

September 2018  
to  
June 2019

# Financial Management (FM)

Syllabus and study guide

## Guide to structure of the syllabus and study guide

### Overall aim of the syllabus

This explains briefly the overall objective of the syllabus and indicates in the broadest sense the capabilities to be developed within the exam.

### Relational diagram of linking Financial Management (FM) with other ACCA exams

This diagram shows direct and indirect links between this exam and other exams preceding or following it. It indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.

### Main capabilities

The aim of the syllabus is broken down into several main capabilities which divide the syllabus and study guide into discrete sections.

### Relational diagram of the main capabilities

This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.

### Syllabus rationale

This is a narrative explaining how the syllabus is structured and how the main capabilities are linked. The rationale also explains in further detail what the examination intends to assess and why.

### Detailed syllabus

This shows the breakdown of the main capabilities (sections) of the syllabus into subject areas. This is the blueprint for the detailed study guide.

### Approach to examining the syllabus

This section briefly explains the structure of the examination and how it is assessed.

### Study Guide

This is the main document that students, education and content providers should use as the basis of their studies, instruction and materials. Examinations will be based on the detail of the study guide which comprehensively identifies what could be assessed in any examination session. The study guide is a precise reflection and breakdown of the syllabus. It is divided into sections based on the main capabilities identified in the syllabus. These sections are divided into subject areas which relate to the sub-capabilities included in the detailed syllabus. Subject areas are broken down into sub-headings which describe the detailed outcomes that could be assessed in examinations. These outcomes are described using verbs indicating what exams may require students to demonstrate, and the broad intellectual level at which these may need to be demonstrated (\*see intellectual levels below).

## Intellectual Levels

The syllabus is designed to progressively broaden and deepen the knowledge, skills and professional values demonstrated by the student on their way through the qualification.

The specific capabilities within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels:

Level 1:	Knowledge and comprehension
Level 2:	Application and analysis
Level 3:	Synthesis and evaluation

Very broadly, these intellectual levels relate to the three cognitive levels at which the Applied Knowledge, the Applied Skills and the Strategic Professional exams are assessed.

Each subject area in the detailed study guide included in this document is given a 1, 2, or 3 superscript, denoting intellectual level, marked at the end of each relevant line. This gives an indication of the intellectual depth at which an area could be assessed within the examination. However, while level 1 broadly equates with Applied Knowledge, level 2 equates to Applied Skills and level 3 to Strategic Professional, some lower level skills can continue to be assessed as the student progresses through each level. This reflects that at each stage of study there will be a requirement to broaden, as well as deepen capabilities. It is also possible that occasionally some higher level capabilities may be assessed at lower levels.

## Learning Hours and Education Recognition

The ACCA qualification does not prescribe or recommend any particular number of learning hours for examinations because study and learning patterns and styles vary greatly between people and organisations. This also recognises the wide diversity of personal, professional and educational circumstances in which ACCA students find themselves.

As a member of the International Federation of Accountants, ACCA seeks to enhance the education recognition of its qualification on both national and international education frameworks, and with educational authorities and partners globally. In doing so, ACCA aims to ensure that its qualifications are recognised and valued by governments, regulatory authorities and employers across all sectors. To this end, ACCA qualifications are currently recognised on the education frameworks in several countries. Please refer to your national education framework regulator for further information.

Each syllabus contains between 20 and 35 main subject area headings depending on the nature of the subject and how these areas have been broken down.

## Guide to ACCA Examination Structure

The structure of examinations varies within and between levels.

The Applied Knowledge examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus. These are assessed by a two-hour computer based examination.

The *Corporate and Business Law* exam is a two-hour computer-based objective test examination for English and Global, and available as a paper based version for all variants.

The other Applied Skills examinations (PM, TX-UK, FR, AA, and FM) contain a mix of objective and longer type questions with a duration of three hours for 100 marks; these questions directly contribute towards the candidate result. These exams are available in computer-based and paper-based formats. Prior to the start of each exam there will be time allocated for students to be informed of the exam instructions.

