

CHARTERED GOVERNANCE QUALIFYING PROGRAMME (CGQP)

Programme Part 1

1.4 Interpreting Financial and Accounting Information

Introduction

The aim of this module is to develop your knowledge of finance and accounting and the ability to use that knowledge to interpret financial and accounting information when providing advice to the board, or a similar decision-making body, in strategy development and/or decision-making.

This module covers the frameworks of financial reporting, providing explanation of the need and necessity of regulating financial reporting. It discusses the role of regulatory framework and conceptual framework of financial reporting in enhancing the usefulness of financial reporting intended to serve a broad group of users in making financial decisions.

The module covers a range of financial reporting topics, from the preparation and presentation of single entity financial statements and interpretation of IFRS based accounting policies and published accounts, through to group reporting and the analysis of financial reports.

It examines the financial markets, discuss how financing needs are assessed through planning, budgeting and forecasting and looks at the importance of cash and cash management. Various sources of finance (both long term and short-term) and their associated advantages and disadvantages are reviewed.

After having determined the finance required for an investment or project, businesses consider the use of various sources of finance. The module will cover the concepts of cost of capital and capital structure used in financial decision making, followed by management of working capital.

Finally, the module will provide an insight into risk assessment techniques, consider the impact of risk on investment appraisal and discuss the techniques that can be used for company analysis and business valuation. This module concludes with an in-depth look at different methods of project appraisal

Module content

- Section A: The need for regulating financing reporting
- Section B: Preparing and interpreting financial statements and reports
- Section C: Sources of finance, their associated risks and returns
- Section D: Capital structure, the cost of capital and working capital financial management
- Section E: Financial decision-making

Pre-requisite learning

It is recommended that students, attempting this module, should ensure that they have gained the underpinning fundamental knowledge of accounting and finance for successful completion of this module.

Learning outcomes

After successful completion of this module you should be able to:

- 1 Be able to critically engage with the need for regulating financial reporting by entities.
- 2 Understand how financial statements and reports are prepared and evaluate them in order to provide insightful interpretation.
- 3 Be able to identify and critically evaluate sources of finance and their associated risks and returns.
- 4 Be able to conceptualise the nature and importance of capital structure and the cost of capital and evaluate these for decision making.
- 5 Be able to critically explore fundamental financial decision-making theories and evaluate these for decision making.

Section A: The need for regulating financing reporting

Learning outcome:

- Be able to critically engage with the need for regulating financial reporting by entities.

Key topics

- A1 The regulatory framework and the role of International Financial Reporting Standards (IFRS)
- A2 The conceptual framework for financial reporting

A1 The regulatory framework and the role of International Financial Reporting Standards (IFRS)

- A1.1 The need for a regulatory framework
- A1.2 Agency theory and the role of corporate
- A1.3 The role of financial accounting standards
- A1.4 Arguments against accounting regulation
- A1.5 National and company law
- A1.6 Environmental reporting
- A1.7 Social accounting
- A1.8 International Financial Reporting Standards
- A1.9 Barriers to global harmonisation
- A1.10 Principal differences between IFRS and UK GAAP

A2 The conceptual framework for financial reporting

- A2.1 The need for a conceptual framework
- A2.2 Objectives of general-purpose financial reporting
- A2.3 Qualitative characteristics of financial information
- A2.4 Financial statements and the reporting
- A2.5 Assumptions underlying financial statements
- A2.6 Elements of financial statements
- A2.7 Recognition and derecognition of the elements of financial statements
- A2.8 Measuring the elements of financial statements
- A2.9 Presentation and disclosure
- A2.10 Concepts of capital and capital maintenance

Section B: Preparing and interpreting financial statements and reports

Learning outcome:

- Understand how financial statements and reports are prepared and evaluate them in order to provide insightful interpretation.

Key topics

- B1 Preparation and presentation of single entity financial statements
- B2 Other contents and features of published accounts
- B3 Interpretation of accounting policies based on IFRS
- B4 Financial reporting by groups of companies
- B5 Analysis and evaluation of financial statements

B1 Preparation and presentation of single entity financial statements

- B1.1 Objective of financial statements
- B1.2 Presentation of financial statements
- B1.3 Fair presentation and compliance with IFRS
- B1.4 Overriding concepts of financial statements
- B1.5 Structure and content of financial statements
- B1.6 Statement of financial position (balance sheet)
- B1.7 Statement of profit or loss and other comprehensive income

B2 Other contents and features of published accounts

- B2.1 Content of the annual report and accounts
- B2.2 The strategic report
- B2.3 The director's report
- B2.4 Notes to the accounts – structure and contents
- B2.5 Segment reporting
- B2.6 Reporting the substance of transactions
- B2.7 Limitations of published accounts

