Final Course
Study Material

Paper 2

Advanced Financial Management

(Relevant for May, 2026 Examination)



BOARD OF STUDIES

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF INDIA

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BEFORE WE BEGIN.....

The contents of the study material for the paper Advanced Financial Management have been designed and developed by the Board of Studies, ICAI with an objective to synchronize the syllabus with the International Education Standards (IESs) to instill and enhance the necessary pre-requisites for becoming a well-rounded, competent, and globally competitive Accounting Professional.

This study material also lays emphasis on National Education Policy 2020 (NEP 2020) initiatives like conceptual clarity rather than rote learning and new pedagogical and curriculum restructuring based on the use of technology while teaching.

The liberalization and globalization of our economic policies need to be compatible with the global changes and converged to bring in various important developments taking place in the field of finance. The topic of finance has acquired critical significance now-a-days, due to recent surge in massive cross border flow of capital. The study of this subject opens new opportunities for Chartered Accountancy students. The paper stresses the importance of applying the knowledge and techniques of financial management to planning, operating and monitoring of the finance function in particular as well as the organization in general.

Keeping in view the dynamic nature of the paper the students are required to refer academic updates in 'Students Journal' published by the Board of Studies, the monthly journal 'The Chartered Accountant', and at least one financial newspaper such as Economic Times, Mint, Business Line, Financial Chronicle and Business Standards on daily basis. This will help the students to keep them updated about the latest developments taking place in the economy as well as well globally. Not only that students are also advised to refer to the Supplement contents related to the paper being hosted on ICAI Website on regular basis.

Requirement of Professional Knowledge and Skills

After Intermediate Level and before appearing in Final Level, you are expected to not only acquire professional knowledge but also the ability to apply such knowledge in addressing issues and solving practical problems. The integrated process of learning through academic education and practical training with help you to inculcate the requisite technical competence, professional skills and professional values, ethics and attitudes necessary for achieving the desired level of professional competence.

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Framework of Chapters – Uniform Structure comprising of specific components

Efforts have been made to present the contents in a lucid manner. Care has been taken to present the chapters in a logical sequence to facilitate easy understanding by the students.

Each chapter of the Study Material has been structured uniformly comprising of the following components:

	Components of each Chapter	About the component
1.	Learning Outcomes	Learning outcomes which you need to demonstrate after learning each topic have been detailed in the first page of each chapter. Demonstration of these learning outcomes would help you to achieve the desired level of technical competence
2.	Content	The concepts and contents of Advanced Financial Management are explained in student-friendly manner.
3.	Test Your Knowledge	The exercise questions and answers would help you to understand the topics covered in the paper and apply the same in problem solving, thus, sharpening your application skills.

For the benefits of the students in the Appendix of the Study Module, following tables have been incorporated:

(i) Exponential (e power) Value Table

(ii) Natural Log Table with base e

(iii) Area Under Normal Curve

We hope that these student-friendly features in the Study Material makes your learning process more enjoyable, enriches your knowledge and sharpens your application and Interpretational skills.

Happy Reading and Best Wishes!

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SYLLABUS

PAPER 2: ADVANCED FINANCIAL MANAGEMENT

(One paper – Three hours – 100 marks)

Objective:

To acquire the ability to apply financial management theories and techniques in strategic decision making.

Contents:

Section I

(1) Financial Policy and Corporate Strategy

(i) Advanced role of CFO in various matters including Value Creation

(ii) Strategic decision making framework

(iii) Interface of Financial Policy and strategic management

(iv) Balancing financial goals vis-à-vis sustainable growth.

(2) Risk Management

(i) Identification of types of Risk faced by an organisation

(ii) Evaluation of Financial Risks

(iii) Value at Risk (VAR)

(iv) Evaluation of appropriate method for the identification and management of financial risk.

(3) Advanced Capital Budgeting Decisions

(i) Current trends in Capital Budgeting

- Impact of Inflation on Capital Budgeting Decisions.
- Impact of change in technology on Capital Budgeting
- Impact of change in Government Policies on Capital Budgeting

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(ii) Dealing with Risk in Investment Decisions

(iii) Internal and External Factors affecting capital budgeting decision

(iv) Methods of incorporating risk in Capital Budgeting

(v) Adjusted Present Value

(vi) Optimum Replacement Cycle

Section II

(4) Security Analysis

(i) Fundamental Analysis

(ii) Technical Analysis

a) Meaning

b) Assumptions

c) Theories and Principles

d) Charting Techniques

e) Efficient Market Hypothesis (EMH) Analysis

(iii) Equity Research and tools available

(5) Security Valuation

(i) Theory of Valuation

(ii) Return Concepts

(iii) Equity Risk Premium

(iv) Required Return on Equity

(v) Discount Rate Selection in Relation to Cash Flows

(vi) Approaches to Valuation of Equity Shares

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(vii) Valuation of Preference Shares

(viii) Valuation of Debentures/ Bonds

(ix) Role and Responsibilities of Valuers

(x) Precautions need to be taken by a Valuer before accepting any valuation assignment.