### Computer-based exams

For the Applied Skills (PM, TX-UK, FR, AA and FM) computer-based exams candidates will be delivered an extra 10 marks of objective test content (either five single OT questions or five OT questions based around a single scenario), for which candidates are given an extra 20 minutes. These questions are included to ensure fairness, reliability and security of exams. These questions do not directly contribute towards the candidate's score. Candidates will not be able to differentiate between the questions that contribute to the result and those that do not. All questions have been subject to

ACCA's regulatory approved quality assurance process.

The total exam time is therefore 3 hours and 20 minutes. Prior to the start of the exam candidates are given an extra 10 minutes to read the exam instructions.

### Paper-based exams

For paper-based exams 15 minutes are added to the three hours to reflect the manual effort required as compared to computer-based exams. All paper-based and computer-based questions have been subject to the same quality assurance process. There will be time awarded by the invigilator to read the exam instructions.

*Strategic Business Leader* is ACCA's case study examination at the Strategic Professional level and is examined as a closed book exam of four hours, including reading, planning and reflection time which can be used flexibly within the examination. There is no pre-seen information and all exam related material, including case information and exhibits are available within the examination. *Strategic Business Leader* is an exam based on one main business scenario which involves candidates completing several tasks within which additional material may be introduced. All questions are compulsory and each examination will contain a total of 80 technical marks and 20 Professional Skills marks. The detail of the structure of this exam is described in the *Strategic Business Leader* syllabus and study guide document.

The other Strategic Professional exams are all of three hours and 15 minutes duration. All contain two Sections and all questions are compulsory. These exams all contain four professional marks. The detail of

the structure of each of these exams is described in the individual syllabus and study guide documents.

ACCA encourages students to take time to read questions carefully and to plan answers but once the exam time has started, there are no additional restrictions as to when candidates may start writing in their answer books.

Time should be taken to ensure that all the information and exam requirements are properly read and understood.

The pass mark for all ACCA Qualification examinations is 50%.

## Guide to ACCA Examination Assessment

ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified. For the financial accounting, audit and assurance, law and tax exams except where indicated otherwise, ACCA will publish *examinable documents* once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions.

For examinations, regulation **issued** or legislation **passed** on or before 31 August annually, will be examinable from 1 September of the following year to 31 August of the year after that. Please refer to the examinable documents for the exam (where relevant) for further information.

Regulation issued or legislation passed in accordance with the above dates may be examinable even if the **effective** date is in the future.

The term issued or passed relates to when regulation or legislation has been formally approved.

The term effective relates to when regulation or legislation must be applied to an entity transactions and business practices.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list.

## Financial Management (FM) Syllabus and study guide

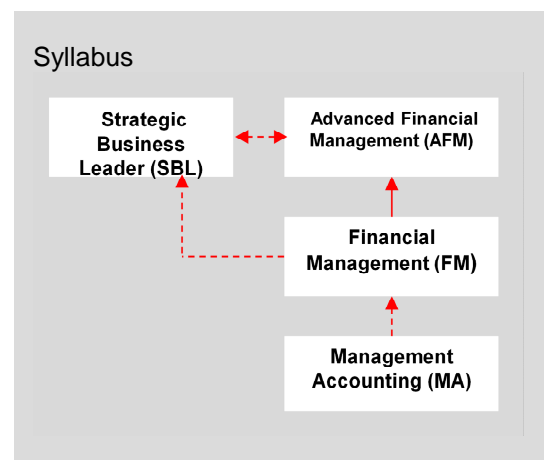
This syllabus and study guide is designed to help with planning study and to provide detailed information on what could be assessed in any examination session.

