Level 5 Diploma in Business Economics (870) 139 Credits

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<tr><td>Unit: Business Finance

Exam Paper No.: 1</td><td>Guided Learning Hours: 200

Number of Credits: 20</td></tr>
<tr><td>Prerequisites: Knowledge of accounting and financial terminology.</td><td>Corequisites: A pass or higher in Certificate in Business Studies or equivalence.</td></tr>
<tr><td colspan="2">Aim: The unit explores the fundamental nature of the corporate finance function, the conceptual, theoretical underpinnings of tools for successful financial management, the strategic decisions that lead to capital spending, the risk element in financial decision-making and financial instruments that have evolved to re-allocate risk in the economy and important concepts and principles of financial management are examined using both theory and cases. The theory of finance is examined using a conceptual approach that provides the basic tools and concepts necessary for the handling of financial decision-making situations. Topics include: capital budgeting, capital markets and securities, risk, return and diversification, valuation, cost of capital, capital structure, asset pricing, risk and return, short- and long-term investment decisions, capital structure choices and dividend policy. An array of cases is used in order to foster learners’ ability to apply the tools and analytical skills to real-world situations.</td></tr>
<tr><td>Required Materials: Recommended Learning Resources.</td><td>Supplementary Materials: Lecture notes and tutor extra reading recommendations.</td></tr>
<tr><td colspan="2">Special Requirements: The unit requires a combination of lectures, demonstrations and discussions.</td></tr>
<tr><td>Intended Learning Outcomes:
1. The functions of financial management in accomplishing the objectives of the organisation and key decision areas concerning the financial manager.</td><td>Assessment Criteria:
1.1 Define finance and the need for finance
1.2 Describe the linear relationship between risk and return
1.3 Describe primary and possible objectives of corporate finance
1.4 Explain key financial decisions and inter-relationships between strategies
1.5 Describe shareholders wealth maximisation and constraints
1.6 Describe stakeholder theory
1.7 Describe agency theory assumptions and why problems arise
1.8 Explain agency problem solutions</td></tr>
<tr><td>2. Financial statements and how ratio analysis is used to determine value of a firm.</td><td>2.1 Describe why investors need financial information about a firm to make decisions
2.2 Describe measurements used in valuing a firm’s performance
2.3 Describes basis of assets and liabilities
2.4 Calculate key ratios and identify the significance
2.5 Explain users of financial ratios
2.6 Describe and formulate profitability ratios
2.7 Describe and formulate capital structure ratios
2.8 Describe and formulate liquidity ratios
2.9 Describe and formulate market value ratios
2.10 Explain problems with financial ratio analysis</td></tr>
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3. Understand important aspects of financial arithmetic basics, implementation and concepts.	3.1 Describe Time-value of money concepts and calculations 3.2 Describe Present Value (PV) of future cash flows 3.3 Describe Discounted Cash Flow (DCF) analysis techniques and valuation 3.4 Evaluate period cash flow appraisal 3.5 Be able to differential annuities and perpetuities 3.6 Produce annuity formula 3.7 Calculate Internal Rate of Return (IRR) 3.8 Calculate Annual Percentage Rate (APR) and Annual Effective Rate (EAR)
4. Understand the different investment appraisal methods and techniques; including advantages and disadvantages.	4.1 Describe the investment processes 4.2 Analyse non-discounting and discounting cash flows 4.3 Compare and contrast NPV vs IRR 4.4 Define capital rationing and describe techniques used in arriving at best investment decisions
5. Understand the concept of relevant cash flows; applications, risk and uncertainty of investment appraisal	5.1 Describe investment appraisal 5.2 Explain the purpose of considering risk in investment appraisal 5.3 Describe risk and uncertainty 5.4 Evaluate effects of inflation on capital investment 5.5 Assess investment appraisal risks 5.6 Define uncertainty and its limitations 5.7 Define scenario analysis and its limitations 5.8 Define simulation and its limitations 5.9 Describe risk premium and post-audit
6. Understand bonds as long-term debt securities terminology and bond valuation techniques	6.1 Define bond characteristics 6.2 Describe the purpose of valuing bonds 6.3 Describe zero coupon bonds and calculate issue price 6.4 Calculate yield to maturity (YTM) of zero coupon bond 6.5 Define and be able to value coupon bonds 6.6 Analyse the relationship between interest rate changes and price of bonds
7. Management of working capital (current assets less current liabilities); the relationship between a firm's short-term assets and its short-term liabilities.	7.1 Define working capital and the nature and scope of working capital management. 7.2 Distinguish between cash flow and profits. 7.3 Explain the requirement for effective working capital management. 7.4 Distinguish between the working capital needs of different types of businesses. 7.5 Outline the reasons for corporate failure 7.6 Identify and establish the relationship between working capital management and business solvency

8. Understand the basis of company share capital structure and valuation characteristics	8.1 Define equity finance 8.2 Describe shareholder legal rights 8.3 Describe advantages and disadvantages of stock marketing listing 8.4 Outline methods of obtaining a listing 8.5 Describe advantages and disadvantages of preference shares 8.6 Outline reasons for stock valuation 8.7 Describe dividend valuation model
9. Understand why and how to calculate a firm's cost of capital ;Weighted Average Cost of Capital (WACC).	9.1 Describe the purpose of calculating cost of capital 9.2 Explain the different sources of capital 9.3 Calculate cost of equity 9.4 Calculate cost of preference shares 9.5 Calculate cost of irredeemable bonds 9.6 Calculate cost of redeemable bonds 9.7 Calculate cost of bank borrowing 9.8 Calculate WACC
10. Understand the concept of optimum capital structure when analysing the mixture of equity and debt	10.1 Define capital structure 10.2 Describe business operating and financial risk 10.3 Analyse why debt is cheaper than equity 10.4 Outline the different views regarding effect of mixing debt and equity 10.5 Analyse different costs of financial distress 10.6 Describe factors to consider regarding capital structure in real world 10.7 Define pecking order theory
Methods of Evaluation: A 2½-hour written examination paper with five essay questions, each carrying 20 marks. Candidates are required to answer all questions. Candidates also undertake project/coursework in Business Finance with a weighting of 100%.	

Recommended Learning Resources: Business Finance

Text Books	• Guide to Financial Management by John Tennent. ISBN-10: 186197809X • Modern Financial Management by Stephen A. Ross , Randolph W Westerfield , Jeffrey Jaffe. ISBN-10: 0071286527 • Financial Management: Theory and Practice by Eugene F. Brigham , Michael C. Ehrhardt. ISBN-10: 0324422695
Study Manuals	BCE produced study packs
CD ROM	Power-point slides
Software	None