

## Module 15

### 6.15.1. Finance II

|  |                                      |  |                                      |                              |                                      |  |                                      |                                |   |                             |
|--|--------------------------------------|--|--------------------------------------|------------------------------|--------------------------------------|--|--------------------------------------|--------------------------------|---|-----------------------------|
| <b>Module title</b>  |                                      | Finance II   |                                      |                              |                                      |  |                                      |                                |   |                             |
| <b>Module NFQ level (only if an NFQ level can be demonstrated)</b>             |                                      | 8  |                                      |                              |                                      |  |                                      |                                |   |                             |
| <b>Module number/reference</b>   |                                      | AT15   |                                      |                              |                                      |  |                                      |                                |   |                             |
| <b>Parent programme(s)</b>   |                                      | Bachelor of Arts (Honours) in Accounting and Finance |                                      |                              |                                      |  |                                      |                                |   |                             |
| <b>Stage of parent programme</b>   |                                      | Stage 3  |                                      |                              |                                      |  |                                      |                                |   |                             |
| <b>Semester (semester1/semester2 if applicable)</b>                            |                                      | Semester 1   |                                      |                              |                                      |  |                                      |                                |   |                             |
| <b>Module credit units</b>   |                                      | ECTS   |                                      |                              |                                      |  |                                      |                                |   |                             |
| <b>Module credit number of units</b>   |                                      | 10   |                                      |                              |                                      |  |                                      |                                |   |                             |
| <b>Duration of the module</b>  |                                      | One Academic Semester, 12 Weeks Teaching.            |                                      |                              |                                      |  |                                      |                                |   |                             |
| <b>Average (over the duration of the module) of the contact hours per week</b> |                                      | 6  |                                      |                              |                                      |  |                                      |                                |   |                             |
| <b>Analysis of required learning effort</b>                                    |                                      |  |                                      |                              |                                      |  |                                      |                                |   |                             |
| <b>Effort while in contact with staff</b>                                      |                                      |  |                                      |                              |                                      |  |                                      |                                |   |                             |
| <b>Classroom and demonstrations</b>  |                                      | <b>Mentoring and small-group tutoring</b>            |                                      | <b>Other (specify)</b>       |                                      | <b>Directed e-learning (hours)</b>     | <b>Independent learning (hours)</b>  | <b>Peer-directed learning.</b> | <b>Work-based learning hours of learning effort</b> | <b>Total effort (hours)</b> |
| <b>Hours</b>   | <b>Minimum ratio teacher/learner</b> | <b>Hours</b>   | <b>Minimum ratio teacher/learner</b> | <b>Hours</b>                 | <b>Minimum ratio teacher/learner</b> |  |                                      |                                |   |                             |
| 48   | 1:40                                 | 24   | 1:20                                 |                              |                                      |  | 178                                  |                                |   | 250                         |
| <b>Allocation of marks (within the module)</b>                                 |                                      |  |                                      |                              |                                      |  |                                      |                                |   |                             |
|  |                                      |  |                                      | <b>Continuous assessment</b> | <b>Supervised project</b>            | <b>Proctored practical examination</b> | <b>Proctored written examination</b> | <b>Total</b>                   |   |                             |
| <b>Percentage contribution</b>   |                                      |  |                                      | 30 %                         |                                      |  | 70%                                  | 100%                           |   |                             |

## Minimum intended module learning outcomes

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

- MIMLO 15.1** Calculate, evaluate, and present financial information central to tactical and strategic financial decisions in the pursuit of the achievement of organisational financial objectives.
- MIMLO 15.2** Discuss, evaluate and calculate the impact of various sources of long-term finance (debt and equity) comprising the capital structure, including analysis of capital structure theories, and demonstrate an awareness of the concept of Islamic finance as a source of long-term finance.
- MIMLO 15.3** Identify and evaluate the various sources of long-term finance (equity and debt) as well as calculation of the cost of equity (using the capital asset pricing model and dividend valuation model) and the cost of debt (redeemable and irredeemable) forming the basis for the calculation of the weighted average cost of capital (WACC) and demonstrate the ability to adjust the cost of capital for changes in finance risk and/or business risk.
- MIMLO 15.4** Calculate, evaluate and present financial information on the valuation of shares using the main conventional methods (net assets, earnings, dividends and cash flows) and debt instruments using the main conventional model (cash flows) for a variety of contexts including merger and acquisition demonstrating an understanding of the impact of EMH and CMH philosophies.
- MIMLO 15.5** Explain the complexities involved in merger, acquisition and management buyout including the development of an ability to recommend and justify appropriate sources of finance for the various situations in addition to pre-offer defences and post-offer defences.
- MIMLO 15.6** Assess the financial risk (in particular interest rate risk and foreign exchange risk) in both the domestic and international context and recommend appropriate hedging techniques, with calculations to reduce exposure to financial risk with clear rationale and justification.