### Aim

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

### Relational diagram

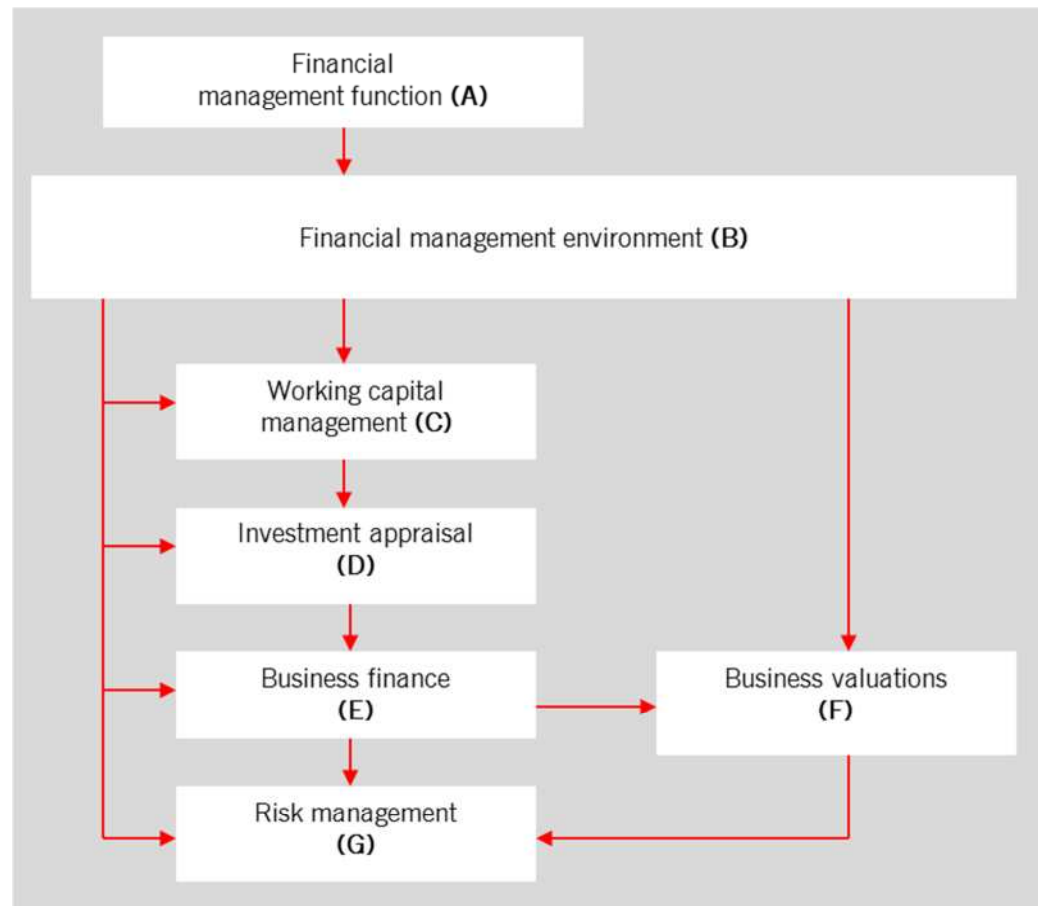
This diagram shows direct and indirect links between this exam and other exams preceding or following it. Some exams are directly underpinned by other exams such as Advanced Financial Management by Financial Management. These links are shown as solid line arrows. Other exams only have indirect relationships with each other such as links existing between the accounting and auditing exams. The links between these are shown as dotted line arrows. This diagram indicates where you are expected to have underpinning knowledge and where it would be useful to review previous learning before undertaking study.



## Main capabilities

On successful completion of this exam, 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 Discuss and apply principles of business and asset valuations
- G Explain and apply risk management techniques in business.



This diagram illustrates the flows and links between the main capabilities (sections) of the syllabus and should be used as an aid to planning teaching and learning in a structured way.



## Rationale

The syllabus for *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. It prepares candidates for more advanced and specialist study in *Advanced Financial Management*.

