

STAGE: PROFESSIONAL 2

Subject Title:

STRATEGIC CORPORATE FINANCE

Examination Duration: 3.5 hours (Open Book)

Aim

The aim of this subject is to develop students' critical understanding of the key responsibilities and financing decisions facing today's strategic financial manager. Students should be able to develop detailed business plans, to assess potential financial risks, and to advise on suitable risk management strategies for entrepreneurial activities as well as established organisations.

Strategic Corporate Finance as an Integral Part of the Syllabus

Strategic Corporate Finance develops the financial management knowledge and skills acquired by students in Managerial Finance (P1) and other disciplines acquired in the earlier examination stages. *Strategic Corporate Finance* requires students to integrate and expand that knowledge so as to provide a framework for strategic financial management analysis and decisions.

Stage	Subject	Subject	Subject	Subject	Subject	Subject
P2	Strategic Corporate Finance	Strategic Performance Management	Advanced Corporate Reporting	Strategy & Leadership	Audit Practice and Assurance Services	Advanced Taxation
P1		Managerial Finance	Corporate Reporting	Corporate Laws and Governance	Auditing	
F2		Management Accounting	Financial Accounting	Information Systems	Taxation	
F1			Management in Organisations	Economics and Business Planning	Business Law and Professional Ethics	

Strategic Corporate Finance further integrates and builds on, as appropriate, the capabilities developed in the earlier subjects, as highlighted in the table above.

Learning Outcomes

On successful completion of this subject, students should be able to:

- Evaluate the financial objectives of an organisation and explain how they are determined and interrelate with the non-financial objectives and stakeholder interests.
- Discuss the legal regulations, and the professional and ethical considerations facing financial managers.
- Value shares / businesses in the context of a proposed merger, acquisition or management buyout.
- Analyse reasons for and advise on actions to prevent corporate failure.
- Evaluate and advise as to the optimum capital gearing structure, term structure and dividend policy for an organisation.
- Advise as to appropriate exchange risk and interest rate risk management strategies, and discuss the use of derivatives in long-term risk management.
- Discuss the relevance of portfolio theory and the Capital Asset Pricing Model for financial managers.
- Prepare a business plan for an organisation, given prescribed information.
- Evaluate the financial management of an organisation over a period of time and/or relative to competitors / industry norms.

Syllabus

1: FINANCIAL ENVIRONMENT	CL*
Financial objectives within the strategic planning process.	3
Key stakeholders of organisations and the interests of each stakeholder group.	3
Corporate Social Responsibility, its relationship to the objective of maximising shareholder wealth.	3
Agency theory and its relevance to financial managers.	3

The professional, regulatory and legal framework relevant to financial management including: City Code and stock exchange requirements, money laundering, directors' responsibilities.	3
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Monetary regulation in the US and EU and its effect on Capital Markets.	3
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The key activities undertaken by treasury managers.	3
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Centralised treasury management and the arguments for and against.	3
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The efficient market hypothesis.	3
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2: MERGERS AND ACQUISITIONS

Organic and acquisitive corporate growth.	3
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Mergers and acquisitions, the arguments for and against.	3
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Procedures to be complied with during an acquisition.	3
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Valuation of an organisation in the context of a potential takeover, using both the earnings and assets-based methodologies.	3
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The significance of Value Gaps and the information efficiency of capital markets.	3
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Methods of financing mergers and takeovers, including cash, debt, equity and hybrids.	3
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Defence tactics used during a hostile takeover.	3
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The role of legal and financial due diligence during a merger/acquisition.	3
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The attractions and risks associated with Management Buy Outs (MBOs).	3
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Sources of finance for MBOs.	3
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The advantages and disadvantages of management buy-ins (MBIs).	3
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2: MERGERS AND ACQUISITIONS

The arguments for and against a quoted company going private. 3

3: CORPORATE FAILURE

The symptoms and causes of corporate failure. 3

Avoidance of corporate failure. 3

The nature, scope and elements of working capital and the importance of effective working capital management to corporate survival. 3

Overtrading- symptoms, causes and remedies. 3

4: SOURCES OF FINANCE

Equity and debt financing. The attractions and risks associated with each. 3

Short, medium and long-term funding. 3

Optimising the gearing structure of an organisation. 3

Modigliani and Miller's theory of corporate financing in perfect capital markets 3

