

## Level 6, Unit 5, Corporate Finance (25 credits)

### Assessor's guide to interpreting the criteria

#### RQF general description for Level 6 qualifications

- Achievement at Level 6 requires a learner to command highly specialised skills, including scholastic, across the entire area of business studies, and be able to critically review, consolidate and extend a systematic and coherent body of knowledge.
- Learners at this level are expected to be able to critically evaluate new information, concepts and evidence from a range of sources.
- Learners should be able to utilise, transfer and apply research, diagnostic and creative skills in a wide range of situations. They will exercise appropriate judgement in complex planning, design, technical and management functions related to products and services, operations, and processes, including resourcing.
- The level of accountability at Level 6 expects the learner to accept full responsibility for determining and achieving outcomes. In an observed behaviours plan, he/she should be attempting to lead, for a first time, complex and heterogeneous groups.

#### EQF general description for Level 6 qualifications (RQF Level 6 is mapped to EQF Level 6)

- Achievement at EQF Level 6 reflects the ability to build, select and use advanced, factual and theoretical knowledge within the field of business. The learner must also demonstrate critical understanding of relevant theories and principles.
- This level commands an advanced range of cognitive and practical skills, demonstrating mastery and innovation, required to solve complex and unpredictable problems in the specialised field of business.
- A learner at this level is expected to manage complex technical or professional activities or projects, taking responsibility for decision-making in unpredictable work or study contexts, and to take responsibility for managing professional development of other individuals and groups.

#### General requirements

- Conformance of individual student's performance to unit criteria and standards must be confirmed by a trained assessor.
- Centres, in collaboration with the assessors, must ensure that there is system in place allowing collection and storage of routine evidence of students' work (e-portfolios). E-portfolios should be in a format allowing online access, on request, by a TLM account manager.
- When the assessor is satisfied with a candidate matching all the criteria to the specification subject to the guidance below, the Centre can request a review of the e-portfolio by an account manager.
- If the account manager confirms the assessor's judgements, the student will get 30 marks towards his/her final mark, and be allowed to sit a final examination.
- When the student passes the final examination (see below Method of assessment), the student is considered to have completed all the requirements for the qualification.

#### Expansion of the assessment criteria

##### 1 The learner will understand the role of the Corporate Finance Manager in relation to

**business management including mergers and acquisitions.**

**1.1 The learner can explain the actions of a finance manager to support business objectives.**

Candidates must explain the typical job description of a finance manager and clarify which specific activities contribute to business objective, and how.

**Evidence:** Evidence from assessor's observations and documented work.

**1.2 The learner can describe the regulatory environment in which a finance manager operates.**

Candidates must explain the regulatory obligations and restrictions to the activities and duties of a finance manager.

**Evidence:** Evidence from assessor's observations and documented work.

**Additional information and guidance:**

Learners should discuss the role of a finance manager explaining how they reconcile regulatory requirements and stakeholders/business interests.

**1.3 The learner can explain regulatory constraints on business including the City Code on Takeovers and Mergers.**

Candidates should explore regulations further and explain the six general principles of the City Code on Takeovers and Mergers, demonstrate understanding of why such a legal base was needed (legal background), and in what way it frames business moves related to takeovers and mergers.

**Evidence:** Evidence from assessor's observations and documented work.

**Additional information and guidance:**

Most of the information for this criteria should come from the Code itself, but candidates must explore the practical side, the application of the code. Relevant and appropriate examples should be encouraged. The Code must be understood within a global context, incorporating a logic that is valid and applicable beyond UK national borders.

**1.4 The learner can explain the risks associated with mergers and takeovers.**

Candidates must identify and explain the risks attached to mergers and takeovers.

**Evidence:** Evidence from assessor's observations and documented work.

**Additional information and guidance:**

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Learners must be encouraged to take the matter further and attempt to describe strategies and approaches which lead to reducing risks related to mergers and acquisitions.

**1.5 The learner can compare the possible benefits of merger and takeovers with the associated risks.**

Candidates must evaluate and compare the potential benefits and risks associated with mergers and takeovers.

**Evidence:** Evidence from assessor's observations and documented work.

**Additional information and guidance:**

Answers should be comprehensive and well structured, and learners are expected to demonstrate good abstraction and analytical skills. Relevant and appropriate examples from the real business world should be encouraged.

**2 The learner will understand the main sources of business investment funding including debt and equity and the significance of financial gearing.**

**2.1 The learner can outline the process for gaining a listing on the Official List or the Alternative Investment Market.**

Candidates must distinguish between the two principal market trading segments -- official and alternative -- and explain the steps which a company must make in order to be listed on either.

**Evidence:** Evidence from assessor's observations and documented work.

**Additional information and guidance:**

Indications that learners are aware of other listing options/market segments should be rewarded, and same should apply to those who make relevant and informed parallels between the UK and other major European and global exchanges.

**2.2 The learner can explain the roles of advisors in gaining a listing.**

Candidates must explain the advisors' role and many responsibilities in the listing process.

