
PRESCRIPTION: 603 BUSINESS FINANCE

This prescription replaces *203 Business Finance*.

ELECTIVE PRESCRIPTION

LEVEL 6

CREDIT 20

VERSION 1

INTRODUCED 2006

AIM Students will apply financial management knowledge and skills to a small or medium size business for decision-making purposes.

PREREQUISITES Recommended *400 Accounting Principles* or equivalent knowledge and skills.

ASSESSMENT WEIGHTINGS

Learning outcomes	Assessment weighting %
1. Students will understand the business finance environment.	5
2. Students will apply capital budgeting techniques and evaluate investment decisions.	30
3. Students will apply knowledge of working capital to effectively manage a business for a given situation.	15
4. Students will compare and contrast financing options to recommend a course of action.	15
5. Students will discuss the principles of capital structure and cost of capital, and calculate the cost of capital.	20
6. Students will apply business finance knowledge to a given situation and provide recommendations.	15
TOTAL	100

All learning outcomes must be evidenced; a 10% aggregate variance is allowed.

ASSESSMENT NOTES

1. Assessment materials should reflect relevant and current legislation, standards, regulations and acknowledged good industry/business practices.
2. Learning outcome one can incorporate ethical considerations when assessing stakeholder demand and agency theory.
3. Learning outcome two must focus on the critical factors relating to the investment decisions and not the decisions in choosing which capital budgeting techniques to use.

4. Learning outcome five, key element c) Capital Asset Pricing Model (CAPM) is to be applied to find the cost of capital as well as to assess the validity of CAPM on its own.
5. Learning outcome six requires the assessment of the financial management issues holistically to identify the interdependence of investment decisions, finance decisions and the impact of WCM when making decisions for the firm. The assessment should show the inter-relationship between all the financial management issues as identified in learning outcome six key element (a).

LEARNING OUTCOME ONE

Students will understand the business finance environment.

Key elements

- a) Role of financial management.
- b) Financial goals of a firm:
 - stakeholder demands and agency theory
 - types of business structure.

LEARNING OUTCOME TWO

Students will apply capital budgeting techniques and evaluate investment decisions.

Key elements

- a) Capital budgeting techniques:
 - time value of money:
 - annuities and mixed stream
 - Net Present Value (NPV)
 - Internal Rate of Return (IRR)
 - one of:
 - payback
 - discounted payback
 - profitability index.
- b) Critical factors influencing investment decisions:
 - capital rationing or unlimited funds
 - independent or mutually exclusive projects
 - expansion or replacement projects.
- c) Accounting for risk on investment decisions:
 - expected return
 - standard deviation
 - coefficient of variance
 - one of:
 - risk adjusted discount rates
 - sensitivity analysis
 - scenario analysis.

LEARNING OUTCOME THREE

Students will apply knowledge of working capital to effectively manage a business for a given situation.

Key elements

- a) Working capital.
- b) Cash management.
- c) Accounts receivable management, one of:
 - criteria for effective accounts receivable management
 - changes in credit policy:
 - financial factors
 - non-financial factors.
- d) Inventory management and control methods.

LEARNING OUTCOME FOUR

Students will compare and contrast financing options to recommend a course of action.

Key elements

- a) Short term financing, three of:
 - bank overdrafts
 - bank loans
 - commercial bills
 - accounts receivable financing
 - factoring of debtors
 - inventory financing
 - other.
- b) Long term financing, two of:
 - long term loans
 - mortgages
 - debentures
 - leases
 - rights issues
 - convertible notes
 - options
 - subordinate debts.
- c) Lease versus buy decision:
 - financial factors
 - non-financial factors.

LEARNING OUTCOME FIVE

Students will discuss the principles of capital structure and cost of capital, and calculate the cost of capital.

Key elements

- a) Debt and equity consideration:
 - financial factors
 - non financial factors.

- b) Weighted average cost of capital (WACC) using the Gordon's model, three of:
 - debt
 - equity
 - preference shares
 - retained earnings.

- c) Cost of capital:
 - WACC
 - Capital Asset Pricing Model (CAPM):
 - validity of the CAPM.

- d) Capital structure decisions:
 - determination of optimal capital structure
 - operating leverage and business risk
 - financial leverage and financial risk.

LEARNING OUTCOME SIX

Students will apply business finance knowledge to a given situation and provide recommendations.

Key elements

- a) Factors to be considered:
 - feasibility/viability
 - financing options
 - working capital management impact.