ACTUARIAL SOCIETY OF SOUTH AFRICA

Subject A113

Business Finance

Foundation Technical Syllabus

For the 2025 Examinations

Oct 2024

Aim

The aim of the Business Finance subject is to:

- provide a basic understanding of corporate finance including a knowledge of the instruments used by companies to raise finance and manage financial risk.
- provide the ability to interpret the accounts and financial statements of companies and financial institutions.

Competences

On successful completion of this subject, a student will be able to:

1. understand how companies are governed and structured.
2. suggest appropriate ways to finance a company.
3. analyse published accounts.
4. produce management information.

Links to other subjects

A112 – Business Economics

A211 – Financial Mathematics

A213 - Contingencies

A311 – Actuarial Risk Management

F105 – Finance and Investment Principles

N311 – Core Actuarial Professional Practice (General Practice Module)

Syllabus topics

1. Corporate governance and organisation (18%)
2. How corporates are financed (35%)
3. Evaluating projects (15%)
4. Constructing and interpreting company accounts (32%)

These weightings are indicative of the approximate balance of the assessment of this subject between the main syllabus topics, averaged over a number of examination sessions.

The weightings also have a correspondence with the amount of learning material underlying each syllabus topic. However, this will also reflect aspects such as:

- the relative complexity of each topic, and hence the amount of explanation and support required for it.
- the need to provide thorough foundation understanding on which to build the other objectives.
- the extent of prior knowledge which is expected.
- the degree to which each topic area is more knowledge or application based.

Skill levels

The use of a specific command verb within a syllabus objective does not indicate that this is the only form of question which can be asked on the topic covered by that objective. The Examiners may ask a question on any syllabus topic using any of the agreed command verbs, as are defined in the document "Command verbs used in the Associate and Fellowship written examinations".

Questions may be set at any skill level: Knowledge (demonstration of a detailed knowledge and understanding of the topic), Application (demonstration of an ability to apply the principles underlying the topic within a given context) and Higher Order (demonstration of an ability to perform deeper analysis and assessment of situations, including forming judgements, taking into account different points of view, comparing and contrasting situations, suggesting possible solutions and actions and making recommendations).

In the A113 subject, the approximate split of assessment across these three skill types is 30% Knowledge, 50% Application and 20% Higher Order Skills.

Detailed syllabus objectives

1. Corporate governance and organisation (18%)

Understand corporate governance and regulation and the different objectives and stakeholders that companies might try to satisfy.

1.1 Describe the regulation of financial reporting of incorporated entities.
1.2 Describe the key principles of corporate governance and the regulation of companies.
1.3 Demonstrate an awareness of the key principles of finance.
  1.3.1 Outline the relationship between finance and the real resources and objectives of an organisation.
  1.3.2 Outline the relationship between the stakeholders in an organisation (including lenders and investors).
  1.3.3 Outline the role and effects of the capital markets.
  1.3.4 Outline the maximisation of shareholder wealth and the strategies designed to achieve it

1.3.5 Outline problems relating to the maximisation of shareholder wealth in practice: social responsibility concerns, agency problems and divergent objectives.
1.3.6 Outline the determinants of value and the actions managers can take to influence value.

1.4 Discuss the ethical responsibilities of the owners and managers of businesses

2. How corporates are financed (35%)

Know the different types of corporations, how they are structured and financed and factors which should be considered when deciding on their structure.

2.1 Describe the structure of a company and the different methods by which it may be financed.
2.1.1 Outline the distinctive characteristics of sole traders, partnerships, limited companies and social enterprises as business entities.
2.1.2 Describe the different types of loan and share capital.
2.1.3 Contrast authorised and issued share capital.
2.1.4 Outline the main differences between a private and public company.
2.1.5 Outline advantages to a company of limited Liability
2.1.6 Outline the different types of medium-term company finance:
- credit sale
- leasing
- bank loans

2.1.7 Describe the following different types of short-term company finance:
- bank overdrafts
- trade credit
- factoring
- bills of exchange
- commercial paper

2.1.8 Describe alternative methods of raising finance outside the regular banking system including 'shadow banking', direct project financing, peer-to-peer lending and micro-finance.

2.2 Describe the basic principles of personal and corporate taxation.
2.2.1 Describe the basic principles of personal taxation of income and capital gains.
2.2.2 Describe the basic principles of company taxation, including for the individual shareholder.
2.2.3 Explain the different systems of company taxation from the points of view of an individual shareholder and the company.
2.2.4 Describe the principles of double taxation relief in the international corporate tax system
2.2.5 Explain why investment funds, including private equity funds, might locate offshore if they obtain their funds in a variety of jurisdictions.

2.3 Demonstrate a knowledge and understanding of the characteristics of the principal forms of financial instrument issued or used by companies and the ways in which they may be issued.

