

Syllabus and study guide

Finance and Investment (E4)

September 2027 to June 2028

Designed to help with planning study and to provide detailed information on what could be assessed in any examination session.

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1. Overall aim of the syllabus

The overall aim of the syllabus is to develop and enable the application of technical knowledge and skills to analyse and assess an organisation's investment, financing, and dividend policy decisions

2. Introduction to the syllabus

The syllabus for E4 Finance and Investment starts by introducing candidates to the finance and investment environment in which businesses operate. This is essential as an understanding of the finance and investment environment enables a business to make more informed strategic decisions in a way which will optimise shareholder value. It is also important to understand the relationship between the financing, investing and dividend decisions and the overall corporate strategy.

The syllabus then moves on to working capital. Candidates need to appreciate that different businesses have different working capital requirements as well as different approaches to working capital management, such as an aggressive or more conservative approach. Candidates also need to be able to distinguish between working capital investment and working capital financing.

Making good investments is a key component in the creation of value for shareholders and the syllabus explores various investment appraisal techniques in addition to the techniques that can be used to assess and cope with risk and uncertainty. Specific investment decisions are also covered such as deciding whether to lease or buy an asset as well as how often to replace an asset. This syllabus section builds on knowledge of investment appraisal from K2 Management Accounting, so candidates will already be assumed to have skills in various investment appraisal techniques.

As investments require finance, the syllabus moves on to the sources of finance that typically may be available to a business. Techniques to calculate the cost of capital are also introduced, alongside theories on capital structure. In this context, it is important for accountants to understand that a single action can have multiple consequences. For example, an investment might involve significant financing which in turn would impact the overall cost of capital and the capital structure and accountants need to consider these consequences.

The syllabus then focuses on business valuations. If a business is to make informed decisions about shareholder value, it must be able to measure value. Otherwise, for example, there is a risk that it will pay too much when it is acquiring an asset and when selling, there is a risk of selling for too little. Therefore, valuation techniques are key to obtaining a reasonable valuation for the business it wishes to buy. The syllabus covers asset, income and cash-based valuation models, as well as the valuation of debt.

The syllabus concludes with risk management. It is important for accountants to not only be aware of the risks but also be able to offer suggestions on how to manage them. These risks include foreign currency risk and interest rate risk. Various internal hedging techniques will be covered as well as external hedging techniques including exchange-traded options and futures.

It is important to note that the relationship between risk and return is ever present in finance and investment and therefore this relationship is visible throughout the syllabus.

3. Main capabilities

On successful completion of this course of study, candidates should be able to:

- Assess the impact of organisational strategy and the economic environment on an organisation's finance and investment decision making
- Apply working capital management techniques to enhance short-term finance and liquidity
- Apply investment appraisal techniques to assess whether an investment should be accepted
- Analyse alternative sources of finance available to an organisation to support its financing decision
- Calculate the weighted average cost of capital and assess its impact on the investment decision
- Apply appropriate techniques to value businesses and financial assets
- Apply risk management techniques for foreign exchange and interest rate risks to stabilise cash flows

4. Intellectual levels

The ACCA Qualification syllabus is designed to progressively broaden and deepen the technical knowledge, skills and professional values demonstrated by the candidate on their journey through the qualification.

The specific learning outcomes within the detailed syllabuses and study guides are assessed at one of three intellectual or cognitive levels:

Level 1:	Knowledge and comprehension
Level 2:	Application and analysis
Level 3:	Synthesis and evaluation

Very broadly these intellectual levels relate to the three levels of the ACCA Qualification: Knowledge, Expertise and Strategic Professional.

Each learning outcome included in the detailed study guide is given a 1, 2 or 3 superscript, denoting its intellectual level. This gives an indication of the intellectual depth at which a learning outcome could be assessed within the examination. However, while Level 1 broadly equates with the Knowledge level, Level 2 to the Expertise level and Level 3 to the Strategic Professional level of the ACCA Qualification, some lower-level skills can continue to be assessed as the candidate progresses through each level. This reflects that at each stage of study there will be the requirement to broaden, as well as deepen, capabilities.

