



# **Capital Budgeting and Corporate Finance Certification**

## **Summary of the Syllabus**

## **OBJECTIVE OF THE EXAMINATION**

This Certification Exam specifically designed to meet the minimum qualifications needs of all the Professionals related to Corporate Finance and Capital Budgeting. It intends to ensure that the professionals dealing with its techniques are competent enough in their work.

## **TARGET AUDIENCE**

This exam has been designed for all the Professionals working in financial markets or is connected to it.

## **SYLLABUS STRUCTURE**

The curriculum is divided into elements which are further broken down into learning outcomes. Each learning objective starts with a specific prefix which indicates the level of skills to be tested. The following prefixes are used in this curriculum:

- ***know*** require the candidate to recall information such as facts, rules and principles.
- ***understand*** require the candidate to demonstrate comprehension of an issue, fact, rule or principle.
- ***be able to calculate*** require the candidate to be able to use formula to perform calculations
- ***be able to apply*** require the candidate to be able to apply their knowledge to a given set of circumstances in order to present a clear and detailed explanation of a situation, rule or principle.

## EXAMINATION SPECIFICATIONS

Each examination paper is constructed from a specification that determines the weightings that will be given to each element. The specification is given below.

It is important to note that the numbers quoted may vary slightly from examination to examination as there is some flexibility to ensure that each examination has a consistent level of difficulty. However, the number of questions tested in each element will not change by more than plus or minus 2.

<b>Examination Specification</b>		
<b>100 multiple choice questions</b>		
<b>Element No.</b>	<b>Elements</b>	<b>Questions</b>
1	<b>Introduction to Corporate Finance</b>	<b>10</b>
2	<b>Investment Appraisal</b>	<b>10</b>
3	<b>Financial Planning and Budgeting</b>	<b>10</b>
4	<b>Introduction to Accounting Statements</b>	<b>10</b>
5	<b>Financial Ratios Analysis</b>	<b>10</b>
6	<b>Capital Management and Planning</b>	<b>10</b>
7	<b>The Cost of Capital</b>	<b>10</b>
8	<b>Capital Structure Theories and Practical Consideration</b>	<b>10</b>
9	<b>Valuation of Business</b>	<b>10</b>
10	<b>Mergers and Acquisitions</b>	<b>10</b>
	<b>Total</b>	<b>100</b>

## ASSESSMENT STRUCTURE

- This will be a 150 minutes examination of 100 Multiple Choice Questions (MCQs).
- All questions will carry equal marks.
- There will be no negative marking.

# **SUMMARY OF THE SYLLABUS**

## ELEMENT 1

### Introduction to Corporate Finance

On completion, the candidate should:

1.2 *Know* the role of a financial manager.

1.3 *Know* the goals of a corporation including:

- Discuss the relationship between financial objectives, corporate objectives and corporate strategy.
- Shareholder wealth maximization
- Profit maximization
- Earning price growth

1.4 *Understand* the dividend policy

1.5 *Know* the Financial institution and markets

- Types of Financial Institutions and their roles
- Types of Financial Markets
- Stock market and its mechanics

1.5 Practical Questions

## ELEMENT 2

### Investment Appraisal

On completion, the candidate should:

#### 2.1 *Know* the nature of investment decisions and the appraisal process

- Distinguish capital and revenue expenditure, and non-current assets and working capital investment.
- Explain the role of investment appraisal in the capital budgeting process

#### 2.2 *Be able to apply* the discounted cash flow techniques

- Understand the concepts of interest and discounting, including:
  - i. Identify and calculate relevant cash flows for investment projects
  - ii. Time value of money
  - iii. Calculation of present and future values
  - iv. The role of cost of capital in appraising investments
  - v. The application of perpetuity and annuity formula
  - vi. Real and nominal term approaches for investment appraisal
  - vii. Net present value and its usefulness as an investment appraisal method
  - viii. Taxation effect on relevant cash flows
  - ix. Application of before and after tax discount rates
- Internal rate of return and its usefulness in investment appraisal method.

#### 2.3 *Be able to calculate* the non-discounted cash flow techniques

- Calculate payback period and discuss the usefulness of payback as an Investment appraisal method.
- Calculate (accounting rate of return) and its merits and demerits.
- Superiority of DCF methods over non-DCF methods.

#### 2.4 Practical Questions

.

## ELEMENT 3

### **Financial Planning and Budgeting**

On completion, the candidate should:

- 3.1 *Know* what is financial planning?
- 3.2 *Know* the difference between risk and uncertainty
- 3.3 *Understand* the concept of Risk Management
- 3.4 *Be able to apply* the models of financial planning
  - i. Sensitivity analysis
  - ii. Probability Analysis
  - iii. Simulation
  - iv. Adjusted payback
  - v. Risk Adjusted discount rates
- 3.5 *Knows* the limitations of financial modelling
- 3.6 Practical Questions

## ELEMENT 4

### **Introduction to Accounting Statements**

On completion, the candidate should:

4.1 *Know* what is a balance sheet? Including:

- Component of balance sheet
- Types of Balance sheet format
- Examples of balance sheets of different industries

4.2 *Know* what is an Income statement? Including:

- Component of Income statements
- Types of Income statement
- Examples of Income statements of different industries