Relaxation of the perfect capital market assumption; the optimum capital structure of a firm. 3

Dividend Policy - Modigliani and Miller's theory of dividend policy in perfect capital market 3

The Signalling and the clientele approaches to dividend policy 3

The influence of taxation on dividend policy 3

Dividend policy - key considerations. Including theories of Modigliani and Miller and Myers Pecking Order Hypothesis. 3

Dividend policy. 3

5: FINANCIAL RISK MANAGEMENT

The key financial risks facing an organisation. 2

Currency risk - transaction, translation and economic exposure. 2

The workings of the foreign exchange markets. 2

The relationship between foreign exchange rates and interest rates in different countries. 2

Forward Exchange Contract and Money Market hedges. 2

Other forms of exchange rate risk management including, netting, leading and lagging, currency swaps, currency futures and currency options. 2

Exchange risk management strategies. 2

Interest rate options, swaps, forwards, futures and swaptions. 2

Interest rate risk management strategy.

Recognition and management of long-term term operating exposure to foreign currency risk. 2

6: COST OF CAPITAL

The relationship between risk and return	3
Weighted Average Cost of Capital (WACC) - calculate and discuss uses and limitations.	
Portfolio diversification, estimate the risk and return of a portfolio.	3
The relevance of portfolio theory to practical financial management.	3
The Capital Asset Pricing Model (CAPM) – application and limitations.	3

7: FINANCIAL ANALYSIS AND BUSINESS PLANNING

Preparation of long-term business plans from prescribed information.	3
Appraise capital investment options using NPV, IRR and Payback criteria.	3
Evaluation of a business plan from the perspective of an equity investor or provider of debt funding.	3
Assessment of an organisation's current financial position.	3
Comparison and evaluation of the financial management of an organisation with that of competitors and industry norms.	3
Preparation, evaluation and discussion of key financial management indicators based on the published financial statements of an organisation.	3
Benchmarking of selected financial KPIs against companies in the same industry sector.	3

Assessment Strategy

Examination Approach This examination uses a case-study approach to test students' ability to apply technical skills, critical analysis, and demonstrate synthesis and

decision-making. It also tests communication skills and familiarity with contemporary business issues. Questions require students to write reports, which must be tailored to the technical knowledge of the target audience. Students are also presented with the opportunity to demonstrate professional judgement and ethical sensitivity.

EXAMINATION FORMAT

Assessment is by an open-book examination of 3.5 hours' duration. It consists of one compulsory question, based on a case-study (worth 50% of the marks for the examination) plus a choice of two out of three optional questions, which may refer also to material in the major case-study and / or be based on mini case studies, each worth 25% of the marks for the examination.

Marks Allocation	Marks
The total for the paper is 100 marks.	
Question 1 Case Study (Compulsory)	50
Questions 2 to 4	50
(Answer any two, each carries 25 marks)	
	Total 100

Learning Resources

CORE TEXTS

Arnold / Corporate Financial Management 5th Edition/ Pearson 2012 / ISBN-13: 9780273758839

MANUALS

Griffith College, CPA P2 Strategic Corporate Finance - Latest edition

SUPPLEMENTARY TEXTS AND JOURNALS

Power, Walsh and O Meara 3rd ed / Financial Management / An Irish Text, Gill & Mc Millan / 2009 / ISBN-13: 978-0717145546

Pilbeam / Finance and Financial Markets / 3rd edition McMillan 2010 / ISBN-13: 978-0230233218

CPA Students' eBulletin Recommended Journals
Financial Director. Harvard Business Review. Investment International. Accounting and Business. Accountancy Plus.

USEFUL WEBSITES (AS AT DATE OF PUBLICATION)

www.cpaireland.ie - CPA Ireland.

www.ise.ie - The Irish Stock Exchange.

www.ifsra.ie - The Financial Regulator.

www.cfo.com -CFO.com

www.ifac.org/ - International Federation of Accountants.

www.ft.com - Financial Times.

www.wsj.com - The Wall Street Journal online.

www.investmentinternational.com - Investment International.