**Evidence:** Evidence from assessor's observations and documented work.

**Additional information and guidance:**

A good answer would be both comprehensive and well structured. Examples, including non-trivial and related to companies from different sectors, should be encouraged.

**2.3 The learner can compare and contrast the sources of equity finance available to an unquoted company.**

Candidates must identify and critically compare the sources of equity finance available to unlisted companies.

**Evidence:** Evidence from assessor's observations and documented work.

### **2.4 The learner can explain the differences between ordinary shares, preference shares, rights issues and scrips.**

Candidates must differentiate between ordinary shares, preference shares, rights issues and scrips, and be able to explain the differences.

**Evidence:** Evidence from assessor's observations and documented work.

### **2.5 The learner can identify the advantages and disadvantages of ordinary shares, preference shares, rights issues and scrips.**

Candidates must critically compare ordinary shares, preference shares, rights issues and scrips, identify and explain their advantages and disadvantages, and their impact on company operations and relationship with stakeholders.

**Evidence:** Evidence from assessor's observations and documented work.

### **2.6 The learner can identify and explain the main sources of debt finance available to businesses.**

Candidates should identify, explain and compare the main sources of debt finance available to businesses.

**Evidence:** Evidence from assessor's observations and documented work.

### **2.7 The learner can explain financial gearing and the potential benefits and risks associated with it.**

Candidates must define and explain financial gearing, outline the benefits to a company from using loans, and discuss the risks associated with changing economic environment and cost of capital.

**Evidence:** Evidence from assessor's observations and documented work.

## **3 The learner will be able to evaluate investment decisions using a variety of analytical techniques.**

### **3.1 The learner can explain the principles, benefits and limitations of the following methods of investment appraisal: accounting rate of return, payback, net present value**

### (NPV), profitability indices, and the internal rate of return (IRR).

Candidates should be able to explain, in a consistent manner and with a strong analytical perspective, the benefits and limitations of key methods of investment appraisal: accounting rate of return, payback period, NPV, profitability indices, IRR.

**Evidence:** Evidence from assessor's observations and documented work.

### 3.2 The learner can perform calculations in order to assess investment value.

Candidates must demonstrate practical skills in assessing the investment value for a specific business case.

**Evidence:** Evidence from assessor's observations and documented work.

#### **Additional information and guidance:**

The learners should be presented with sufficient information on a particular investment case scenario, or be allowed to carry research and select one themselves, and then perform the necessary calculations resulting in mathematically accurate, meaningful and correctly interpreted results. Any inconsistent findings must be analysed and explained. As this criterion is a mirror image -- on the practical side -- of criterion 3.1 above, assessors may decide to combine the assessment of the two in a single task.

### 3.3 The learner can explain and quantify risk in the investment appraisal process.

Candidates must critically analyse the controversial matter of how risk and uncertainty in investment appraisal are being estimated, quantified, measured, and managed.

**Evidence:** Evidence from assessor's observations and documented work.

### 4 The learner will be able to value company shares based on an understanding of established methods of calculation.

#### 4.1 The learner can explain the share value of a business based on calculation of: net asset value (NAV), price earnings (PER), free cash flow and dividend valuation.

Candidates should explain the different methods of company valuation, and more specifically the share value of a business based on calculation of: net asset value (NAV), price earnings (PER), free cash flow and dividend valuation.

**Evidence:** Evidence from assessor's observations and documented work.

#### **Additional information and guidance:**

This criterion is directly related to 4.2 below, and it might be a convenient practice to assess both with a single task. Learners should explain how these methods are used in practice and demonstrate

adequate use of the specific financial terminology.

### 4.2 The learner can compare the relative merits of each method of share valuation.

Candidates should be able to compare and critically discuss the different methods of share valuation.

**Evidence:** Evidence from assessor's observations and documented work.

#### **Additional information and guidance:**

This criterion is directly related to 4.1 above, and it might be a convenient practice to assess both with a single task. Candidates are expected to demonstrate deeper understanding of these valuation methods and provide sufficient proof that, in any specific scenario, they would be able to make a relevant and appropriate choice of method.

### 4.3 The learner can identify the qualities of a business that are likely to influence the share value.

Candidates must attempt a comprehensive evaluation of a pre-selected and researched business organisation, and identify and explain the key qualities of the organisation which are likely to impact, positively or negatively, its share value.

**Evidence:** Evidence from assessor's observations and documented work.

#### **Additional information and guidance:**

This criterion requires highly specialised skills and indeed a mastery in the field. In order to ensure that candidates will be enabled to perform at their best, it is advisable that assessors allow time for them to research the selected organisation. As there is no professional consensus on the exact elements, characteristics, or qualities of a particular business organisation that make this organisation better off or worse off, and more/less valuable, respectively, assessors should look into: analytical skills, critical thinking, ability to transfer and extend knowledge, ability to hypothesise and structure research, logical and well structured reasoning, integrity of thesis argumentation, dexterity of suggested and adequately followed interdisciplinary references, etc.