5. The syllabus

A Finance and investment environment

1. Strategic environment
2. Economic environment
3. Financial markets and institutions

B Working capital

1. Nature, elements and importance of working capital
2. Management of inventories, accounts receivable, accounts payable and cash
3. Working capital needs and funding strategies

C Investment appraisal

1. Investment appraisal techniques
2. Inflation and taxation in DCF
3. Risk and uncertainty in investment appraisal
4. Specific investment decisions

D Business finance

1. Sources of finance
2. The cost of capital
3. Sources of finance and their relative costs
4. Capital structure theories and practical considerations

E Business valuations

1. Nature and purpose of the valuation of business and financial assets
2. Valuation of equity

3. Valuation of debt and other financial assets
4. Efficient Market Hypothesis (EMH) and practical considerations in the valuation of shares

F Risk management

1. Nature and types of risk
2. Exchange rate differences and interest rate fluctuations
3. Hedging techniques for foreign currency risk
4. Hedging techniques for interest rate risk

6. Detailed study guide

A Finance and investment environment

1. Strategic environment

- a) Analyse the distinction between profit maximisation and shareholder wealth maximisation.^[2]
- b) Analyse the relationship between the finance, investment and dividend decisions and an organisation's corporate strategy.^[2]
- c) Analyse the relationship between financial objectives, corporate objectives and corporate strategy.^[2]
- d) Assess the achievement of corporate objectives using return on capital employed (ROCE), return on equity (ROE), earning per share (EPS), dividend per share (DPS) and total shareholder return (TSR).^[2]
- e) Analyse the role of management in meeting stakeholder objectives, including the application of agency theory.^[2]
- f) Assess the possible conflict between stakeholder objectives.^[2]

2. Economic environment

- a) Assess the role of fiscal, monetary, interest rate and exchange rate policies in achieving macroeconomic policy targets and how these influence planning and decision making in business.^[2]
- b) Assess the impact of government policies such as competition regulation and sustainability initiatives on planning and decision making in business.^[2]

3. Financial markets and institutions

- a) Explain the role of financial intermediaries.^[1]
- b) Compare and contrast the functions of a stock market and a corporate bond market.^[2]
- c) Explain the impact of Fintech in changing the nature and role of financial markets and institutions.^[1]
- d) Assess the role of the money markets in:^[2]
 - (i) providing short-term liquidity to the private sector
 - (ii) providing short-term trade finance
 - (iii) allowing an organisation to manage its exposure to foreign currency risk and interest rate risk
- e) Compare and contrast the nature and role of money and capital markets, both nationally and internationally.^[2]
- f) Analyse the role of banks and other financial institutions in the operation of the money markets.^[2]
- g) Analyse the characteristics and role of the principal money market instruments (interest-bearing instruments, discount instruments and derivative products).^[2]

B Working capital

1. Nature, elements and importance of working capital

- a) Explain the elements of working capital and its role in finance and investment.^[1]
- b) Analyse the objectives of working capital management in terms of liquidity and profitability and the conflict between them.^[2]
- c) Analyse whether an organisation is over-trading or over-capitalised using financial indicators.^[2]

2. Management of inventories, accounts receivable, accounts payable and cash

- a) Analyse the cash operating cycle and the role of accounts receivable and accounts payable.^[2]
- b) Apply relevant accounting ratios: current and quick ratios, inventory turnover ratio, average collection period, average payable period and sales revenue/net working capital.^[2]
- c) Analyse inventory management using the Economic Order Quantity (EOQ) model.^[2]
- d) Analyse relevant techniques in managing accounts receivable and accounts payable such as factoring, invoice discounting, early settlement discounting and bulk purchase discounts.^[2]
- e) Analyse the reasons for holding cash in an organisation.^[2]
- f) Apply the Baumol model and the Miller-Orr model to optimise cash management and assess their advantages and disadvantages.^[2]
- g) Assess the benefits of centralised treasury management and cash control.^[2]

3. Working capital needs and funding strategies

- a) Calculate the level of working capital investment in current assets.^[2]
- b) Analyse the key factors determining the level of working capital investment: length of the working capital cycle and terms of trade, policy on investment in current assets, and the industry in which the organisation operates.^[2]
- c) Analyse the key factors in determining working capital funding strategies, including:^[2]

- (i) the distinction between permanent and fluctuating current assets
- (ii) the relative cost and risk of short-term and long-term finance
- (iii) the matching principle
- (iv) the relative costs and benefits of aggressive, conservative and matching funding policies
- (v) management attitudes to risk, previous funding decisions and organisation size

C Investment appraisal

1. Investment appraisal techniques

- a) Analyse relevant cash flows for investment projects.^[2]
- b) Apply investment appraisal methods: payback, discounted payback, return on capital employed (accounting rate of return), net present value (NPV) and internal rate of return (IRR).^[2]
- c) Recommend whether a project should be accepted based on investment appraisal outcomes.^[2]
- d) Assess the usefulness of each investment appraisal method.^[2]
- e) Assess the superiority of discounted cash flow (DCF) methods over non-DCF methods.^[2]
- f) Compare and contrast the NPV and IRR appraisal methods.^[2]
- g) Assess the relevance of non-financial factors in investment decisions.^[2]

