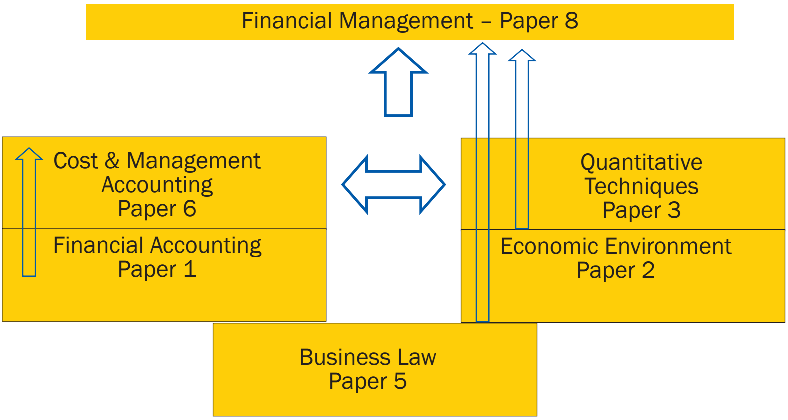
FINANCIAL MANAGEMENT

SYLLABUS CHART

PAPER 8



OVERALL AIM

To equip the learner with ability to apply principles of financial management and assessing financial decisions

LEARNING OUTCOMES

On completion of this course, the learner should be able to:

	Learning outcomes	**K**	**C**	**A**	**An**	**S**	**E**
1.	Explain the finance function and the environment within which it operates		√				
2.	Explain the roles of financial management		√				
3.	Explain the major theoretical concepts and tools of finance		√				
4.	Apply capital investment appraisal techniques			√			
5.	Demonstrate understanding of the operations of financial and securities markets			√			
6.	Apply basic concepts of Islamic finance			√			
7.	Compute an entity's cost of capital and demonstrate its relevance to decision making		√				
8.	Explain the nature and scope of working capital management		√				
9.	Compute investment returns from competing projects and make recommendations			√			
10.	Perform financial analysis				√		
11.	Discuss the ethical challenges facing finance managers and suggest ways of mitigating them				√		
12.	Explain economic and regulatory environment for business decision				√		

LEVEL OF ASSESSMENT

The examination will test knowledge, comprehension, application and analytical skills in financial management

EXAMINATION STRUCTURE

There will be a three-hour examination made up of sections A and B. Section A will comprise one compulsory question of 40 marks and Section B will comprise four questions of 20 marks each, of which the candidate will be required to attempt any three

DETAILED SYLLABUS

A. INTRODUCTION

1. The nature, role and importance of financial management

B. THE FINANCE FUNCTION AND ENVIRONMENT

1. The finance function in an organisation
    - (a) Role of finance and the finance function
    - (b) Relationship between finance and other departments
    - (c) Role of financial controller/ manager
    - (d) The treasury function; functions of the treasurer
    - (e) Centralised and decentralised treasury management
    - (f) Treasury as a profit and cost centre
2. The internal and external environmental factors and the finance function

C. ESSENTIAL CONCEPTS AND TOOLS OF FINANCE

1. Concept of risk and return
2. Meaning of simple interest, compound interest, discounting factor
3. Interest rates: Importance; types
4. Term structure of interest rates and the yield curve
5. Determinants of interest rates
6. Time value of money
7. Future values and present values of a single cash flow
8. Perpetuities and annuities and their valuation
9. The fundamental theory of valuation
10. Shares and bonds (securities): Features; valuation

D. CAPITAL INVESTMENT APPRAISAL

1. Importance of capital investment appraisal
2. Types of investment decisions
   (a) Expansion of existing business
   (b) Establishment of new business
   (c) Replacement and modernisation
   (d) Asset acquisition, disposal, replacement
3. Asset acquisition decisions under limiting factors
4. Criteria for making investment decisions
5. Investment appraisal using:
   (a) Payback period
   (b) Net present value
   (c) Internal rate of return
   (d) Accounting rate of return
   (e) Profitability index
   (f) Equivalent annual benefit
   (g) Equivalent annual cost
   (h) Present value of net cost
   (i) Discounted payback method
6. Impact of tax and working capital
7. Merits and demerits of each investment appraisal method

