

ASSOCIATE EXAMINATION PART I

SYLLABUS

Interpretation of Accounts and Corporate Finance

This paper is concerned with fundamental analysis and assesses the detailed knowledge of candidates in interpreting corporate statements, reports and annual accounts. Specialist and expert knowledge of accounting issues in the preparation of published financial statements is not expected but candidates will be required to be familiar with the choice of accounting policies and conventions in as far as it affects comparability and the meaning of the financial statistics which are disclosed by companies. Familiarity with current developments and topical issues will be assumed.

Aspects of corporate finance that are pertinent to the work of the financial analysts will be examined in this paper. Corporate finance topics will comprise approximately 25% of the paper.

The paper will be a three hour paper and will be divided into two parts:

SECTION A: (40% of marks)

Two compulsory questions, one testing financial statement analysis, the other testing an aspect of corporate finance.

SECTION B: (60% of marks)

Five questions of which candidates will be expected to answer three.

A knowledge of the basic accounting material examined in Module 6 of the Investment Management Certificate (IMC) examination will be assumed (see syllabus page 16).

ADDITIONAL TOPICS TO BE EXAMINED WILL BE:

Accounting concepts and terminology

Earnings per share	<i>SSAP 3; FRS3; Holmes & Sugden, Ch.14</i>
Group accounts, associated companies and acquisition & merger accounting	<i>SSAP 1, 23; FRS1, 2, 4, 6, 7 Holmes & Sugden, Ch. 15, 16, 17</i>
Deferred taxation & other aspects of accounting for taxation	<i>SSAP 15; Holmes & Sugden, Ch. 13</i>
Foreign currency transactions	<i>SSAP 20; Holmes & Sugden, Ch. 18</i>
Accounting for leases, pensions and off balance sheet financing	<i>SSAP 21, 24; FRS4; FRS5; Holmes & Sugden, Ch. 11, 12</i>
Some familiarity with the accounting practices adopted in other countries (e.g. the US) will be expected	

Limitations of Traditional Accounts

The problem of historic cost accounting; current cost accounting	<i>Arnold, Hope & Southworth, Ch. 12, 15; Holmes & Sugden, Ch. 23</i>
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ASSOCIATE EXAMINATION PART I

The comparability of accounts through time
and across companies
Impact of differing accounting techniques

Foster, Ch. 3, 6, 7

Foster, Ch. 5

Analytical Techniques

Common size statements
Ratio Analysis
Discriminant analysis - solvency prediction
Risk assessment using accounting data
Basic accounting techniques used in Prospectus

Foster, Ch.3

Foster, Ch 4; Holmes & Sugden, Ch. 20, 24

Foster, Ch. 15

Foster, Ch. 10

Holmes & Sugden, Ch.21

Corporate Finance

Corporate investment appraisal
Sources of capital (e.g. new issues, rights issues, debt)

Brealey & Myers, Ch.2

Brealey & Myers, Ch. 14;

*Rutterford, Ch. 2 pp 27-43, Ch. 4
pp 114-122, Ch. 5 pp 129-138*

Cost of capital
Weighted average cost of capital
Capital structure
Dividend policy
Mergers & Takeovers

Brealey & Myers, Ch .9

Brealey & Myers, Ch. 19

Brealey & Myers, Ch. 17, 18

Brealey & Myers, Ch. 16

Brealey & Myers, Ch. 33

Readings

Arnold, Hope & Southworth, Financial Accounting, Prentice Hall
Brealey & Myers, 4th edition, Principles of Corporate Finance, McGraw Hill, 1991
Foster, 2nd edition, Financial Statement Analysis, Prentice Hall, 1986
Holmes & Sugden, 5th edition, Interpreting Company Report & Accounts,
Prentice Hall/Woodhead-Faulkner 1994
SSAP, Statements of Standard Accounting Practice
FRS (Financial Reporting Standard), Accounting Standards Board
Rutterford, Introduction to Stock Exchange Investment, 2nd edition, Macmillan, 1993