B3 Interpretation of accounting policies based on IFRS

- B3.1 Accounting policies
- B3.2 Accounting for inventories
- B3.3 Accounting for property, plant and equipment
- B3.4 Accounting for events after the reporting period
- B3.5 Revenue from contracts with customers
- B3.6 Provisions, contingent liabilities and contingent assets

B4 Financial reporting by groups of companies

- B4.1 Requirement to prepare consolidated financial statements
- B4.2 Principles for the consolidation of financial statements
- B4.3 Business combinations, fair value measurement and goodwill
- B4.4 Consolidated statement of financial position (balance sheet
- B4.5 Consolidated statement of comprehensive income
- B4.6 Investments in associates and joint ventures
- B4.7 The equity method:
- B4.8 A parent company's separate financial statements
- B4.9 Exemptions from preparing consolidated financial statements

B5 Analysis and evaluation of financial statements

- B5.1 The need for financial analysis
- B5.2 Fundamental analysis
- B5.3 Economic analysis
- B5.4 Industry analysis
- B5.5 Company analysis
- B5.6 Trend analysis
- B5.7 Ratio analysis
- B5.8 Profitability ratios
- B5.9 Limitations of ratio analysis
- B5.10 Accounting irregularities and creative accounting

Section C: Sources of finance, their associated risks and returns

Learning outcome

- Be able to identify and critically evaluate sources of finance and their associated risks and returns.

Key topics

- C1 Financial markets and the identification of financing needs
- C2 Sources of long-term finance
- C3 Sources of short-term finance

C1 Financial markets and the identification of financing needs

- C1.1 Financial markets:
- C1.2 Private versus public markets
- C1.3 The role of the Stock Exchange
- C1.4 Efficient market hypothesis:
- C1.5 Alternative Investment Market (AIM)
- C1.6 Other sources of finance from the private market
- C1.7 Identification of financing needs: budgeting and forecasting
- C1.8 The need for cash and cash management

C2 Sources of long-term finance

- C2.1 Features and use of sources of long-term finance, including advantages and disadvantages

C3 Sources of short-term finance

- C3.1 Features and use of external sources of short-term finance, including advantages and disadvantages
- C3.2 Features and use of internal sources of short-term finance, including advantages and disadvantages

Section D: Capital structure, the cost of capital and working capital financial management

Learning outcome

- Be able to conceptualise the nature and importance of capital structure and the cost of capital and evaluate these for decision making.

Key topics

- D1 The cost of capital and capital structure
- D2 Working capital management

D1 The cost of capital and capital structure

- D1.1 The importance of the cost of capital
- D1.2 Cost of equity using the capital asset pricing model
- D1.3 Cost of capital using the dividend valuation model
- D1.4 The cost of debt
- D1.5 The weighted average cost of capital (WACC)
- D1.6 Capital structure
- D1.7 Factors affecting capital structure
- D1.8 Financial gearing
- D1.9 Operating gearing
- D1.10 The traditional approach to capital structure
- D1.11 The Modigliani-Miller theory of capital structure
- D1.12 Real world approaches

D2 Working capital management

- D2.1 The nature and purpose of working capital
- D2.2 The working capital cycle
- D2.3 Working capital management: profitability versus liquidity
- D2.4 Working capital ratios
- D2.5 The management of inventories
- D2.6 The management of receivables
- D2.7 The management of payables

Section E: Financial decision-making

Learning outcome

- Be able to critically explore fundamental financial decision-making theories and evaluate these for decision making.

Key topics

- E1 Risk assessment in investment appraisal techniques
- E2 Company analysis and business valuation methods
- E3 Project analysis techniques

E1 Risk assessment in investment appraisal techniques

- E1.1 Risk and investment decisions
- E1.2 Risk assessment models
- E1.3 Sensitivity analysis, including advantages and disadvantages
- E1.4 Scenario analysis
- E1.5 Simulation modelling
- E1.6 Expected value and expected net present value (ENPV)
- E1.7 Event tree diagrams
- E1.8 The role of portfolio management

E2 Company analysis and business valuation methods

- E2.1 Investment valuation ratios
- E2.2 Earnings per share (EPS)
- E2.3 Price/earnings ratio
- E2.4 Financial statement analysis
- E2.5 Relative value measures
- E2.6 Valuation using the dividend discount model (DDM) (also known as Gordon's Growth Model)
- E2.7 Valuations using discounted cash flows (DCF)
- E2.8 Valuations using the capital asset pricing model (CAPM), systematic risk, β factor, α values
- E2.9 Application of efficient market hypothesis in business valuation
- E2.10 Shareholder value analysis (SVA)
- E2.11 Economic value added (EVA) as an alternative to SVA
- E2.12 Measuring value creation

E3 Project analysis techniques

- E3.1 Identification and analysis of projects:
- E3.2 Factors affecting project appraisal
- E3.3 Project appraisal techniques, including
- E3.4 Capital rationing and use of the profitability index

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