The syllabus, 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. It also looks at the cost of capital and other factors that influence the choice of the type of capital a business will raise. 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 managing 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
3. The nature and role of money markets

### 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. Investment appraisal techniques
2. Allowing for inflation and taxation in investment appraisal

3. Adjusting for risk and uncertainty in investment appraisal
4. Specific investment decisions (lease or buy; asset replacement, capital rationing)

### E Business finance

1. Sources of, and raising, business finance
2. Estimating the cost of capital
3. Sources of finance and their relative costs
4. Capital structure theories and practical considerations
5. Finance for small- and medium-sized entities

### F 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

### G 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 is assessed by a three-hour examination available in both computer-based and paper-based formats.\*

*\*For paper-based exams there is an extra 15 minutes to reflect the manual effort required.*

All questions are compulsory. The exam will contain both computational and discursive elements.

Some questions will adopt a scenario/case study approach.

### *Computer-based exams*

*\*For computer-based exams an extra 20 minutes is provided to candidates to reflect the additional content as per below. The total exam time is therefore 3 hours and 20 minutes. Prior to the start of the exam candidates are given an extra 10 minutes to read the exam instructions.*

Section A of the computer-based exam comprises 15 objective test questions of 2 marks each plus additional content as per below.

Section B of the computer-based exam comprises three questions each containing five objective test questions plus additional content as per below.

For the computer-based exam candidates will be delivered an extra 10 marks of objective test content (either five single OT questions **OR** five OT questions based around a single scenario), for which candidates are given an extra 20 minutes. These questions are included to ensure fairness, reliability and security of exams. These questions do not directly contribute towards the candidate's score. Candidates will not be able to differentiate between the questions that contribute to the result and those that do not.

Section C of the exam comprises two 20 mark constructed response questions. The two 20-mark questions will mainly come from the working capital management, investment appraisal and business finance areas of the syllabus. The section A and section B questions can cover any areas of the syllabus.

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

### *Paper-based exams*

*\*For paper-based exams an extra 15 minutes is provided to candidates to reflect the manual effort required as compared to the time needed for the computer-based exams. The total exam time is therefore three hours and 15 minutes. Prior to the*

*start of the exam candidates are given an extra 10 minutes to read the exam instructions.*

Section A of the paper-based exam comprises 15 multiple choice questions of 2 marks each

Section B of the exam comprises three scenarios consisting of 15 multiple choice questions of 2 marks each

Section C of the exam comprises two 20 mark questions.

The two 20-mark questions will mainly come from the working capital management, investment appraisal and business finance areas of the syllabus. The section A and section B questions can cover any areas of the syllabus.

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.<sup>[1]</sup>
- b) Explain the relationship between financial management and financial and management accounting.<sup>[1]</sup>

#### 2. Financial objectives and the relationship with corporate strategy

- a) Discuss the relationship between financial objectives, corporate objectives and corporate strategy.<sup>[2]</sup>
- b) Identify and describe a variety of financial objectives, including:<sup>[2]</sup>
  - 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<sup>[2]</sup>
- b) Discuss the possible conflict between stakeholder objectives<sup>[2]</sup>
- c) Discuss the role of management in meeting stakeholder objectives, including the application of agency theory.<sup>[2]</sup>
- d) Describe and apply ways of measuring achievement of corporate objectives including:<sup>[2]</sup>

- 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:<sup>[2]</sup>
  - 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.<sup>[2]</sup>
- b) Discuss the nature and importance of Value for Money as an objective in not-for-profit organisations.<sup>[2]</sup>
- c) Discuss ways of measuring the achievement of objectives in not-for-profit organisations.<sup>[2]</sup>

### B. Financial management environment

#### 1. The economic environment for business

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

- c) Explain how government economic policy interacts with planning and decision-making in business.<sup>[2]</sup>
- d) Explain the need for, and the interaction with, planning and decision-making in business of:<sup>[1]</sup>
  - i) competition policy
  - ii) government assistance for business
  - iii) green policies
  - iv) corporate governance regulation.<sup>[2]</sup>
- b) Explain the role of banks and other financial institutions in the operation of the money markets.<sup>[2]</sup>
- c) Explain the characteristics and role of the principal money market instruments:<sup>[2]</sup>
  - i) interest-bearing instruments
  - ii) discount instruments
  - iii) derivative products.

