

INSTITUTE OF ADMINISTRATION & COMMERCE (ZIMBABWE)
FINANCIAL MANAGEMENT SYLLABUS (w.e.f. May 2009 Examinations)

INTRODUCTION

Financial Management is a subject, which investigates in detail the core areas of the Finance function in organizations i.e. financing decisions, investing decisions and distributions to owners and other providers of finance. A major aim of the course is to improve the quality of financial decision-making in private companies, government ministries and departments and non-governmental organizations.

OBJECTIVES

After completing this course, students should be able to:

- Explain the financial goals of business entities and other organizations
- Identify and explain the 3 key areas of the management of finance
- Explain the management of single investments and combinations of investments (portfolios)
- Explain the theoretical and practical aspects of capital structure and dividend policy
- Explain the international aspects of the management of finance

DETAILED SYLLABUS/ COURSE OUTLINE

SECTION 1 Overview of Corporate Financial Goals

- The role of financial decisions
- The goals of business entities
- Corporate social responsibility
- The agency problem
 - components of agency costs
 - dealing with the agency problem

SECTION 2 The Investment Environment

Financial markets

- Types of financial markets
- Characteristics of money market instruments
- Types of risk associated with money market instruments
- Types of money market instruments

Capital markets

- Types of capital market instruments

- Methods of raising equity capital
 - Underwriting
- Stock exchange quotations
- Advantages of having shares quoted on the stock exchange
 - Disadvantages of having shares quoted on the stock exchange

SECTION 3 Stock Market Analysis

The fundamental valuation model

- The market valuation process
- The creation of excess returns
- The efficient markets hypothesis
- Tests of market efficiency

Specify methods of stock market analysis

- Technical analysis
- Fundamental analysis

Stock exchange practice

- Listing requirements
- Measuring performance on the stock exchange

SECTION 4 The Valuation of Securities

- The time value of money
- Future value and present value calculations
- Use of present value, future value, and annuity tables
- Applications of future values and present values

SECTION 5. Bond Analysis

- Basic terms related to bond valuation
- Bond characteristics
- Types of bonds and their characteristics

Convertibility of bonds

- Callable bonds
- Puttable bonds

Bond valuation

- Bond pricing theorems
- Bond duration and modified duration
- Yield to maturity
- Relationships among coupon rate, yield to maturity and bond value
- Bond convexity

Bond immunization

- Practical considerations with regard to bond immunization
- The term structure of interest rates
- Different types of yield curves
- Expectations theory
- Liquidity preference theory
- Preferred habitat theory
- Market segmentation theory

SECTION 6 Analysis of Risk and Return

Types of risks

Types of investors

The relationship between risk and return

Systematic and unsystematic risk

Measurement of return

- Expected return
- Probability and expected return

Measurement of risk

- Variance and standard deviation
- Mean-variance rule

Coefficient of variation

The capital asset pricing model

- Calculation of required return and beta
- Significance of beta
- Assumptions of the model

SECTION 7 Portfolio Analysis

Rationale for diversification

The 2-asset portfolio

- Portfolio return
- Portfolio correlation
- Portfolio risk
- Portfolio co-variance

The multi-asset portfolio

- Combination of risky and risk-free assets

Portfolio theory and the capital asset pricing model

- The arbitrage pricing model

SECTION 8 Capital Investment Appraisal

Classification of investment projects

Major steps in capital investment appraisal

Relevant cash flows in investment appraisal

Non-discounted cash flow methods and related decision rules

- Return on investment
- Simple payback

Discounted cash flow methods and related decision rules

- Net present value
- Internal rate of return (IRR)
- Profitability index (PI)

SECTION 9 Capital Investment Appraisal-Advanced Aspects

Assumptions of the basic model

Conflicts between IRR and NPV and their solution

Reinvestment rate assumptions under IRR and NPV

Taxation in investment appraisal

Replacement of non-current assets

- Mutually exclusive projects with different lives
- Optimal replacement cycles
- The lowest common multiple method

Modification's of basic DCF methods

Effects of inflation on investment appraisal

SECTION 10 Capital Structure Theory and Company Value

Assumptions of capital structure theory

Approaches to capital structure theory

- The net operating profit approach
- The net profit approach
- The traditional approach
- The Modigliani-Miller approach
 - without taxes
 - with corporate tax
 - with corporate and personal taxes

Financial break-even analysis

- Operating leverage

- Financial leverage
- Total leverage

SECTION 11 The Cost of Capital and Company Value

The target capital structure

Calculation of the cost capital

- Weighted average cost of capital
- Weighted marginal cost of capital

The dividend valuation model

Capital asset pricing model and the cost of capital

The valuation of individual securities

- Valuation of preference shares
- Valuation of equity

The valuation of companies

- Net assets value method
- Super profits method

SECTION 12 Dividend Decisions and Company Value

Issues in dividend policy

The irrelevance theory of dividends

The Miller and Modigliani view on dividends

- The arbitrage process

Additional models on dividends

- Walter's model
- Gordon's model

Practical factors which influence the dividends decision

Other forms of dividends

SECTION 13 Working Capital Management

The matching principle

Liquidity

Investing in accounts receivable

Inventory management

Management of cash and marketable securities

Management of current liabilities

The cost of financing

SECTION 14 The Options Approach to Financial Management

- Call and put options
- Characteristics of call and put prices
- Relationship between call and put prices
- Debt and equity as options
- Warrants and convertibles

SECTION 15 Mergers and Acquisitions

- Factors influencing activity on the takeover market
- Methods of effecting takeovers
- Strategies to prevent takeovers
 - Proactive measures
 - Reactive measures
- The economic rationale for mergers
- Evaluating prospective mergers
- Anti-monopoly legislation

SECTION 16 Shareholder Value Creation, Corporate Financial Policy and Strategy

- The role of financial management in corporate strategy
- The interface of financial policy and strategic management
- The sustainable growth approach to the achievement of financial goals
- Shareholder value creation
- Shareholder value analysis

SECTION 17 International Financial Management

- The international financial environment
- The foreign investment decision
- The cost of capital for foreign investments
- Sources of funds for foreign subsidiaries
- Measuring foreign investment returns
- Determining the composition of the optimal investment portfolio
- Country and regional risk analysis
- Foreign currency risk management
- Types of foreign exchange risk

Methods of reducing transaction exposure.