E. FINANCIAL MARKETS

1. Meaning
2. Types:
   (a) Primary and secondary
   (b) Money and capital
3. Major players in the financial markets in Uganda
4. Nature and role of financial markets in a developing economy
5. Banks and their role in the financial system including their services such as bancassurance, agency banking, development financing, agricultural credit finance
6. Purpose and operations of securities exchanges

7. Listing and cross-listing on securities exchanges
8. Instruments traded on the securities exchange
9. Management and regulation of the securities exchange in Uganda:-
    (a) Capital Markets Authority Act, 1996
    (b) Uganda Securities Exchange Statute, 1998
10. Conditions for listing on the securities exchange
11. Role and challenges facing the Uganda Securities Exchange
12. Automated securities exchanges: Automated trading system (ATS); central depository system (CDS).
13. Block chain financing: Advantages, risks, challenges
14. Financial services offered by insurance companies
15 Market efficiency:
    (a) Meaning
    (b) Forms
    (c) Empirical evidence; capital market efficiency
    (d) Technical analysis, random walk, fundamental analysis
    (e) Market efficiency hypothesis: Meaning, assumptions, implications

F. ISLAMIC FINANCING

1. Origin and history of Islamic finance
2. Justification for Islamic finance; Halal versus Haram
3. Islamic tradition on which Islamic financing is based
4. Characteristics of an Islamic financial system
5. Islamic versus conventional modes of finance
    (a) Contracts and products used
    (b) Relationship between user and supplier of funds
6. Components of Islamic finance:
    (a) Islamic banking
    (b) Islamic insurance entities (Takaful)
    (c) Islamic microfinance entities
    (d) Islamic pension funds
    (e) Islamic capital markets; debt finance (Sukuk)

7. Principles of Islamic finance
    (a) Payment and receipt of interest (Riba)
    (b) Debtor in hardship
    (c) Mutuality of risk sharing-profit and loss
    (d) Investment in unlawful sectors/ businesses
    (e) Uncertainty (Gharar)
    (f) Gambling (Maisir)
    (g) Requirement for an underlying asset
    (h) Contract documentation
    (i) Rights and liabilities of banks and customers
8. The concept of time value of money
9. Objectives of Sharia in financial transactions
10. Modes of Islamic finance:
    (a) Equity partnership finance; Profit and loss sharing
        (i) Musharakah (partnership)
        (ii) Musharakah mutanaqisah (diminishing partnership)
        (iii) Mudharabah (equity finance)
    (b) Lease based finance (Ijarah)
        (i) Ijarah thumma al bai' (hire purchase)
        (ii) Ijarah muntahia bitamleek (finance lease)
    (c) Murabahah (cost-plus financing)
    (d) Tawarruq (spot payment)
    (e) Wakala (agency)
    (f) Istisna'a (contract for acquisition of goods)
    (g) Qard Al Hassan

G. WORKING CAPITAL MANAGEMENT

1. Meaning of working capital and working capital management
2. Importance of working capital and working capital management
3. Elements of working capital
4. Determination of working capital needs
5. Cash flows versus profits
6. Computation and interpretation of working capital ratios

7. Overtrading: Meaning and symptoms
8. Overcapitalisation: Meaning and warning signs
9. Inventory management
    (a) Inventory costs:
        (i) Stock out costs
        (ii) Holding costs
        (iii) Procurement costs
        (iv) Purchase cost
    (b) Economic order quantity (EOQ) model; determination of EOQ under conditions of certain and uncertain demand
    (a) Meaning, merits and demerits of the following inventory control systems:
        (i) Total quality management
        (ii) Just-in-time
10. Cash flow planning
    (a) Meaning and importance
    (b) Importance of cash management
    (c) Preparation and interpretation of cash budgets
    (d) Reasons for holding cash and other liquid assets
    (e) Models used to select optimum cash levels:
        (i) Inventory approach
        (ii) Miller - Orr model
    (f) Determination of optimum level of cash using the inventory approach; drawbacks of the inventory approach of cash management
    (g) Determination of optimal cash balances
    (h) Management of cash surpluses and deficits
    (i) Methods of cash remittance
11. Management of accounts receivable:
    (a) Factors to consider when setting credit control policy
    (b) Assessment credit worthiness of customers
    (c) Determination of bad debts of a business

(d) Balancing of risks and costs of customer default against profitability
(e) Evaluation of credit policy
(f) Factoring and invoice discounting; Role in assisting the credit manager
(g) Customer credit rating and how it is carried out
(h) Letters of credit
(i) Credit cards