## **C. Working capital management**

### **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.<sup>[2]</sup>
- b) Explain the role of financial intermediaries.<sup>[1]</sup>
- c) Explain the functions of a stock market and a corporate bond market.<sup>[2]</sup>
- d) Explain the nature and features of different securities in relation to the risk/return trade-off.<sup>[2]</sup>

### **3. The nature and role of money markets**

- a) Describe the role of the money markets in:<sup>[1]</sup>
  - i) providing short-term liquidity to the private sector and the public sector
  - ii) providing short-term trade finance
  - iii) allowing an organisation to manage its exposure to foreign currency risk and interest rate risk.

### **1. The nature, elements and importance of working capital**

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

### **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.<sup>[2]</sup>
- b) Explain and apply relevant accounting ratios, including:<sup>[2]</sup>
  - 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.<sup>[2]</sup>
- d) Discuss, apply and evaluate the use of relevant techniques in managing accounts receivable, including:
- i) assessing creditworthiness<sup>[1]</sup>
  - ii) managing accounts receivable<sup>[1]</sup>
  - iii) collecting amounts owing<sup>[1]</sup>
  - iv) offering early settlement discounts<sup>[2]</sup>
  - v) using factoring and invoice discounting<sup>[2]</sup>
  - vi) managing foreign accounts receivable.<sup>[2]</sup>
- e) Discuss and apply the use of relevant techniques in managing accounts payable, including:
- i) using trade credit effectively<sup>[1]</sup>
  - ii) evaluating the benefits of discounts for early settlement and bulk purchase<sup>[2]</sup>
  - iii) managing foreign accounts payable.<sup>[1]</sup>
- f) Explain the various reasons for holding cash, and discuss and apply the use of relevant techniques in managing cash, including:<sup>[2]</sup>
- 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:<sup>[2]</sup>
- 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:<sup>[2]</sup>
- 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.<sup>[1]</sup>
- D. Investment appraisal**
- 1. Investment appraisal techniques**
- a) Identify and calculate relevant cash flows for investment projects.<sup>[2]</sup>
- b) Calculate payback period and discuss the usefulness of payback as an investment appraisal method.<sup>[2]</sup>
- c) Calculate discounted payback and discuss its usefulness as an investment appraisal method.<sup>[2]</sup>
- d) Calculate return on capital employed (accounting rate of return) and discuss its usefulness as an investment appraisal method.<sup>[2]</sup>
- e) Calculate net present value and discuss its usefulness as an investment appraisal

method.<sup>[2]</sup>

- f) Calculate internal rate of return and discuss its usefulness as an investment appraisal method.<sup>[2]</sup>
- g) Discuss the superiority of discounted cash flow (DCF) methods over non-DCF methods.<sup>[2]</sup>
- h) Discuss the relative merits of NPV and IRR.<sup>[2]</sup>

## **2. Allowing for inflation and taxation in DCF**

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

## **3. 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.<sup>[2]</sup>
- b) Apply sensitivity analysis to investment projects and discuss the usefulness of sensitivity analysis in assisting investment decisions.<sup>[2]</sup>
- c) Apply probability analysis to investment projects and discuss the usefulness of probability analysis in assisting investment decisions.<sup>[2]</sup>

- d) Apply and discuss other techniques of adjusting for risk and uncertainty in investment appraisal, including:
  - i) simulation<sup>[1]</sup>
  - ii) adjusted payback<sup>[1]</sup>
  - iii) risk-adjusted discount rates<sup>[2]</sup>

## **4. 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.<sup>[2]</sup>
- b) Evaluate asset replacement decisions using equivalent annual cost and equivalent annual benefit.<sup>[2]</sup>
- c) Evaluate investment decisions under single-period capital rationing, including:<sup>[2]</sup>
  - 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 business finance**

- a) Identify and discuss the range of short-term sources of finance available to businesses, including:<sup>[2]</sup>
  - i) overdraft
  - ii) short-term loan
  - iii) trade credit
  - iv) lease finance.
- b) Identify and discuss the range of long-term sources of finance available to businesses, including:<sup>[2]</sup>



