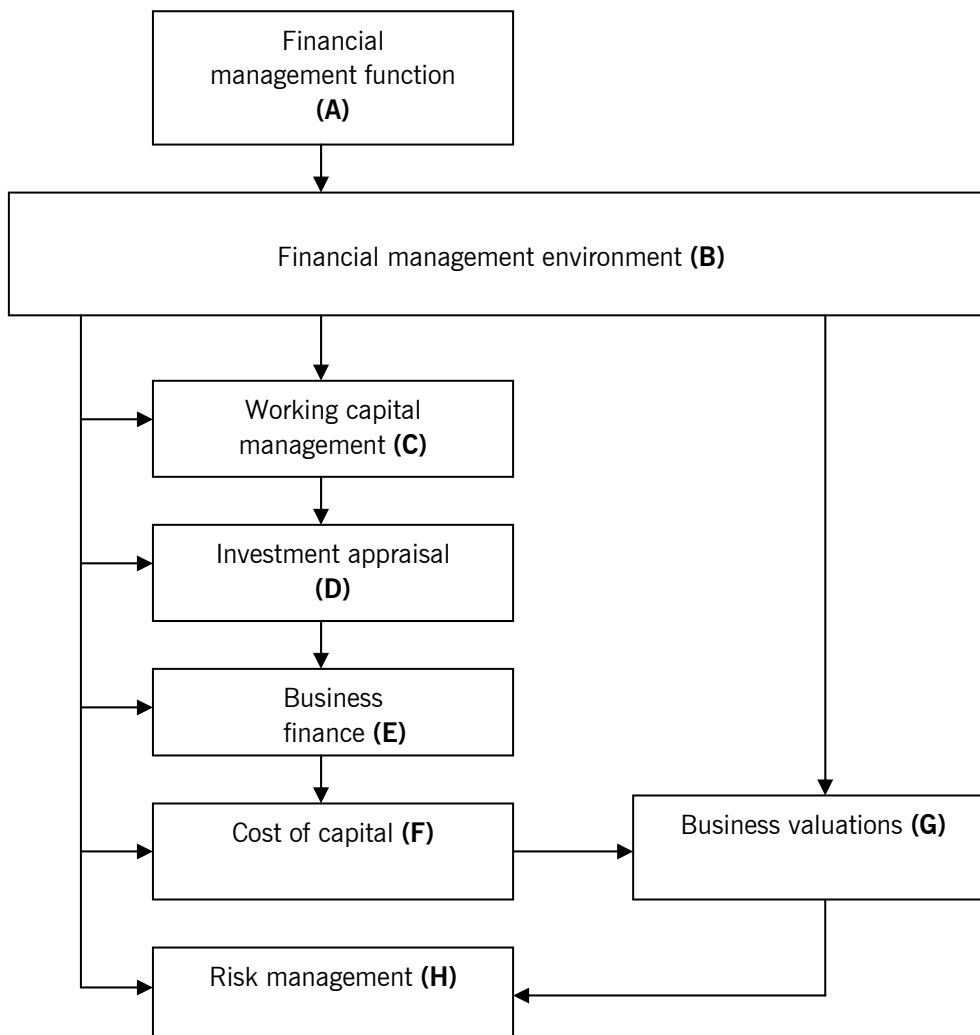
To develop the knowledge and skills expected of a finance manager, in relation to investment, financing, and dividend policy decisions.

MAIN CAPABILITIES

On successful completion of this paper candidates should be able to:

- A** Discuss the role and purpose of the financial management function
- B** Assess and discuss the impact of the economic environment on financial management
- C** Discuss and apply working capital management techniques
- D** Carry out effective investment appraisal
- E** Identify and evaluate alternative sources of business finance
- F** Explain and calculate the cost of capital and the factors which affect it
- G** Discuss and apply principles of business and asset valuations
- H** Explain and apply risk management techniques in business.

RELATIONAL DIAGRAM OF MAIN CAPABILITIES



RATIONALE

The syllabus for Paper F9, *Financial Management*, is designed to equip candidates with the skills that would be expected from a finance manager responsible for the finance function of a business. The paper, therefore, starts by introducing the role and purpose of the financial management function within a business. Before looking at the three key financial management decisions of investing, financing, and dividend policy, the syllabus explores the economic environment in which such decisions are made.

