

Financial Planning and Budgeting

❖ Course Objectives

The course focuses on the theoretical as well as the practical aspects of the financial planning and budgeting that a candidate working in financial industry may come across. The syllabus is designed to provide the candidates with an in depth knowledge of the financial planning and budgeting so as to enable them to:

- Develop conceptual understanding of the subject
- Apply the methods and techniques to carry out financial planning and budgeting in financial institutions
- Formulate financial plans and budgets to manage various financial activities, and
- Evaluate the financial plans and budgets for effective financial control

❖ Syllabus

1. Financial Analysis and Control

a) Financial ratio analysis

- Financial statements and their nature
- Major financial aspects and framework for their analysis
- Balance sheet ratios, income statement ratios, and trend analysis
- Common size and index analysis

b) Cash flow analysis and financial planning

- Sources and uses of funds/cash flow statement

2. The Planning Function: Budget Process

- Strategic plan
- Operating plans
- Financial plans or budgets
- Forecasting techniques
- Fundamentals of budgets
- Cost estimation and estimation techniques
- Preparation of budgets
- Cash budget
- Income and expense budget
- Budgeted balance sheet
- Use of Pro forma financial statements
- Variance analysis

3. Working Capital Management

a) Liquidity management

- Introduction
- Working capital issues
- Decision on current asset composition – short term and long term mix
- Decision on current asset financing

b) Cash and marketable securities

- Reasons to hold cash
- Speeding up cash receipts and slowing down payments
- E – commerce
- Optimum cash balance
- Investment in marketable securities

c) Account receivables and inventory management

- Credit and collection policies
- Analysis of the credit applications
- Inventory control and management

d) Short-term financing

- Spontaneous financing
- Negotiated financing
- Factoring accounts receivables
- Composition of short –term financing

4. Valuation: The Basis of Financial Decision Making

a) Approaches to Valuation

- Discounted cash flow valuation
- Relative valuation

b) Estimation of Discount Rate

- Cost of equity
- Weighted average cost of capital

c) Estimation of cash flows

d) Fixed-income bond valuation

e) Preferred and common stock valuation

f) Valuation of firm

5. Capital Budgeting

a) Principles of capital budgeting

- Generation of investment proposals
- Estimation of the cash flows for the projects
- Evaluation of cash flows
- Selection of project based on acceptance criterion
- Continual reevaluation of investment projects after their acceptance

b) Risk and Managerial options in capital budgeting

- Problem of project risk
- Comparing Net Present Value (NPV) & Internal Rate of Return (IRR)
- Risk & Investment
- Total project risk
- Firm-portfolio approach
- Managerial options

6. Planning the Investment, Financing and Dividend

a) Evaluating investment options for risk and return

- Defining risk and return
- Measurement of risk through probability distribution
- Attitude towards risk
- Diversification and portfolio management
- The Capital Assets Pricing Model

b) Cost of capital

- Cost of individual sources of capital
- Deriving weighted average cost of capital

c) Determining the financing mix

- Required rate of return
- Operating and financial leverage
- Making capital structure decision
- EBIT-EPS analysis
- Cash flow and ability to service

d) Dividend policy

- Procedural aspects of dividend payment
- Dividend and its impact on firm value
- Stock split and bonus dividend
- Managerial consideration as to dividend policy

7. Financial Models / Financial Forecasting and Quantitative Methods

- Mathematical models
- Terminology
- Descriptive and prescriptive models
- Deterministic and probabilistic models
- Computer models

8. Analyzing and Managing Financial Risk

- Introduction – the changing financial environment
- Types of risks faced by the financial institutions

- Risk based analysis
- Analytical tools to assess risks
- Derivative securities
- Hedging risk
- Future markets
- Forward & Option contracts
- Interest rate and currency swaps
- Commodity contracts

9. Assets Liability Management (ALM) in Financial Institutions

- Introduction
- The objectives and role of ALM Committee
- Accounting and Economic perspectives on ALM
- NIM and its decomposition
- The effects of rate, volume and mix on NIM and total revenue
- Interest rate sensitivity and GAP management
- Duration and value at risk
- Implementing ALM and management issues

10. Operational Areas

The major areas and decision scenarios where the subject could improve the effectiveness of management decisions are:

- Formulating effective financial plans in financial institutions for improving performance
- Evaluation of financial health and performance of an entity through financial statement analysis and analysis of cash flows
- Use of Forecasting techniques in financial planning
- Budgeting and preparation of forecasted financial statements
- Use of forecasted financial statements as a planning and control tool
- Planning and control of working capital and liquidity management
- Capital budgeting – Evaluation of investment projects, cost of capital, evaluation techniques, sensitivity analysis, and mitigating the risk
- Optimizing the capital structure and dividend decisions
- Asset Liability Management in banks and financial institutions

11. Systems & Procedures

Candidates are expected to develop thorough understanding of the basic concepts of financial planning and budgeting and their application in different areas of banking operations. To ensure an effective hands-on understanding of the techniques, procedures, and systems relevant to the course subject case studies and scenario based questions will be incorporated in the examination.