

PRINCIPLES OF FINANCE

PAPER 11

OVERALL AIM

To equip the learner with skills to apply the principles of finance to business decision making.

LEARNING OUTCOMES

On completion of this course, the learner should be able to:

	Learning outcomes	K	C	A	An	S	E
1.	Explain the finance function and the environment in which it operates	✓					
2.	Identify sources of finance for an organisation	✓					
3.	Calculate basic risk and return measures			✓			
4.	Determine the cost of capital for an organisation			✓			
5.	Analyse the viability of investments using appropriate techniques				✓		
6.	Analyse various forms of dividends payable by an organisation				✓		
7.	Explain ethical issues in finance	✓					
8.	Apply basic concepts of Islamic finance			✓			

LEVEL OF ASSESSMENT

The examination will test the learner's knowledge, application and analytical skills in financial management.

EXAMINATION STRUCTURE

There will be a three-hour examination comprising six questions of 20 marks each, of which the candidate will be required to attempt any five.

DETAILED SYLLABUS

A OVERVIEW OF FINANCE

1. Nature and scope of finance
2. Relationship between accounting and finance
3. Finance functions
4. Goals of a firm
5. Agency theory: Conflicts and resolutions

B SOURCES OF FINANCE AND COST OF CAPITAL

1. Factors to consider when choosing a source of finance
2. Internally and externally generated finances
3. Short-term and medium-term sources of capital, including factoring, invoice discounting, commercial paper, bank finance, trade credit, hire purchase, leasing and bills of exchange
4. Long-term sources of finance, including equity, preference shares, debentures and bonds
5. Significance of cost of capital to firms
6. Factors influencing a firm's cost of capital
7. Components of cost of capital

C FINANCIAL MARKETS AND SYSTEMS

1. Role and importance of financial markets and systems
2. Market participants and financial innovation
3. Types and functions of financial markets; characteristics of a good market
4. The flow of funds and the financial system
5. Organisation, structure and functions of securities markets
6. Automated securities exchanges/ automated trading systems and central depository systems

7. Role of government in the financial system: Capital Markets Authority, central bank, Central Depository and Settlement Company

D TIME VALUE OF MONEY

1. Time value of versus time preference for money; relevance of time value of money
2. Discounting and compounding techniques
3. Loan amortisation

E RISK AND RETURN

1. Components of risk and return
2. Sources of risk
3. Measures of risk and return for a single asset
4. Distinction between risk-free and risky assets
5. Relationship between risk and return on investments

F WORKING CAPITAL MANAGEMENT

1. Nature and importance of working capital management
2. Determinants and elements of working capital
3. Determination of working capital needs
4. Working capital operating cycle
5. Working capital financing policies
6. Computation and interpretation of working capital ratios
7. Cash management and cash flow planning; profit versus cash flow
8. Reasons for holding cash and other liquid assets
9. Accounts receivable management: Credit control policy, credit worthiness, risks and costs of customer default, factoring and invoice discounting
10. Simple cash budget preparation and interpretation
11. Accounts payable management

12. Inventory management:

- (a) Associated costs, including stock-out costs, stock holding costs, procurement/ purchase costs
- (b) Inventory control systems, including total quality management, just-in-time philosophy; merits and demerits of each system

G CAPITAL BUDGETING

1. Importance, characteristics and types of capital investment decisions
2. Capital investment cash flows: Total initial cash outlay, total terminal cash flows and net annual operating cash flows
3. Investment evaluation criteria
4. Investment appraisal techniques, including accounting rate of return, payback period, internal rate of return, net present value and profitability index; merits and demerits of each investment appraisal technique

H DIVIDEND DECISIONS

1. Factors influencing the dividend decision of an entity
2. Forms of dividend payment
3. Dividend policies, including pay-out ratio policy, residual policy, stable predictable policy, low regular plus extra policy
4. Dividend payment chronology, including declaration date, holder of record date, ex-dividend date and payment date

I ISLAMIC FINANCE

1. Islamic financing:
 - (a) Meaning
 - (b) Sudden interest in Islamic financing
 - (c) Tradition on which Islamic financing is based
 - (d) Islamic versus conventional modes of financing

2. Banking and interest (Riba):
 - (a) Relationship between users and suppliers of funds
 - (b) Contracts and products
 - (c) Islamic versus conventional banks
3. Sharia board: Composition and functions
4. The principles of Islamic finance:
 - (a) Interest-free
 - (b) Need for underlying assets
 - (c) Avoidance of uncertainty/ gambling
 - (d) Profit and loss sharing; profit sharing principle
 - (e) Rights and liabilities of banks and customers
 - (f) Sharia compliance
 - (g) Unlawful goods and services
5. The concept for time value of money
6. Islamic financing structures, including murabaha, tawarruq, wakala, ijarah, istisna'a, musharaka, sukuk and mudaraba
7. Islamic capital markets:
 - (a) Islamic financial instruments
 - (b) Potential for Islamic capital instruments
8. Sharia compliance and the equity market
9. Issues that need to be considered:
 - (a) Risks and liabilities
 - (b) Co-financing
10. Requirements for sustained growth of Islamic finance

J SOCIAL RESPONSIBILITY AND ETHICS

1. Conflict of interest
2. Objectivity
3. Integrity
4. Accuracy
5. Transparency

6. Money laundering
7. Insider dealing
8. Environmental management
9. Provisions of the following:
 - (a) Financial regulation
 - (b) Financial Intelligence Authority
 - (c) Anti-money Laundering Act
 - (d) Market regulations and restrictive practices
 - (e) Deregulation and privatisation

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3. Hirt, B. D., 2014. Corporate Finance Foundations, 15th Edition, New York: McGrawHill Irwin.
4. Pandey, I. M., 2015. Financial Management, 11th Edition, New Delhi: Vikas Publishing House.
5. Richard, P., Bill, N., Saeed, A and Philip, L., 2018. Corporate Finance and Investment (Decisions and Strategies). 9th Edition, Harlow: Pearson International.