The next section of the syllabus is the introduction of investing decisions. This is done in two stages - investment in (and the management of) working capital and the appraisal of long-term investments.

The next area introduced is financing decisions. This section of the syllabus starts by examining the various sources of business finance, including dividend policy and how much finance can be raised from within the business. Cost of capital and other factors that influence the choice of the type of capital a business will raise then follows. The principles underlying the valuation of business and financial assets, including the impact of cost of capital on the value of business, is covered next.

The syllabus finishes with an introduction to, and examination of, risk and the main techniques employed in the management of such risk.

DETAILED SYLLABUS

A Financial management function

1. The nature and purpose of financial management
2. Financial objectives and relationship with corporate strategy
3. Stakeholders and impact on corporate objectives
4. Financial and other objectives in not-for-profit organisations

B Financial management environment

1. The economic environment for business

2. The nature and role of financial markets and institutions

C Working capital management

1. The nature, elements and importance of working capital
2. Management of inventories, accounts receivable, accounts payable and cash
3. Determining working capital needs and funding strategies

D Investment appraisal

1. The nature of investment decisions and the appraisal process
2. Non-discounted cash flow techniques
3. Discounted cash flow (DCF) techniques
4. Allowing for inflation and taxation in DCF
5. Adjusting for risk and uncertainty in investment appraisal
6. Specific investment decisions (lease or buy; asset replacement, capital rationing)

E Business finance

1. Sources of, and raising short-term finance
2. Sources of, and raising long-term finance
3. Raising short and long term finance through Islamic financing
4. Internal sources of finance and dividend policy
5. Gearing and capital structure considerations
6. Finance for Small and Medium-size Entities (SMEs)

F Cost of capital

1. Sources of finance and their relative costs
2. Estimating the cost of equity

3. Estimating the cost of debt and other capital instruments
4. Estimating the overall cost of capital
5. Capital structure theories and practical considerations
6. Impact of cost of capital on investments

G Business valuations

1. Nature and purpose of the valuation of business and financial assets
2. Models for the valuation of shares
3. The valuation of debt and other financial assets
4. Efficient market hypothesis (EMH) and practical considerations in the valuation of shares

H Risk management

1. The nature and types of risk and approaches to risk management
2. Causes of exchange rate differences and interest rate fluctuations
3. Hedging techniques for foreign currency risk
4. Hedging techniques for interest rate risk

APPROACH TO EXAMINING THE SYLLABUS

The syllabus for Paper F9 aims to develop the skills expected of a finance manager who is responsible for the finance function of a business.

The paper also prepares candidates for more advanced and specialist study in Paper P4, *Advanced Financial Management*.

The syllabus is assessed by a three-hour paper-based examination consisting of four compulsory 25-mark questions. All questions will have computational and discursive elements. The balance between computational and discursive content will continue in line with the pilot paper.

Candidates are provided with a formulae sheet and tables of discount and annuity factors.

Study Guide

A FINANCIAL MANAGEMENT FUNCTION

1. The nature and purpose of financial management

- a) Explain the nature and purpose of financial management.^[1]
- b) Explain the relationship between financial management and financial and management accounting.^[1]

2. Financial objectives and the relationship with corporate strategy

- a) Discuss the relationship between financial objectives, corporate objectives and corporate strategy.^[2]
- b) Identify and describe a variety of financial objectives, including:^[2]
 - i) shareholder wealth maximisation
 - ii) profit maximisation
 - iii) earnings per share growth

3. Stakeholders and impact on corporate objectives

- a) Identify the range of stakeholders and their objectives.^[2]
- b) Discuss the possible conflict between stakeholder objectives.^[2]
- c) Discuss the role of management in meeting stakeholder objectives, including the application of agency theory.^[2]
- d) Describe and apply ways of measuring achievement of corporate objectives

including:^[2]

