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


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


- 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.