EDINBURGH BUSINESS SCHOOL
HERIOT-WATT UNIVERSITY

H11FA

ADVANCED FINANCIAL DECISION MAKING SYLLABUS

COURSE AIMS

The Advanced Financial Decision Making ('AFDM') course aims to enable students to analyse complex financial choices, both external and internal, facing a company and propose courses of action that are consistent with the organisation's goals.

AFDM builds on the Financial Decision Making (FDM) course, revisiting many concepts from FDM plus some new ones, taking the analysis and application to a deeper level.

AFDM examines the classical finance decisions of which investments to make, how to finance these projects and how to return cash to investors and applies a practical treatment. The AFDM course uses real life corporate examples, which are readily identifiable to the student and they will be able to learn by observing finance and accounting in practice. The course will examine in more detail why mistakes are often made in financial decision making. In the financial reporting part of the course coverage will focus on groups, how these are consolidated into one reporting entity and a look into earnings management and manipulation and why the accounting figures do not tell the whole truth. Students will be able to more forensically examine a company's published financial statements.

The management accounting section of the course looks into key topics such as limiting factors and how to deal with these, target costing, lifecycle costing and many other tools and techniques used by companies. In the financial planning section, there is detailed coverage of budget production, divisional performance and behavioural aspects.

A key focus of AFDM is valuation of the company. Good decision making by managers in investment, financing and payout areas will support valuation and the course will give the student a toolkit to be able to value a company and critically analyse its published financial statements. AFDM also examines current key issues in finance and accounting, such as the use of cryptocurrencies like bitcoin, intellectual capital and a move towards more environmental, social and governance reporting.

COURSE SYNOPSIS

The course provides managers with a detailed examination of key financial concepts, both from a finance and accounting view. In each area the course will outline the fundamental concepts and then develop, explain and, above all, apply key concepts and techniques to a broad range of business concerns. It will demonstrate the role finance and accounting has to play in explaining and shaping business development rather than concentrating on rigorous, quantitative aspects.

The course starts with a 'refresher' of key aspects of FDM, then moves to focusing on financial reporting, in particular looking at a group of companies and the consolidation process. Annual reports are then covered in detail, including an overview of the framework underlying international financial reporting standards. The course provides a critical analysis of earnings management, a tool used by managers to misrepresent financial information and covers recent accounting scandals caused by earnings management. This part of the course rounds off by looking at current trends in financial reporting.

The focus is then on management accounting, planning and performance measurement and management before turning to an in-depth examination of how a company manages its working capital components.

The key areas of investment decision making, risk and return and financing (debt or equity) are next. These are considered in depth, how they are interlinked and how they affect the value of the company. This is followed by a consideration of foreign investment, the risks associated with it and how these can be managed.

Enterprise valuation then follows, addressing issues such as what creates value, what destroys it, how value is measured and how value and risk are related. This focus on value flows through the whole course, both in the finance section and in the accounting parts. There is then a brief module on mergers and acquisitions including the process, the regulatory framework and how they are financed.

The next topic covered is risk management and how companies identify, evaluate and take decisions on exchange rate risk exposures and interest rate risk exposures. The penultimate section examines some of the key issues around corporate failure, financial reconstruction and business reorganisation. The course concludes with a look at current issues in finance and accounting.

COURSE LEARNING OUTCOMES

On completion of this course students will be able to:

- Using synthesised and critical awareness of both good and bad accounting practice, evaluate the impact of management decisions about presentation of external information and internal costing on perceived and actual company performance
- Critically evaluate international financial issues including performance measurement, planning, hedging and foreign exchange issues
- Critically review available valuation techniques for equities, bonds, projects and companies and apply these to make robust decisions around investment, financing and mergers and acquisitions
- Through the evaluation of a given situation and risk profiles, propose and justify the use of appropriate derivatives in diverse contexts
- Develop the ability to make competent business decisions through synthesis of relevant knowledge and evaluation of complex financial data from a variety of sources.
- Apply financial risk management principles in a number of organisational and international settings, recommending courses of action consistent with management risk appetite
- Apply profit and cash robust budgeting principles to construct integrated business planning models that can be used to guide management decision making

COURSE STRUCTURE

The course is broken down into 11 learning modules as follows:

Module 1: Financial Decision Making Core Principles

The main purpose of this module is to refresh key topics and knowledge gained from the 'Financial Decision Making' course.

Key topics covered are as follows:

- Financial reporting - interpretation of financial statements
- Management accounting – cost-volume-profit analysis and activity-based costing
- Investment appraisal
- Financing

Module 2: Financial Reporting

This module will start with a brief review of analysing and interpreting financial statements and introduce another financial statement - 'statement of changes in equity and other comprehensive income'. This will be followed by examining what a 'group' is and how a group of companies is consolidated into one entity for financial reporting purposes. Annual reports and their content will then be critically evaluated followed by a critical analysis of earnings management, a tool used to misrepresent financial information. The role of International Financial Reporting Standards (IFRS) will be covered together with trends in financial reporting. Finally there is an overview on how integrating the sustainability, environmental and social information in a company's financial reports (integrated reporting) might positively impact its risk profile and hence valuation.