- i) ratio analysis, using appropriate ratios such as return on capital employed, return on equity, earnings per share and dividend per share
 - ii) changes in dividends and share prices as part of total shareholder return
- e) Explain ways to encourage the achievement of stakeholder objectives, including:^[2]
 - i) managerial reward schemes such as share options and performance-related pay
 - ii) regulatory requirements such as corporate governance codes of best practice and stock exchange listing regulations
- #### 4. Financial and other objectives in not-for-profit organisations
- a) Discuss the impact of not-for-profit status on financial and other objectives.^[2]
 - b) Discuss the nature and importance of Value for Money as an objective in not-for-profit organisations.^[2]
 - c) Discuss ways of measuring the achievement of objectives in not-for-profit organisations.^[2]

B FINANCIAL MANAGEMENT ENVIRONMENT

1. The economic environment for business

- a) Identify and explain the main macroeconomic policy targets.^[1]
- b) Define and discuss the role of fiscal, monetary, interest rate and exchange rate policies in achieving macroeconomic policy targets.^[1]

- c) Explain how government economic policy interacts with planning and decision-making in business.^[2]
- d) Explain the need for, and the interaction with, planning and decision-making in business of: ^[1]
 - i) competition policy
 - ii) government assistance for business
 - iii) green policies
 - iv) corporate governance regulation.^[2]

2. The nature and role of financial markets and institutions

- a) Identify the nature and role of money and capital markets, both nationally and internationally.^[2]
- b) Explain the role of financial intermediaries.^[1]
- c) Explain the functions of a stock market and a corporate bond market.^[2]
- d) Explain the nature and features of different securities in relation to the risk/return trade-off.^[2]

C WORKING CAPITAL MANAGEMENT

1. The nature, elements and importance of working capital

- a) Describe the nature of working capital and identify its elements.^[1]
- b) Identify the objectives of working capital management in terms of liquidity and profitability, and discuss the conflict between them.^[2]
- c) Discuss the central role of working capital management in financial management.^[2]

2. Management of inventories, accounts receivable, accounts payable and cash

- a) Explain the cash operating cycle and the role of accounts payable and accounts receivable.^[2]
- b) Explain and apply relevant accounting ratios, including: ^[2]
 - i) current ratio and quick ratio
 - ii) inventory turnover ratio, average collection period and average payable period

iii) sales revenue/net working capital ratio

- c) Discuss, apply and evaluate the use of relevant techniques in managing inventory, including the Economic Order Quantity model and Just-in-Time techniques.^[2]
- d) Discuss, apply and evaluate the use of relevant techniques in managing accounts receivable, including:
 - i) assessing creditworthiness ^[1]
 - ii) managing accounts receivable ^[1]
 - iii) collecting amounts owing ^[1]
 - iv) offering early settlement discounts ^[2]
 - v) using factoring and invoice discounting ^[2]
 - vi) managing foreign accounts receivable ^[2]
- e) Discuss and apply the use of relevant techniques in managing accounts payable, including:
 - i) using trade credit effectively ^[1]
 - ii) evaluating the benefits of discounts for early settlement and bulk purchase ^[2]
 - iii) managing foreign accounts payable ^[1]
- f) Explain the various reasons for holding cash, and discuss and apply the use of relevant techniques in managing cash, including:^[2]
 - i) preparing cash flow forecasts to determine future cash flows and cash balances
 - ii) assessing the benefits of centralised treasury management and cash control
 - iii) cash management models, such as the Baumol model and the Miller-Orr model
 - iv) investing short-term

3. Determining working capital needs and funding strategies

- a) Calculate the level of working capital investment in current assets and discuss the key factors determining this level, including:^[2]
 - i) the length of the working capital cycle and terms of trade
 - ii) an organisation's policy on the level of investment in current assets
 - iii) the industry in which the organisation operates
- b) Describe and discuss the key factors in determining working capital funding strategies, including:^[2]

- i) the distinction between permanent and fluctuating current assets
- ii) the relative cost and risk of short-term and long-term finance
- iii) the matching principle
- iv) the relative costs and benefits of aggressive, conservative and matching funding policies
- v) management attitudes to risk, previous funding decisions and organisation size ^[1]

iv) the time value of money and the role of cost of capital in appraising investments

- b) Calculate net present value and discuss its usefulness as an investment appraisal method. ^[2]
- c) Calculate internal rate of return and discuss its usefulness as an investment appraisal method. ^[2]