(6) Portfolio Management

(i) Portfolio Analysis

(ii) Portfolio Selection

(iii) Capital Market Theory

(iv) Portfolio Revision

(v) Portfolio Evaluation

(vi) Asset Allocation

(vii) Fixed Income Portfolio

(viii) Risk Analysis of Investment in Distressed Securities

(ix) Alternative Investment Avenues

- Real Estate
- Gold
- Private Equity
- REITs
- Hedge Funds
- ETFs
- Mutual Funds
- Commodities

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Section III

(7) Securitization

(i) Introduction

(ii) Concept and Definition

(iii) Benefits of Securitization

(iv) Participants in Securitization

(v) Mechanism of Securitization

(vi) Problems in Securitization

(vii) Securitization Instruments

(viii) Pricing of Securitization Instruments

(ix) Risks in Securitization

(x) Tokenization

(xi) Securitization in India

(8) Mutual Fund

(i) Meaning

(ii) Types

(iii) Advantages and Disadvantages of Mutual Funds

(iv) Evaluation of Mutual Funds

(v) Role of Fund Manager in Mutual Funds

(vi) Hedge Funds

(vii) Role of FIIs in Mutual Funds

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(9) Derivatives Analysis and Valuation

(i) Introduction to Forwards, Futures and Options

(ii) Futures Market

(iii) Pricing of Forwards and Futures

(iv) Hedging using Futures

(v) Options

- ❖ Option Pricing
- ❖ Option Greeks
- ❖ Exotic Options

(vi) Credit Derivatives

(vii) Real Options

(viii) Derivative Mishaps and Lessons

(ix) Swaps

(x) Commodity Derivatives

(xi) Weather Derivatives

(xii) Electricity Derivatives

Section IV

(10) Foreign Exchange Exposure and Risk Management

(i) Factors affecting foreign exchange rate

(ii) Role of SWIFT in Foreign Exchange

(iii) National and International Payment Gateways

(iv) Exchange rate determination

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(v) Foreign currency market

(vi) Management of Foreign Exchange Risk

(11) International Financial Management

(i) International Capital Budgeting

- Offshore Investment Strategies vis-à-vis Domestic Capital Budgeting
- Project vis-à-vis Parent Cash Flows
- Discounting Rate and Adjusting Cash Flows
- Adjusted Present Value

(ii) Raising funds from International Sources

(iii) Sovereign Funds

(iv) International Financial Centre (GIFT City)

(v) International Working Capital Management

a) Multinational Cash Management

- Objectives of Effective Cash Management

- Optimization of Cash Flows/ Needs

b) Multinational Receivable Management

c) Multinational Inventory Management

(12) Interest Rate Risk Management

(i) Benchmark Rates

(ii) Hedging Interest Rate Risk

a) Traditional Methods

- Asset and Liability Management (ALM)
- Forward Rate Agreement (FRA)

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b) Modern Methods including Interest Rate Derivatives

- Interest Rate Futures
- Interest Rate Options
- Swaps
- Swaptions

Section V

(13) Business Valuation

(i) Conceptual Framework of Valuation

(ii) Approaches/ Methods of Valuation

a) Assets Based Valuation Model

b) Earning Based Models

c) Cash Flow Based Models

d) Measuring Cost of Equity

- Capital Asset Pricing Model (CAPM)
- Arbitrage Pricing Theory
- Estimating Beta of an unlisted company

e) Relative Valuation

- Steps involved in Relative Valuation
- Equity Valuation Multiples
- Enterprise Valuation Multiple

f) Other Approaches to Value Measurement

- Economic Value Added (EVA)

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- Market Value Added (MVA)
- Shareholder Value Analysis (SVA)

g) Arriving at Fair Value

(iii) Going concern and Non Going concern valuation

(iv) Valuation of Distressed Companies

(v) Valuation of Start ups

(vi) Valuation of Digital Platforms

(vii) Valuation of Professional/ Consultancy Firms

(viii) Impact of ESG on valuation

(14) Mergers, Acquisitions and Corporate Restructuring

(i) Conceptual Framework

(ii) Rationale

(iii) Forms

(iv) Mergers and Acquisitions

a) Financial Framework

b) Takeover Defensive Tactics

c) Reverse Merger

(v) Divestitures

a) Partial Sell off

b) Demerger

c) Equity Carve outs

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(vi) Ownership Restructuring

a) Going Private

b) Management/ Leveraged Buyouts

(vii) Unlocking the value through Mergers & Acquisitions and Business Restructuring

(viii) Cross Border Mergers

(ix) Special Purpose Acquisition Companies (SPACs)

Section VI

(15) Startup Finance

(i) Introduction including Pitch Presentation

(ii) Concept of Unicorn

(iii) Startup Initiative of GOI

(iv) Sources of Funding

(v) Succession planning in Business

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SIGNIFICANT CHANGES

Significant changes in this Edition *vis-à-vis* April, 2023 edition of the Study Material		
Chapter	**Chapter name**	**Details**
1	Financial Policy and Corporate Strategy	Content relating to topic External Funding Requirement has been added.
3	Advanced Capital Budgeting Decisions	Some changes have been carried out in Illustration No. 1 & 2. Further there is addition of word 'nominal' in the Question No. 19.
4	Security Analysis	Some formatting changes have been carried in para 2.9.
5	Security Valuation	The topic of Yield Curve has been revised. In addition to that some additions have been carried out in para 6.3.1, 8.16, Illustration 6, Question No. 24.
6	Portfolio Management	Some additions have been carried out in Illustration 6 Question No. 24 & 26.
8	Mutual Funds	Question 10 along with its answer has been removed.
9	Derivatives Analysis and Valuation	Some corrections have been carried in Illustration Nos. 4,5 & 6.
10	Foreign Exchange Exposure and Risk Management	Some shifting has been carried out in the para 5. Rates has been interchanged in Illustration 7. In addition to that a note has been inserted in the solution of Question No. 43.
11	International Financial Management	Heading of the Table 5 the solution of Illustration No. 1 has been changed.
12	Interest Rate Risk Management	Some corrections have carried out in the solution of Question No. 2 and 4.
13	Business Valuation	Some corrections have carried out in the Question No. 16 and the solution of Illustration 4.
In the Study Material at most of places the LIBOR has been replaced with the Alternative Reference Rates such as SOFR, ESTER, SONIA etc.		

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