### 4.4 The learner can calculate the main accounting ratios that can be applied to organisations and explain their significance.

The learner must calculate, based on financial reports provided to them, the main accounting ratios that can be applied to organisations and explain their significance.

**Evidence:** Evidence from assessor's observations and documented work.

#### **Additional information and guidance:**

This criterion requires mastery of vast amounts of subject matter. While a particular academy's or centre's curriculum may depart somewhat from it, the task should generally include the following list of accounting ratios: current ratio, quick ratio, gross profit margin, break-even point, net profit margin, return on assets, borrowing (gearing) ratio, debtor days, creditor days, inventory turnover, overheads as a percentage of turnover, etc. Ratios related to working capital may be included, or

considered along the criteria 7.2 and 7.3.

**5 The learner will understand the factors that determine a company's dividend policy.**

**5.1 The learner can describe the following dividend policies: constant dividends, increasing dividends, zero dividends and fixed percentage dividends.**

Candidates must describe and explain the generic dividend policies: constant dividends, increasing dividends, zero dividends and fixed percentage dividends.

**Evidence:** Evidence from assessor's observations and documented work.

**5.2 The learner can explain the effect of dividend policies on shareholder wealth.**

Candidates must explain, and demonstrate with calculations, if and how different dividend policies affect shareholder wealth.

**Evidence:** Evidence from assessor's observations and documented work.

**5.3 The learner can explain the main dividend policy theories including irrelevance and relevance theories.**

Candidates must demonstrate solid theoretical understanding by explaining the main dividend policy theories, including relevance and irrelevance theories.

**Evidence:** Evidence from assessor's observations and documented work.

**Additional information and guidance:**

Learners should be able to support their presentation, at least in part, with calculations. Residuals theory, the Miller-Modigliani approach, Gordon's model, Walter's theory, Graham and Dodd method, and Capital structure substitution theory must be discussed in the answer.

**5.4 The learner can explain the effects of dividend policies on company reserves and investment funding.**

Candidates must explain how different dividend policies impact company reserves and their investment funding decisions.

**Evidence:** Evidence from assessor's observations and documented work.

**5.5 The learner can explain the main alternatives to cash dividends.**

Candidates must discuss and compare the main alternatives for companies to consider when

deciding on non-cash dividends.

**Evidence:** Evidence from assessor's observations and documented work.

### **Additional information and guidance:**

Though the exact content of a good answer would be determined by the curriculum, here is a suggested list of cash dividends alternatives: stock splits, reverse splits, share repurchase (buyback), dividend reinvestment in shares, retaining profits, spin-offs.

## **6 The learner will be able to calculate the cost of business capital and compare different sources.**

For this entire set of criteria, assessors might find it useful to prepare a case study or raw data in other appropriate format for learners to base their calculations on. In addition, considering the nature of the criteria, a common task covering all of them would seem well a justified and convenient approach.

### **6.1 The learner can describe and calculate the cost of equity share capital.**

Candidates must be able to calculate the cost of equity share capital out of basic data provided to them, and explain the importance and use of this financial indicator.

**Evidence:** Evidence from assessor's observations and documented work.

### **6.2 The learner can describe and calculate the cost of debt capital.**

Candidates must be able to calculate the cost of debt capital out of basic data provided to them, and explain the importance and use of this financial indicator.

**Evidence:** Evidence from assessor's observations and documented work.

### **6.3 The learner can calculate the weighted average cost of capital and analyse its usefulness.**

Candidates must be able to calculate the WACC out of basic data provided to them, and discuss the possible uses and applications of this financial indicator.

**Evidence:** Evidence from assessor's observations and documented work.

## **7 The learner will be able to quantify the effect of decisions related to treasury and working capital from given data sets.**

### **7.1 The learner can explain the main areas of treasury and working capital.**



Candidates must explain the treasury management role and functions, the concept of working capital, and how the two relate in a business organisation.

**Evidence:** Evidence from assessor's observations and documented work.

### 7.2 The learner can explain with the aid of calculations, the working capital cycle and the cash conversion or operating cycle.

Candidates must explain and demonstrate, by means of example calculations, the nature of and differences between working capital cycle and cash conversion (operating cycle).

**Evidence:** Evidence from assessor's observations and documented work.

### 7.3 The learner can calculate, from a given set of figures, a working capital decision on any of the areas of working capital.

Candidates must demonstrate, in a situation closely matching real business scenario, that they can work out the calculations and come up with a reasonable and well justified by the numbers recommendation on working capital management in that particular case.

**Evidence:** Evidence from assessor's observations and documented work.

### 7.4 The learner can explain overtrading and identify its symptoms.

Candidates must define overtrading and be able to identify, recognise, and explain the symptoms. They should be able to immediately link such symptoms to the state of working capital in a business organisation.

**Evidence:** Evidence from assessor's observations and documented work.

#### **Additional information and guidance:**

Candidates should be encouraged to complement their answers with an additional definition of overtrading, often referred to as 'churning'. This should not be required from them, but would certainly indicate broader knowledge, yet quite related to treasury.

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