D INVESTMENT APPRAISAL

1. The nature of investment decisions and the appraisal process

- a) Distinguish between capital and revenue expenditure, and between non-current assets and working capital investment. ^[2]
- b) Explain the role of investment appraisal in the capital budgeting process. ^[2]
- c) Discuss the stages of the capital budgeting process in relation to corporate strategy. ^[2]

2. Non-discounted cash flow techniques

- a) Identify and calculate relevant cash flows for investment projects. ^[2]
- b) Calculate payback period and discuss the usefulness of payback as an investment appraisal method. ^[2]
- c) Calculate return on capital employed (accounting rate of return) and discuss its usefulness as an investment appraisal method. ^[2]

3. Discounted cash flow (DCF) techniques

- a) Explain and apply concepts relating to interest and discounting, including: ^[2]
 - i) the relationship between interest rates and inflation, and between real and nominal interest rates
 - ii) the calculation of future values and the application of the annuity formula
 - iii) the calculation of present values, including the present value of an annuity and perpetuity, and the use of discount and annuity tables

- d) Discuss the superiority of DCF methods over non-DCF methods. ^[2]
- e) Discuss the relative merits of NPV and IRR. ^[2]

4. Allowing for inflation and taxation in DCF

- a) Apply and discuss the real-terms and nominal-terms approaches to investment appraisal. ^[2]
- b) Calculate the taxation effects of relevant cash flows, including the tax benefits of capital allowances and the tax liabilities of taxable profit. ^[2]
- c) Calculate and apply before- and after-tax discount rates. ^[2]

5. Adjusting for risk and uncertainty in investment appraisal

- a) Describe and discuss the difference between risk and uncertainty in relation to probabilities and increasing project life. ^[2]
- b) Apply sensitivity analysis to investment projects and discuss the usefulness of sensitivity analysis in assisting investment decisions. ^[2]
- c) Apply probability analysis to investment projects and discuss the usefulness of probability analysis in assisting investment decisions. ^[2]
- d) Apply and discuss other techniques of adjusting for risk and uncertainty in investment appraisal, including:
 - i) simulation ^[1]
 - ii) adjusted payback ^[1]
 - iii) risk-adjusted discount rates ^[2]

6. Specific investment decisions (Lease or buy; asset replacement; capital rationing)

- a) Evaluate leasing and borrowing to buy using the before-and after-tax costs of debt.^[2]
- b) Evaluate asset replacement decisions using equivalent annual cost.^[2]
- c) Evaluate investment decisions under single-period capital rationing, including:^[2]
 - i) the calculation of profitability indexes for divisible investment projects
 - ii) the calculation of the NPV of combinations of non-divisible investment projects
 - iii) a discussion of the reasons for capital rationing

E BUSINESS FINANCE

1. Sources of and raising short-term finance

- a) Identify and discuss the range of short-term sources of finance available to businesses, including:^[2]
 - i) overdraft
 - ii) short-term loan
 - iii) trade credit
 - iv) lease finance

2. Sources of and raising, long-term finance

- a) Identify and discuss the range of long-term sources of finance available to businesses, including:^[2]
 - i) equity finance
 - ii) debt finance
 - iii) lease finance
 - iv) venture capital
- b) Identify and discuss methods of raising equity finance, including:^[2]
 - i) rights issue
 - ii) placing
 - iii) public offer
 - iv) stock exchange listing

3. Raising short and long term finance through Islamic financing

- a) Explain the major difference between Islamic finance and the other conventional finance.^[1]
- b) Explain the concept of interest (riba) and how returns are made by Islamic financial securities.^[1] (calculations are not required)
- c) Identify and briefly discuss a range of short and long term Islamic financial instruments available to businesses including^[1]
 - i) trade credit (murabaha)
 - ii) lease finance (ijara)
 - iii) equity finance (mudaraba)
 - iv) debt finance (sukuk)
 - v) venture capital (musharaka)

4. Internal sources of finance and dividend policy

- a) Identify and discuss internal sources of finance, including:^[2]
 - i) retained earnings
 - ii) increasing working capital management efficiency
- b) Explain the relationship between dividend policy and the financing decision^[2]
- c) Discuss the theoretical approaches to, and the practical influences on, the dividend decision, including:^[2]
 - i) legal constraints
 - ii) liquidity
 - iii) shareholder expectations
 - iv) alternatives to cash dividends