- i) equity finance
  - ii) debt finance
  - iii) lease finance
  - iv) venture capital.
- c) Identify and discuss methods of raising equity finance, including:<sup>[2]</sup>
- i) rights issue
  - ii) placing
  - iii) public offer
  - iv) stock exchange listing.
- d) Identify and discuss methods of raising short and long term Islamic finance, including<sup>[1]</sup>
- i) major difference between Islamic finance and the other forms of business finance.
  - ii) The concept of riba (interest) and how returns are made by Islamic financial securities.
  - iii) Islamic financial instruments available to businesses including:
    - i) murabaha (trade credit)
    - ii) ijara (lease finance)
    - iii) mudaraba equity finance)
    - iv) sukuk (debt finance)
    - v) musharaka (venture capital).
- (note: calculations are not required)
- e) Identify and discuss internal sources of finance, including:<sup>[2]</sup>
- i) retained earnings
  - ii) increasing working capital management efficiency
  - iii) the relationship between dividend policy and the financing decision
  - iv) the theoretical approaches to, and the practical influences on, the dividend decision, including legal constraints, liquidity, shareholding expectations and alternatives to cash dividends.

## 2. Estimating the cost of capital

- a) Estimate the cost of equity including:<sup>[2]</sup>
- i) application of the dividend growth model and discussion of its weaknesses.
  - ii) explanation and discussion of systematic and unsystematic risk.
  - iii) relationship between portfolio theory and the capital asset pricing model (CAPM)
  - iv) application of the CAPM, its assumptions, advantages and disadvantages.
- b) Estimating the cost of debt:
- i) irredeemable debt
  - ii) redeemable debt
  - iii) convertible debt
  - iv) preference shares
  - v) bank debt.
- c) Estimating the overall cost of capital including:<sup>[2]</sup>
- i) distinguishing between average and marginal cost of capital
  - ii) calculating the weighted average cost of capital (WACC) using book value and market value weightings.

## 3. Sources of finance and their relative costs

- a) Describe the relative risk-return relationship and the relative costs of equity and debt.<sup>[2]</sup>
- b) Describe the creditor hierarchy and its connection with the relative costs of sources of finance.<sup>[2]</sup>
- c) Identify and discuss the problem of high levels of gearing.<sup>[2]</sup>
- d) Assess the impact of sources of finance on financial position,

financial risk and shareholder wealth using appropriate measures, including:<sup>[2]</sup>

- i) ratio analysis using statement of financial position gearing, operational and financial gearing, interest coverage ratio and other relevant ratios
- ii) cash flow forecasting
- iii) leasing or borrowing to buy.

- e) Impact of cost of capital on investments including:<sup>[2]</sup>
  - i) the relationship between company value and cost of capital.
  - ii) the circumstances under which WACC can be used in investment appraisal
  - iii) the advantages of the CAPM over WACC in determining a project-specific cost of capital.
  - iv) the application of CAPM in calculating a project-specific discount rate.

#### **4. Capital structure theories and practical considerations**

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

#### **5. Finance for small and medium sized entities (SMEs)**

- a) Describe the financing needs of small businesses.<sup>[2]</sup>
- b) Describe the nature of the financing problem for small businesses in terms of the funding gap, the maturity gap and inadequate security.<sup>[2]</sup>
- c) Explain measures that may be taken to ease the financing problems of SMEs, including the responses of government departments and financial institutions.<sup>[1]</sup>
- d) Identify and evaluate the financial impact of sources of finance for SMEs, including sources already referred to in syllabus section E1 and also<sup>[2]</sup>
  - i) Business angel financing
  - ii) Government assistance
  - iii) Supply chain financing
  - iv) Crowdfunding / peer-to-peer funding.