2.3.1 Outline for a private company the reasons they may have for seeking a quotation on the stock exchange,

2.3.2 Outline how shares are issued and traded,

2.3.3 Outline the advantages and disadvantages of remaining as a private company compared with becoming a public company

2.3.4 Describe the characteristics of:
- debenture stocks
- unsecured loan stocks
- Eurobonds
- preference shares
- ordinary shares
- convertible unsecured loan stocks
- convertible preference shares
- contingent convertibles
- floating rate notes
- subordinated debt
- options issued by companies
- asset-backed securities

2.3.5 Describe the characteristics and possible uses by a non-financial company of:
- financial futures
- options
- interest rate and currency swaps

2.3.6 Outline the following methods of obtaining a quotation for securities:
- offer for sale
- offer for sale by tender
- offer for subscription
- placing
- Introduction

2.3.7 Describe a rights issue to existing shareholders:

2.3.8 Describe the role of underwriting in the issue of securities.

2.4 Discuss the factors to be considered by a company when deciding on its capital structure and dividend policy.

2.4.1 Describe the effect that the capital structure used by a company will have on the market valuation of the company.

2.4.2 Describe the effect of taxation on the capital structure used by a company.

2.4.3 Discuss the principal factors that a company should consider in setting dividend policy and the impact on the marketvaluation

2.4.4 Discuss alternative ways of distributing profits, such as buybacks.

2.5 Discuss how and why companies grow, and why they may wish to divest and the different ways of company structuring.

2.5.1 Describe why businesses want to grow larger, how companies achieve internal growth and explain the relationship between growth and profitability.

2.5.2 Describe the constraints on a company's growth.

2.5.3 Describe why a company may wish to divest subsidiaries or businessunits.

3. Evaluating projects (15%)

Understand the evaluation of investment projects in a corporate setting.

3.1 Discuss how a company's cost of capital interacts with the nature of the investment projects it undertakes.

3.1.1 Define what is meant by a company's cost of capital.

3.1.2 Describe how to calculate a company's weighted average cost of capital.

3.1.3 Discuss the principal methods that may be used to determine the viability of a capital project.

3.1.4 Carry out cash flow projections and techniques to estimate cashflows.

3.1.5 Describe methods commonly used to evaluate risky investments including simulation, scenario planning and certainty equivalents.

3.1.6 Discuss the issues in establishing the required rate of return for a capital project.

3.1.7 Discuss the factors underlying the choice of discount rate within project assessment, including:

- the assumptions and limitations in the use of the weighted average cost of capital.
- the allowance for leverage.
- the allowance for risk.

3.1.8 Discuss the methods that may be used for identifying the risks that may be present for different types of project.

3.1.9 Discuss suitable techniques for ascertaining the probability of occurrence of different risks over varying timescales and the financial impact of occurrence.

3.1.10 Discuss suitable techniques for ascertaining the distribution of the possible financial outcomes of a capital project.

4. Constructing and interpreting company accounts (32%)

Understand the construction and interpretation of company accounts.

4.1 Describe the basic construction of accounts of different types and the role and principal features of company accounts and reports.

4.1.1 Explain why companies are required to produce annual reports and accounts.

4.1.2 Explain the value of financial reporting on environmental, social and economic sustainability.

4.1.3 Describe alternatives to traditional financial reporting.

4.1.4 Explain the fundamental accounting concepts which should be adopted in the drawing up of company accounts.

4.1.5 Explain the purpose of a:
- statement of financial position.
- statement of comprehensive income.
- cash flow statement.
- The notes to the accounts.

4.1.6 Construct simple statements of financial position and statements of profit or loss.
4.1.7 Interpret cash flow statements.
4.1.8 Describe the structure and content of insurance company accounts.
4.1.9 Describe the structure and contents of banking company accounts.
4.1.10 Explain what is meant by the terms subsidiary company and associated company.
4.1.11 Explain the purpose of consolidated accounts.
4.1.12 Explain how depreciation is treated in company accounts.
4.1.13 Explain the function of the following accounts – share capital, other reserves and retained earnings.

4.2 Assess the accounts of a company or a group of companies, including the limitations of such assessment.
4.2.1 Calculate and explain priority percentages and gearing.
4.2.2 Calculate and explain interest cover and asset cover for loan capital.
4.2.3 Describe the possible effects of interest rate movements on a highly geared company.
4.2.4 Calculate and explain price earnings ratio, dividend yield, dividend cover and Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA).
4.2.5 Calculate and explain accounting ratios which indicate:
- profitability.
- liquidity.
- efficiency.

Assessment

The assessment for this subject will consist of an objective-based examination (1 hour and 40 minutes long), which is timed and online. The candidate should expect to answer 60 questions of varying styles (such as multiple choice, matching pairs, fill-in-the-blank and numerical entry). Expect questions to be set in line with the above syllabus topic weightings and skill levels.

End of Syllabus