5. Gearing and capital structure considerations

- a) Identify and discuss the problem of high levels of gearing^[2]
- b) Assess the impact of sources of finance on financial position and financial risk using appropriate measures, including:
 - i) ratio analysis using statement of financial position gearing, operational and financial gearing, interest coverage ratio and other relevant ratios^[2]
 - ii) cash flow forecasting^[2]
 - iii) effect on shareholder wealth^[2]

6. Finance for small and medium sized entities (SMEs)

- a) Describe the financing needs of small businesses.^[2]
- b) Describe the nature of the financing problem for small businesses in terms of the funding gap, the maturity gap and inadequate security.^[2]
- c) Explain measures that may be taken to ease the financing problems of SMEs, including the responses of government departments and financial institutions.^[1]
- d) Identify appropriate sources of finance for SMEs and evaluate the financial impact of different sources of finance on SMEs.^[2]

F COST OF CAPITAL

1. Sources of finance and their relative costs

- a) Describe the relative risk-return relationship and the relative costs of equity and debt.^[2]
- b) Describe the creditor hierarchy and its connection with the relative costs of sources of finance.^[2]

2. Estimating the cost of equity

- a) Apply the dividend growth model and discuss its weaknesses.^[2]
- b) Apply the capital asset pricing model (CAPM) and describe and explain the assumptions and components of the CAPM.^[2]
- c) Explain and discuss the advantages and disadvantages of the CAPM.^[2]

3. Estimating the cost of debt and other capital instruments

- a) Calculate the cost of capital of a range of capital instruments, including:^[2]
 - i) irredeemable debt

- ii) redeemable debt
- iii) convertible debt
- iv) preference shares
- v) bank debt

4. Estimating the overall cost of capital

- a) Distinguish between average and marginal cost of capital.^[2]
- b) Calculate the weighted average cost of capital (WACC) using book value and market value weightings.^[2]

5. Capital structure theories and practical considerations

- a) Describe the traditional view of capital structure and its assumptions.^[2]
- b) Describe the views of Miller and Modigliani on capital structure, both without and with corporate taxation, and their assumptions.^[2]
- c) Identify a range of capital market imperfections and describe their impact on the views of Miller and Modigliani on capital structure.^[2]
- d) Explain the relevance of pecking order theory to the selection of sources of finance.^[1]

6. Impact of cost of capital on investments

- a) Explain the relationship between company value and cost of capital.^[2]
- b) Discuss the circumstances under which WACC can be used in investment appraisal.^[2]
- c) Discuss the advantages of the CAPM over WACC in determining a project-specific cost of capital.^[2]
- d) Apply the CAPM in calculating a project-specific discount rate.^[2]

G BUSINESS VALUATIONS

1. Nature and purpose of the valuation of business and financial assets

- a) Identify and discuss reasons for valuing businesses and financial assets.^[2]
- b) Identify information requirements for valuation and discuss the limitations of different types of information.^[2]

2. Models for the valuation of shares

- a) Asset-based valuation models, including:^[2]
 - i) net book value (statement of financial position basis).
 - ii) net realisable value basis.
 - iii) net replacement cost basis.
- b) Income-based valuation models, including:^[2]
 - i) price/earnings ratio method.
 - ii) earnings yield method.
- c) Cash flow-based valuation models, including:^[2]
 - i) dividend valuation model and the dividend growth model.
 - ii) discounted cash flow basis.

3. The valuation of debt and other financial assets

- a) Apply appropriate valuation methods to:^[2]
 - i) irredeemable debt
 - ii) redeemable debt
 - iii) convertible debt
 - iv) preference shares

4. Efficient Market Hypothesis (EMH) and practical considerations in the valuation of shares

- a) Distinguish between and discuss weak form efficiency, semi-strong form efficiency and strong form efficiency^[2]
- b) Discuss practical considerations in the valuation of shares and businesses, including:^[2]
 - i) marketability and liquidity of shares
 - ii) availability and sources of information
 - iii) market imperfections and pricing anomalies
 - iv) market capitalisation
- c) Describe the significance of investor speculation and the explanations of investor decisions offered by behavioural finance^[1]

