

CA FINAL SYLLABUS

PAPER 2: STRATEGIC FINANCIAL MANAGEMENT

Level of Knowledge: Advanced Knowledge

(One paper – Three hours – 100 Marks)

Objective:

To apply financial management theories and techniques for strategic decision making.

Contents:

1. Financial Policy and Corporate Strategy

Strategic decision making framework

Interface of Financial Policy and strategic management

Balancing financial goals vis-a -vis sustainable growth.

2. Project Planning and Capital Budgeting

Feasibility study

Cash flow Projections – Impact of taxation, depreciation, inflation and working capital

Capital Budgeting Decisions - Certainty Equivalent approach, Evaluation of Risky Investment Proposals, Risk and Return analysis, Simulation and decision tree analysis, Sensitivity analysis, Capital Rationing, Adjusted Net Present Value, Replacement decisions, Application of Real Options in capital budgeting, Impact of inflation on capital budgeting decisions

Preparation of Project Report

Social costs benefit analysis.

3. Leasing decision including cross border leasing

4. Dividend Decisions

Dividend theories, Determinants of dividend policies.

5. (a) Indian Capital Market

including role of various primary and secondary market institutions

(b) Capital Market Instruments

Financial derivatives – stock futures, stock options, index futures, index options

Option valuation techniques : Binomial model, Black Scholes Option Pricing Model, Greeks – Delta, Gamma, Theta, Rho and Vega

Pricing of Futures – Cost of carry model

Imbedded derivatives

(c) Commodity derivatives

(d) OTC derivatives

Swaps, Swaptions, Forward Rate Agreements (FRAs), Caps, Floors and Collors.

6 Security Analysis

Fundamental analysis - Economic analysis, Industry analysis and Company Analysis

Bond valuation, Price Yield relationship, Bond Price forecasting – application of duration and convexity, Yield curve strategies

Technical Analysis – market cycle model and basic trend identification, different types of charting, support and resistance, price patterns, moving averages, Bollinger Bands, momentum analysis.

7. Portfolio Theory and Asset Pricing

Efficient Market Theory – Random walk theory ; Markowitz model of risk return optimization

Capital Asset Pricing Model (CAPM)

Arbitrage Pricing Theory (APT)

Sharpe Index Model

Portfolio Management - Formulation, Monitoring and Evaluation

Equity Style Management

Principles and Management of Hedge Funds

International Portfolio Management.

8. Financial Services in India

Investment Banking

Retail Banking

On Line Share Trading

Depository Service.

9. (a) Mutual Funds:

Regulatory framework, formulation, monitoring and evaluation of various schemes of Mutual funds, Money market mutual funds.

(b) Exchange Traded Funds.

10. Money Market operations

11. (a) Foreign Direct Investment, Foreign Institutional Investment.

(b) International Financial Management

Raising of capital abroad - American Depository Receipts, Global Depository Receipts, External Commercial Borrowings and Foreign Currency Convertible Bonds

International Capital Budgeting

International Working Capital Management.

12. Foreign Exchange Exposure and Risk Management

Exchange rate determination, Exchange rate forecasting

Foreign currency market

Foreign exchange derivatives – Forward, futures, options and swaps

Management of transaction, translation and economic exposures

Hedging currency risk.

13. Mergers, Acquisitions and Restructuring

Meaning of mergers and acquisition, categories, purposes

Process of mergers and acquisition – Identification and valuation of the target, acquisition through negotiation, due diligence, post – merger integration

Legal and regulatory requirements

Merger and Acquisition agreement

Reverse merger

Potential adverse competitive effects of mergers

Corporate Takeovers: Motivations, Co-insurance effect, Cross-border takeovers, Forms of takeovers, Takeover defenses

Going Private and Other Control Transactions: Leveraged Buyouts (LBOs), Management Buyouts (MBOs), Spin Offs and Asset Divestitures

Corporate Restructuring : Refinancing and rescue financing, reorganizations of debtors and creditors, Sale of assets, targeted stock offerings, downsizing and layoff programmes, negotiated wage give-backs, employee buyouts.