## Module content, organisation and structure

### Indicative Syllabus:

#### Advanced investment appraisal

- Identify the relevant costs and benefits of alternative capital investment projects incorporating the impact of inflation and taxation (including capital allowances – tax allowable depreciation)
- Incorporate risk analysis into the capital investment appraisal process using probability analysis, expected value and the range method (optimistic, realistic and pessimistic scenarios) and risk adjusted cost of capital for finance risk and/or business risk changes
- Discuss, evaluate and apply sensitivity analysis to test key inputs such as project duration, cost of capital, sales volume/price, variable cost and terminal value of the project
- Incorporate uncertainty into capital investment appraisal using techniques such as payback (simple and discounted) and Monte Carlo simulation,
- Apply discounted cash flow (DCF) analysis for decision making purposes with mutually exclusive projects of unequal lives using the equivalent annual cost (EAC) method
- Critically evaluate, compare and contrast and calculate net present value (NPV) and internal rate of return (IRR), including critical evaluation the two techniques.
- Explain and calculate modified internal rate of return (MIRR) and discuss its relative merits
- Apply the appropriate techniques involved in asset replacement decisions such as equivalent annual cost (EAC) and lowest common multiple (LCM) methodologies
- Apply the appropriate techniques involved in lease v's buy decisions, including establishing the appropriate cost of capital with recommendations supported by financial analysis
- Apply DCF techniques to provide recommendations in single period capital rationing situations under conditions of divisible and non-divisible projects, using Profitability Index (PI) and/or other possible NPV maximising investment combinations.
- Identify and discuss the causes of capital rationing and recommendations to alleviate to situation.

#### Business finance (debt & equity)

- Evaluate the role and nature of the corporate bond and equity markets in sourcing long-term finance for large national and international multi-national organisations
- Assess the impact of the global credit crisis and the sovereign debt crisis on the efficient operation of global capital and equity markets
- Identify and discuss the features and relative merits of different forms of long-term debt such as corporate bonds (domestic and international), commercial mortgages, sale and lease back hire purchase and leasing
- Identify and discuss the features and relative merits of raising equity finance such as rights issue, placing, initial public offering (IPO)
- Calculate and discuss the impact of long-term debt vs equity as a source of finance on earnings per share (EPS), gearing ratios (Interest cover and Debt:Equity) and shareholder wealth
- Explain and discuss the pecking order theory (POT) in the context of sourcing long-term finance
- Identify and discuss of the factors influencing dividend policy such as shareholder expectations, signalling effect, clientele effect, industry averages, taxation considerations, legal considerations, liquidity, existence of wealth creating investment opportunities,

alternatives to cash dividends (scrip issues, shareholder concessions and share repurchase) and the relative merits of using retained earnings as a source of finance

- Explain the major differences between Islamic finance and other conventional sources of finance
- Explain how returns are made by Islamic financial securities (including how the concept of interest is incorporated into Islamic finance)
- Identify and briefly discuss long-term Islamic financial instruments including equity finance (mudaraba), debt finance (sukuk) and venture capital (musharaka)
- Explain and critically evaluate the capital structure theories on Modigliani & Miller with taxes with supporting calculation to demonstrate the ability to calculate the theoretical impact on the weighted average cost of capital and contrast with the traditional view of capital structure.

Capital structure theories and the cost of capital:

- Explain and discuss the traditional theory of capital structure making particular reference to low levels of gearing and high levels of gearing and identify the main practical factors influencing the level of gearing of a particular organisation
- Explain and critically evaluate the capital structure theories of Modigliani & Miller in comparison with the traditional capital structure theory including the calculation of market values of debt and equity and cost of capital
- Explain and discuss the capital asset pricing model (CAPM) critically evaluating its key assumptions,
- Calculate the cost of equity using the capital asset pricing model (CAPM) and the dividend valuation model (DVM)
- Calculate the cost of debt for incorporation into the cost of capital for various forms of debt instrument such as redeemable debt, irredeemable debt, convertible debt, conventional bank debt and preference shares
- Calculate the weighted average cost of capital (WACC), discuss its use and identify the circumstances when it can be validly used to assess the wealth creation potential of an investment opportunity
- Demonstrate and prepare financial analysis using CAPM to calculate the cost of equity and adjusted cost of capital in circumstances where there is a change to the financial risk
- Demonstrate and prepare financial analysis using CAPM to calculate the cost of equity and adjusted cost of capital to produce a project specific discount rate in circumstances of an investment with a different business risk to the existing organisation
- Explain the concept of adjusted present value and when it might be used in investment appraisal instead of calculating a project specific discount rate using CAPM.