H RISK MANAGEMENT

1. The nature and types of risk and approaches to risk management

- a) Describe and discuss different types of foreign currency risk:^[2]
 - i) translation risk
 - ii) transaction risk
 - iii) economic risk
- b) Describe and discuss different types of interest rate risk:^[1]
 - i) gap exposure
 - ii) basis risk

2. Causes of exchange rate differences and interest rate fluctuations

- a) Describe the causes of exchange rate fluctuations, including:
 - i) balance of payments^[1]
 - ii) purchasing power parity theory^[2]
 - iii) interest rate parity theory^[2]
 - iv) four-way equivalence^[2]
- b) Forecast exchange rates using:^[2]
 - i) purchasing power parity
 - ii) interest rate parity
- c) Describe the causes of interest rate fluctuations, including:^[2]
 - i) structure of interest rates and yield curves
 - ii) expectations theory
 - iii) liquidity preference theory
 - iv) market segmentation

3. Hedging techniques for foreign currency risk

- a) Discuss and apply traditional and basic methods of foreign currency risk management, including:
 - i) currency of invoice^[1]
 - ii) netting and matching^[2]
 - iii) leading and lagging^[2]
 - iv) forward exchange contracts^[2]
 - v) money market hedging^[2]
 - vi) asset and liability management^[1]
- b) Compare and evaluate traditional methods of foreign currency risk management.^[2]

- c) Identify the main types of foreign currency derivatives used to hedge foreign currency risk and explain how they are used in hedging.^[1]
(No numerical questions will be set on this topic)

4. Hedging techniques for interest rate risk

- a) Discuss and apply traditional and basic methods of interest rate risk management, including:
- i) matching and smoothing^[1]
 - ii) asset and liability management^[1]
 - ii) forward rate agreements^[2]
- b) Identify the main types of interest rate derivatives used to hedge interest rate risk and explain how they are used in hedging.^[1]
(No numerical questions will be set on this topic)

READING LIST

This section only contains examiner suggested reading which is in addition to the study texts and/or revision materials and/or other reading listed within the learning content provider directory.

Additional examiner suggested reading:

A Griffiths, D Wall, *Applied Economics* (11th edition) FT Prentice Hall
ISBN 978-0-273-70822-3 / 0-273-70822-3

D Watson, A Head, *Corporate Finance: Principles and Practice* (5th edition)
FT Prentice Hall ISBN 978-0-273-72525-1

J Van Horne, J Wachowicz, *Fundamentals of Financial Management* (13th edition)
FT Prentice Hall
ISBN 0-273-71363-9 / 978-0-273-71363-0

Further details on reading lists and Approved Learning Content can be found in the first few sections of this guide and on the following link.

http://www.accaglobal.com/learningproviders/alpc/content_provider_directory/search/

SUMMARY OF CHANGES TO F9

RATIONALE FOR CHANGES TO STUDY GUIDE PAPER F9

ACCA periodically reviews its qualification syllabuses so that they fully meet the needs of stakeholders such as employers, students, regulatory and advisory bodies and learning providers. As a result of the latest review, ACCA is making changes to the ACCA Qualification effective from June 2011. With each syllabus is included a

specific rationale for these changes as far as each examination syllabus and study guide is concerned.

There are no major changes to the F9 syllabus. However there will be a small section to include concepts of Islamic finance as an area that is rapidly growing in the finance sector and increasingly becoming popular worldwide. This will keep the syllabus up to date with developments in financing.

The main areas to be added to the syllabus from that date are shown in Table 1 below:

Table 1 – Additions to F9

Section and subject area	Syllabus content
E3. Raising short and long term finance through Islamic financing	<ul style="list-style-type: none">a) Explain the major difference between Islamic finance and the other conventional finance.^[1]b) Explain the concept of interest (riba) and how returns are made by Islamic financial securities.^[1] (calculations are not required)c) Identify and briefly discuss a range of short and long term Islamic financial instruments available to businesses including^[1]<ul style="list-style-type: none">i) trade credit (murabaha)ii) lease finance (ijara)iii) equity finance (mudaraba)iv) debt finance (sukuk)v) venture capital (musharaka)