12. Working capital financing (Sources of short-term and medium-term finance):
    (a) Factoring
    (b) Invoice discounting
    (c) Commercial paper
    (d) Bank finance
    (e) Trade credit and the risks associated with trading on credit.
    (f) Hire purchase
    (g) Leasing
    (h) Bills of exchange
    (i) Purchase order financing/ contract financing

H. INTERNATIONAL TRADE AND FINANCE

1. Forms of international trade
2. Key developments in the international environment
3. Development of domestic and international banking
4. International regulatory environment
5. International money markets/ euro markets
6. Bonds and equity markets:
    (a) Types of bonds and equity markets
    (b) Role of international capital flows
    (c) Origin and growth of euro markets
7. Developed versus emerging markets
8. International capital markets
9. Risks of international trade and finance (No computations required)
10. International payments and settlements

11. International export, finance and counter-trade

I. FINANCIAL ANALYSIS AND CONTROL

1. Concept and role of financial analysis in corporate finance
2. Merits and demerits of the following methods of financial analysis:
   - (a) Ratio analysis:
     - (i) Determination of liquidity, debt, coverage, profitability and market value ratios
     - (ii) Use of different ratios in financial analysis
     - (iii) Measurement of achievement of stakeholder objectives using financial ratios
     - (iv) Computation, interpretation, uses and limitations of ratios:
       1. Determination and interpretation of various ratios used in financial analysis, including trend analysis and industry comparison
       2. Limitations of ratio analysis in decision making
   - (b) Common size statements and index analysis
   - (c) Projected financial statements and their preparation

J. SOURCES OF LONG-TERM FINANCE AND COST OF CAPITAL

1. Long-term financing decisions
   - (a) Risk-return relationship and relative costs of equity and debt financing
   - (b) Creditor hierarchy and its:
     - (i) Relationship with costs of various sources of finance
     - (ii) Importance in financing decisions
2. Sources of finance for small and medium-sized entities (SMEs)
3. Advantages and disadvantages of different sources of finance
4. Equity finance
   - (a) Methods of raising
   - (b) Other considerations when raising equity finance
   - (c) Estimating the theoretical ex-rights price
5. Share capital and long-term debt:
   - (a) Forms of equity and debt finance
   - (b) Merits and demerits of using debt or equity financing

6. Other sources of long-term finance; how they can be obtained, and their relative merits and demerits:
   (a) Leasing
   (b) Options
   (c) Warrants
   (d) Convertibles
7. Cost of capital and its relevance in investment management
   (a) Estimation of cost of equity and cost of debt:
      (i) Use of dividend growth model in the determination of cost of equity and its limitations
      (ii) Determination of cost of debt including preference shares, redeemable, irredeemable, and convertible debt
      (iii) Impact of tax shield on cost of debt
   (b) Weighted average cost of capital (WACC):
      (i) Average and marginal cost of capital
      (ii) Determination of WACC using book value and market value weightings

K. CORPORATE RESTRUCTURING

1. Nature and role of corporate restructuring
2. Financial distress:
   (a) Meaning
   (b) Causes
   (c) Prediction
   (d) Management (Z Altman formula)
3. Business restructuring:
   (a) Provisions of the Insolvency Act 2011 and Insolvency Regulations
   (b) Provisional administration
   (c) Administrative
   (d) Receiverships
   (e) Court winding up
4. Corporate failure: Causes,symptoms, avoidance

5. Business valuation for mergers and acquisitions:
   (a) Reasons for valuing business and financial assets
   (b) Advantages and limitations of the following methods of valuation:
      (i) Net asset valuation
      (ii) Dividend valuation
      (iii) Market capitalisation
   (c) Income based models:
      (i) Price-earnings ratio
      (ii) Earnings yield
      (iii) Discounted cash flows
   (d) Methods of valuing:
      (i) Redeemable and irredeemable debt
      (ii) Preference shares
      (iii) Bonds
   (e) Free cash flow valuation technique

L. SOCIAL RESPONSIBILITY AND ETHICS

1. Conflict of interest
2. Objectivity
3. Accuracy
4. Transparency
5. Integrity
6. Money Laundering
7. Insider dealing
8. Environmental management.
9. Provisions of the following:
   (a) Financial Regulations
   (b) Financial Intelligence Authority
   (c) Anti-money Laundering Act
   (d) Market regulations and restrictive practices
   (e) Deregulations and privatisation

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