Company Valuation:

- Compare and contrast the relative merits of acquisitive growth in comparison to organic growth
- Explain the main circumstances when the valuation of equity shares and/or debt instruments may be required
- Explain and discuss the efficient market hypothesis (EMH) weak form, semi-strong and strong form efficiency
- Explain and discuss the coherent market hypothesis (CMH) and its reference to coherent bull markets, bear markets and chaotic markets
- Calculate the value of an equity share and hence market capitalisation (total shareholder wealth) using the main conventional models such as net assets (book value, liquidation

value or replacement values), maintainable earnings, projected dividends and/or discounted free cash flows

- Explain the concept of free cash flow and distinguish between the equity value of an entity and the total entity value
- Assess the relative merits and de-merits of these conventional models in various scenarios and recommend which valuation model may be more relevant in a specific context or a situation which you have researched
- Identify and discuss the strategic financial objectives of a proposed merger or acquisition and the potential synergy accessible (financial engineering, cost reduction, revenue enhancing or new strategic options)
- Calculate the forecast impact on shareholder wealth of the predator from information provided with various combinations of once off synergy and/or recurring annual synergy in the context of different acquisition or merger strategies (related diversification and unrelated diversification)
- Calculate and discuss the forecast impact on shareholder wealth (predator and target company shareholders) in a share for share merger of organisations from information provided and assess if the merger is likely to proceed based on the analysis
- Identify and discuss various forms of potential finance to conclude an acquisition such as cash, debt finance and/or equity finance. Critically evaluate the impact of different sources of finance on the financial risk profile of the predator
- Identify and discuss possible pre-offer defences and post-offer defences adopted by quoted companies to seek to avoid being taken over in general and in the context of an organisation you have researched
- Identify post acquisition integration factors (financial and non-financial) which are most likely to have a significant influence on the success of an acquisition in general and /or in the circumstances of an organisation you have researched providing recommendations to enhance the chances of successful integration of the acquired organisation.

Risk management (interest rate risk and foreign exchange risk):

- Identify and discuss the primary roles and responsibilities of a Treasury function (including risk management)t.
- Understand and discuss the issues affecting the choice of a centralised or decentralised treasury function and the choice of a cost or profit centre structure.
- Appreciate of the complexity of financial risks (in particular interest rate and foreign exchange risks) in both the domestic and international contexts.
- Identify and explain the key factors influencing interest rate movements and explain gap exposure and basis risk
- Explain the term structure of interest rates, the importance of understanding the interest yield curve and the main theories (liquidity preference theory, expectations theory and market segmentation theory) influencing the shape of the yield curve
- Explain and discuss the relative merits of raising fixed vs floating rate debt finance and matching the maturity mix with the assets being financed
- Discuss and apply (with supporting calculations where relevant) basic interest rate hedging techniques such as matching, netting/pooling of balances, account sweeping, and forward rate agreements (FRAs)
- Identify and explain the key factors influencing foreign exchange rate movements (including government policy and quantitative easing)
- Explain the main categories of foreign exchange risk (economic exposure, transaction exposure and translation exposure)

- Understanding and application of interest rate parity (IRP) and purchasing power parity (PPP) in estimating/forecasting future exchange rates
- Discuss and apply (with supporting calculations where relevant) basic foreign exchange risk hedging techniques such as currency of invoice, matching income and expenditure (working capital), matching non-current assets with medium/long-term finance, leading/lagging foreign payments, forward exchange contracts (fixed and option) and money market hedging
- Identify and explain the main derivative products developed to hedge foreign.

### Reading lists and other information resources

| Title   | Author                            | Publisher          | Year               |
|---|-----------------------------------|--------------------|--------------------|
| <b>Essential:</b>   |                                   |                    |                    |
| Corporate Financial Management  | Arnold, G                         | FT Prentice Hall   | 2008               |
| Financial Management – ACCA F9 Textbook                                 |                                   | BPP Learning Media | 2018 annual update |
| Fundamentals of Investment An Irish Perspective 2 <sup>nd</sup> Edition | O’Loughlin, B. And O’Brien, F.    | Gill and Macmillan | 2011               |
| Principles of Corporate Finance   | Brearley, R                       | McGraw Hill        | 2002               |
| <b>Recommended:</b>   |                                   |                    |                    |
| Corporate Financial Management – 3 <sup>rd</sup> Edition                | Emery , D, Finnerty, J & Stowe, J | FT Prentice Hall   | 2006               |
| Financial Management  | Power, T, O’Meara, P & Walsh, S   | Gill and MacMillan | 2009               |

### REFERENCE:

#### Journals:

Financial Times  
 The Journal of Accounting  
 Harvard Business Review  
 The Economist