4.3 *Know* what is a Cash flow Statement? Including:

- Component of Cash flow Statement
- Types of Cash flow Statement
- Examples of Cash flow Statements of different industries



## ELEMENT 5

### **Financial Ratios Analysis**

On completion, the candidate should:

- 5.1 *Know* what is Ratio Analysis?
- 5.2 *Be able to* calculate different types of ratios
- 5.3 *Be able to apply* the Du Pont system and its importance
- 5.4 *Know* the Importance of ratios
- 5.5 *Understand* the Limitations of ratios
- 5.6 Practical Questions

## ELEMENT 6

### Capital Management and Planning

On completion, the candidate should:

#### 6.1 *Know* the working capital

- The nature of working capital and identify its elements
- Objectives of working capital management in terms of liquidity and profitability
- Cash operating cycle and use of different ratios

#### 6.2 *Understand* the Working Capital management

- Managing accounts receivable and factorization.
- Managing Inventory
- Managing Accounts payable

#### 6.3 *Know* the working capital finance

- Cash flow forecasts
- Management of Cash
- Working Capital funding strategies

#### 6.4 Practical Questions

## ELEMENT 7

### The Cost of Capital

On completion, the candidate should:

7.1 *Know* the relevant risks return relationship

7.2 *Be able to calculate* the cost of equity

- Application of Dividend Valuation Model & its limitations
- Capital Asset Pricing Model and its limitations

7.3 *Be able to calculate* the cost of debt and its valuation for:

- Irredeemable Debt
- Redeemable Debt
- Convertible debt
- Preference Shares
- Bank Debt

7.4 *Be able to calculate* the calculation of Weighted Average Cost of Capital (WACC) using book value and market value.

7.5 *Know* the sources of short and long term financing

- Short term sources of finance
- Overdraft
- Short Term Loan
- Trade Credit
- Lease Finance
- Long term finance
- Equity
- Debt
- Lease finance
- Venture capital

- Methods of raising equity finance including Right Issue and Public Issue

## 7.6 Practical Questions

## ELEMENT 8

### **Capital Structure Theories and Practical Consideration**

On completion, the candidate should:

- 8.1 *Know* the traditional view of capital structure and its assumption
- 8.2 *Know* the views of Miller and Modigliani on capital structure with tax and without tax consideration
- 8.3 Practical Questions

## ELEMENT 9

### Valuation of Business

On completion, the candidate should:

9.1 *Know* the reasons for valuing a business

9.2 *Be able to apply* the models of valuing businesses

- Asset Based Valuation Models
- Net Book Value
- Net Realizable value
- Net Replacement value
- Market based valuation
- Price earnings ratio method
- Earning Yield Method
- Cash flow based valuation models
- Dividend growth model
- Discounted cash flow model

9.3 Limitations of models

9.4 Practical Questions

## ELEMENT 10

### **Mergers and Acquisitions**

On completion, the candidate should:

- 10.1 *Know* what is merger and acquisition?
- 10.2 *Know* the merits and demerits of mergers and acquisition
- 10.3 *Know* the criteria for choosing appropriate targets for acquisition
- 10.4 *Know* the impact of an acquisition and merger upon the risk profile of the acquirer.
- 10.5 *Know* the regulatory framework and its issues in mergers and acquisition
- 10.6 *Know* the sources of financing acquisition and mergers
- 10.7 Practical Questions

## RECOMMENDED READINGS

Readers are advised to study the following documents and books in conjunction with this study and reference guide. The documents can be found on the IFMP's website or the websites of the respective organizations.

1. Anti-Money Laundering Act, 2010
2. Anti-Money Laundering Ordinance, 2009
3. Anti-Money Laundering Regulations, 2008
4. Anti-Money Laundering Rules, 2008
5. Bond Automated Trading System (BATS) Regulations, 2009
6. Broker Agents Registration Rules, 2001
7. CDC Act, 1997
8. CDC Regulations
9. Code of Corporate Governance, 2012
10. Companies Ordinance, 1984
11. Debt Securities Trustee Regulations, 2012
12. Directive to Brokers on Conduct of Business (February 7, 2003)
13. Income Tax Ordinance, 2001
14. ISE/ KSE/ LSE Listing Regulations
15. KSE Investor Protection Fund Regulations
16. KSE Cash Settled Future Contract Regulations (October, 2008)
17. KSE Members Default Management Regulations (September, 2009)
18. KSE Deliverable Future Contract Regulations (April, 2009)
19. General Regulations of KSE Amended (August 20, 2009)
20. Karachi Automated Trading System (KATS) Regulations (March, 1998)
21. KSE Investor Protection Fund Regulations
22. NCCPL Procedure, 2003
23. NCCPL Regulations, 2003
24. NCEL General Regulations (May, 2007)
25. Commodity Exchange and Futures Contracts Rules (March, 2005)
26. Regulations Governing Over the Counter Market (September, 2009)
27. Regulations Governing System Audit of Brokers of Exchanges, 2004
28. SECP Act, 1997
29. Securities (Leveraged Market and Pledging) Rules, 2011
30. Securities Act, 2015
31. Securities and Exchange Rules, 1971
32. Short Selling Regulations, 2002
33. Stock Exchange Members (Inspection of Books and Record) Rules, 2001