On completing this module, students will be able to:

- Understand the process of consolidating two or more companies to produce a set of group financial statements
- Be able to read and analyse full annual reports produced by companies
- Understand the process of earnings management and what the outcomes can be
- Critically discuss the arguments for and against accounting standards, both domestic and international and be able to describe and comment on the IASB approach to financial reporting (IFRS)
- Critically examine current trends in corporate reporting
- Analyse the objectives and framework of integrated reporting

Topics covered are as follows:

- Preparing a simple set of consolidated financial statements
- Delving more deeply into the content of a company's Annual Report
- Why there are financial reporting standards and why they are mandatory
- Arguments in support of and against standards
- Standards setting and enforcement in the UK, the EU and the US
- Earnings management and how it is applied and its impact
- Trends in corporate reporting including CSR, integrated reporting and ESG
- Integrated reporting: sustainability, environmental and social aspects

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Module 3: Managerial Accounting

The aim of this module is to equip students with a critical knowledge and understanding of key management accounting tools and techniques and how to select and apply these in making informed decisions in both internal and external business scenarios**.**

At the end of this module students will be able to:

- Explain and apply multiple limiting factor analysis in a given decision-making scenario

- Develop a critical understanding and application of target costing, lifecycle costing, kaizen and other total quality management techniques
- Appreciate the impact of companies on the environment and society
- Appreciate the pressures for change in companies to look beyond profit and understand the role of management accounting in responding to pressures for change
- Explain the need for companies to focus on sustainable development
- Explain the use of environmental management accounting tools in companies

Topics covered are as follows:

- Limiting factors and the use of simple linear programming
- Life-cycle costing
- Target costing
- Kaizen costing
- Total quality management
- Six sigma
- Environmental management accounting

Module 4: Planning and Performance Evaluation

The aim of this module is to equip students with an understanding of the planning process, the budgetary framework and the use of quantitative techniques to assist in the preparation of budgets. The module examines divisional performance management and the use of transfer pricing. Finally, this module evaluates several critical performance measurement and management models and techniques that look beyond mere financial measures.

At the end of this module students will be able to:

- Describe the budgeting framework in various organisations and draw up an integrated financial budget (income statement, cash flow statement, balance sheet)
- Derive the needed numbers for and depict the sales budget, the cost of sales budget and the cash budget
- Apply critical quantitative techniques, such as learning curves, in the budgeting process
- Differentiate between different types of responsibility centres and calculate return on investment (ROI) and residual income (RI) for an investment centre
- Describe the purpose and mechanisms of transfer prices and understand the advantages and disadvantages of the different transfer pricing systems
- Describe holistic performance evaluation models like the balanced scorecard, the building blocks model and the performance prism and apply those models to a given scenario
- Explore key behavioural aspects involved in the planning and performance evaluation process.

Topics covered are as follows:

- Budgeting framework
- Quantitative budgeting techniques
- Divisional performance evaluation
- Transfer pricing
- Performance planning and evaluation beyond financial measures: the balanced scorecard (BSC), the building blocks model, and the performance prism
- Planning and control cycles
- Behavioural aspects of budgeting and performance evaluation

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Module 5: Working Capital Management

The aim of this module is to enable students to identify, analyse and critically assess an organisation's management of the key components and elements of working capital

At the end of this module students will be able to:

- Identify the components of working capital in any given scenario
- Explain, apply and evaluate a variety of techniques used to manage the different components of working capital
- Determine, analyse and interpret the adequacy of working capital elements at different levels of business activity
- Critically evaluate how an organisation finances its working capital requirement

Topics covered are as follows:

- Working capital overview
- Inventory management
- Receivables management
- Payables management
- Cash management
- Working capital funding strategies
- Overtrading

Module 6: Investment Appraisal

The aim of this module is to provide students with a critical knowledge of the capital budgeting process to allow informed, reasoned and sustainable capital investment decisions in a variety of given scenarios. It starts with a quick refresher from Financial Decision Making. The module then examines foreign investment appraisal and how to deal with different currencies in the appraisal process. The module next explains what tools and techniques are used by companies to address the risk and uncertainty surrounding many long-term investment projects. Finally, the module explores how to value 'real options' that may exist in a long-term investment scenario

At the end of this module students will be able to:

- Demonstrate a critical understanding of the long-term investment appraisal process
- Prepare a financial appraisal involving two or more currencies
- Explain the use of the Adjusted Present Value (APV) method in capital budgeting decisions
- Identify and apply appropriate risk and uncertainty measures in the investment appraisal process
- Explain the concept of real options and value these in a given scenario.