### **F 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.<sup>[2]</sup>
- b) Identify information requirements for valuation and discuss the limitations of different types of information.<sup>[2]</sup>

#### **2. Models for the valuation of shares**

- a) Discuss and apply asset-based valuation models, including:<sup>[2]</sup>
  - i) net book value (statement of financial

- position) basis
    - ii) net realisable value basis
    - iii) net replacement cost basis.
  - b) Discuss and apply income-based valuation models, including:<sup>[2]</sup>
    - i) price/earnings ratio method
    - ii) earnings yield method.
  - c) Discuss and apply cash flow-based valuation models, including:<sup>[2]</sup>
    - i) dividend valuation model and the dividend growth model
    - ii) discounted cash flow basis.
- 3. The valuation of debt and other financial assets**
- a) Discuss and apply appropriate valuation methods to:<sup>[2]</sup>
    - 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.<sup>[2]</sup>
  - b) Discuss practical considerations in the valuation of shares and businesses, including:<sup>[2]</sup>
    - 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.<sup>[1]</sup>

## G Risk Management

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

- a) Describe and discuss different types of foreign currency risk:<sup>[2]</sup>
  - i) translation risk
  - ii) transaction risk
  - iii) economic risk.
- b) Describe and discuss different types of interest rate risk:<sup>[1]</sup>
  - 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<sup>[1]</sup>
  - ii) purchasing power parity theory<sup>[2]</sup>
  - iii) interest rate parity theory<sup>[2]</sup>
  - iv) four-way equivalence.<sup>[2]</sup>
- b) Forecast exchange rates using:<sup>[2]</sup>
  - i) purchasing power parity
  - ii) interest rate parity.
- c) Describe the causes of interest rate fluctuations, including:<sup>[2]</sup>
  - 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<sup>[1]</sup>
  - ii) netting and matching<sup>[2]</sup>
  - iii) leading and lagging<sup>[2]</sup>
  - iv) forward exchange contracts<sup>[2]</sup>

- v) money market hedging <sup>[2]</sup>
- vi) asset and liability management. <sup>[1]</sup>

- b) Compare and evaluate traditional methods of foreign currency risk management. <sup>[2]</sup>
- c) Identify the main types of foreign currency derivatives used to hedge foreign currency risk and explain how they are used in hedging. <sup>[1]</sup>

(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 <sup>[1]</sup>
  - ii) asset and liability management <sup>[1]</sup>
  - iii) forward rate agreements. <sup>[2]</sup>
- b) Identify the main types of interest rate derivatives used to hedge interest rate risk and explain how they are used in hedging. <sup>[1]</sup>

(No numerical questions will be set on this topic)

## Summary of changes to Financial Management (FM)

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.

### Amendments /additions

There have been no amendments to the Financial Management (FM) study guide from the 2017 – 2018 study guide.

**Table 1 – Amendments to Financial Management**

	Section and subject area	Syllabus content
F2 and F3	Verbs added to learning outcomes to clarify that students are expected to be able to discuss and apply these methods	<p><b>2. Models for the valuation of shares</b></p> <p>a) Discuss and apply asset-based valuation models, including:<sup>[2]</sup></p> <ul style="list-style-type: none"> <li>i) net book value (statement of financial position) basis</li> <li>ii) net realisable value basis</li> <li>iii) net replacement cost basis.</li> </ul> <p>b) Discuss and apply income-based valuation models, including:<sup>[2]</sup></p> <ul style="list-style-type: none"> <li>i) price/earnings ratio method</li> <li>ii) earnings yield method.</li> </ul> <p>c) Discuss and apply cash flow-based valuation models, including:<sup>[2]</sup></p> <ul style="list-style-type: none"> <li>i) dividend valuation model and the dividend growth model</li> <li>ii) discounted cash flow basis.</li> </ul> <p><b>3. The valuation of debt and other financial assets</b></p> <p>a) Discuss and apply appropriate valuation methods to:<sup>[2]</sup></p> <ul style="list-style-type: none"> <li>i) irredeemable debt</li> <li>ii) redeemable debt</li> <li>iii) convertible debt</li> <li>iv) preference shares.</li> </ul>