Topics covered are as follows:

- Capital investment appraisal basics – a refresher of NPV, IRR and the WACC
- Investment overseas where more than one currency is involved and the key issues that arise when a business invests outwith its national borders
- The Adjusted Present Value (APV) technique – when and how this is appropriate to apply to an investment decision
- Risk analysis in practice; sensitivity, scenario and simulation analysis
- Identification and valuation of 'real options' in an investment appraisal scenario

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Module 7: Corporate Valuation

The aim of this module is to provide students with different frameworks for valuing companies and to critically evaluate these different techniques. A sound grasp of the principles of valuation is essential for most areas of financial management.

At the end of this module students will be able to:

- Explain and critically evaluate the limitations of different valuation models
- Explore different valuation methods for valuing unquoted companies
- Explain and critically evaluate economic value added

Topics covered are as follows:

- Valuing the net assets
- Valuing the dividend stream
- Valuing the earnings stream: P:E ratios and EBITDA
- Valuing cash flows, the DCF approach
- Valuation of unquoted companies
- Debt valuation
- Economic value added

Module 8: Mergers and Acquisitions (M&A)

The aim of this module is to equip students with a critical knowledge of the M&A process, comparing this to other growth strategies, and provide students with a basic understanding of an M&A regulatory framework and how M&A are financed

At the end of this module students will be able to:

- Critically discuss the use of M&A as a method of corporate expansion
- Evaluate potential synergies of M&A in a given scenario
- Critically discuss, evaluate and advise on the value created from an M&A and its impact on both the target company and the acquiring company
- Understand the key features of an M&A regulatory process and framework
- Critically assess the various options for financing an M&A in a given scenario

Topics covered are as follows:

- M&A compared to other growth strategies
- Use of valuation tools and techniques in M&A
- Regulatory process
- Financing of M&A

Module 9: Risk Management

This aim of this module is to provide students to gain a critical understanding of risk management in a company. The module starts by describing the nature and types of risk and approaches to risk management and then examines the causes of exchange rate differences and interest rate fluctuations. Finally, the module goes into detail on basic and advanced hedging techniques for exchange rate risk and basic and advanced hedging techniques for interest rate risk and shows how these hedging techniques are applied in practice.

At the end of this module students will be able to:

- Explain different types of foreign currency risk (economic, translation and transaction) and different types of interest rate risk (gap exposure, basis risk)

- Explain how companies can manage these risks by adopting hedging techniques both internally and externally to their operations
- Calculate forecast exchange rates using purchasing power parity and interest rate parity
- Demonstrate a critical understanding of the causes of interest rate fluctuations, including the structure of interest rates and yield curves
- Analyse, apply and critically assess basic methods of exchange rate risk management (forward exchange contracts and money market hedging in a given scenario
- Identify, apply and critically evaluate the main types of derivatives used to hedge exchange rate risk in a given scenario (futures, options, swaps)
- Analyse, apply and critically assess basic methods of interest rate risk management including forward rate agreements in a given scenario
- Identify, apply and critically evaluate the main types of interest rate derivatives used to hedge interest rate risk (futures, options, swaps) in a given scenario

Topics covered are as follows:

- Exchange rate risk
- Basic exchange rate risk hedging
- Exchange rate risk hedging using derivatives
- Interest rate risk
- Basic exchange rate risk hedging
- Interest rate risk hedging using derivatives

Module 10: Corporate Restructuring

The aim of this module is to equip students with a critical knowledge and understanding of corporate failure, financial reconstruction and business re-organisation.

At the end of this module students will be able to:

- Discuss the various causes of financial distress
- Explain and apply corporate failure prediction tools
- Produce a simple statement of affairs
- Assess whether a financial reconstruction is an appropriate strategy in a given scenario
- Evaluate the response to a reconstruction scheme from capital providers and other creditors
- Assess the impact of capital providers and other creditors on the value of a business
- Provide reasoned strategies for unbundling parts of a company and evaluate the financial and other benefits of an unbundling strategy
- Explain and critically evaluate the financial issues involved in an MBO or MBI

Topics covered are as follows:

- Use of models to predict corporate failure
- Statement of affairs
- Reconstruction schemes
- Spin-offs, demergers, unbundling
- Key features of MBOs and MBIs

Module 11: Current Issues in Finance and Accounting:

The aim of this module is to examine the role of behavioural finance in financial decision making and provide a highlighted summary of current issues in accounting and finance.

At the end of this module students will be able to:

- Analyse, explain and discuss current trends in finance and accounting
- Understand the impact of behavioural finance
- Appreciate how the world of finance and accounting is an ever-evolving one

Topics covered are as follows:

- Behavioural finance and its impact on decision making
- Intellectual capital and how companies account for it
- Cryptocurrencies
- Replacing LIBOR
- Overhauling global corporate taxation

ASSESSMENT

The course is assessed by final examination, accounting for 100% of the overall mark.

There is no choice in the selection of questions to be answered. The paper is in two sections:

I. Integrated case study (50 marks in total)

II. Case studies (two), each worth 25 marks (50 marks in total)