2. Inflation and taxation in DCF

- a) Apply the real-terms and nominal-terms approaches to investment appraisal.^[2]
- b) Compare and contrast the real-terms and nominal-terms approaches to investment appraisal.^[2]

- c) Calculate the taxation effects of relevant cash flows, including the tax benefits of tax allowable depreciation and the tax liabilities of taxable profit.^[2]

3. Risk and uncertainty in investment appraisal

- a) Analyse the difference between risk and uncertainty in relation to probabilities and increasing project life.^[2]
- b) Apply sensitivity analysis to investment projects.^[2]
- c) Apply probability analysis to investment projects.^[2]
- d) Assess the usefulness of sensitivity analysis, probability analysis and simulation in assisting investment decisions.^[2]
- e) Apply other techniques of adjusting for risk and uncertainty in investment appraisal (adjusted payback and risk-adjusted discounted rates) and assess the usefulness of each technique.^[2]

4. Specific investment decisions

- a) Calculate and analyse leasing versus borrowing to buy decisions using the before-tax and after-tax costs of debt.^[2]
- b) Calculate and analyse asset replacement decisions using equivalent annual cost and equivalent annual benefit.^[2]
- c) Calculate and analyse investment decisions under single-period capital rationing using profitability indexes for divisible investment projects and NPV combinations of non-divisible investment projects.^[2]
- d) Analyse the reasons for capital rationing.^[2]

D Business finance

1. Sources of finance

- a) Assess the appropriateness of the short-term sources of finance available to businesses: overdrafts, short-term loans, trade credit and lease finance.^[2]

- b) Assess the appropriateness of the long-term sources of finance available to businesses: equity, debt, lease finance and venture capital.^[2]
- c) Assess the appropriateness of green finance and climate finance for an organisation.^[2]
- d) Compare and contrast methods of raising equity finance: rights issue, placing and initial public offering.^[2]
- e) Assess the role of internal sources of finance (retained earnings and increased working capital efficiency).^[2]
- f) Analyse the relationship between dividend policy and the financing decision.^[2]
- g) Assess the theoretical approaches to, and the practical influences on, the dividend decision, including legal constraints, liquidity, shareholder expectations and alternatives to cash dividends.^[2]

2. The cost of capital

- a) Calculate the cost of equity using the dividend growth and dividend valuation models.^[2]
- b) Compare and contrast the dividend growth and dividend valuation models.^[2]
- c) Assess the impact of systematic and unsystematic risk on the cost of equity.^[2]
- d) Assess the relationship between portfolio theory and the capital asset pricing model (CAPM).^[2]
- e) Interpret and apply the CAPM.^[2]

- f) Assess the assumptions underlying the CAPM and its advantages and disadvantages.^[2]
- g) Calculate the cost of debt for irredeemable debt, redeemable debt, convertible debt, preference shares and bank debt.^[2]
- h) Calculate and analyse the weighted average cost of capital (WACC) using book value and market value weightings.^[2]

3. Sources of finance and their relative costs

- a) Assess the impact of the creditor hierarchy and the risk-return relationship on the relative costs of sources of finance.^[2]
- b) Assess the impact of high levels of gearing on a business.^[2]
- c) Analyse the impact of sources of finance on financial position, financial risk and shareholder wealth using:^[2]
 - (i) ratio analysis (operational and financial gearing, interest coverage ratio and other relevant ratios)
 - (ii) cash flow forecasting
- d) Analyse the relationship between company value and the cost of capital.^[2]
- e) Assess the circumstances under which the WACC can be used in investment appraisal.^[2]
- f) Assess the advantages of the CAPM over WACC in determining a project-specific cost of capital.^[2]
- g) Apply the CAPM to calculate a project-specific cost of equity and a project-specific cost of capital.^[2]

4. Capital structure theories and practical considerations

- a) Analyse the traditional view of capital structure and its assumptions.^[2]
- b) Analyse the theories of Modigliani and Miller on capital structure, both with and without corporate taxation.^[2]
- c) Assess the impact of capital market imperfections on the capital structure theories of Modigliani and Miller.^[2]
- d) Assess the relevance of pecking order theory to the selection of sources of finance.^[2]

E Business valuations

1. Nature and purpose of the valuation of business and financial assets

- a) Analyse the reasons for valuing businesses and financial assets.^[2]
- b) Analyse the information requirements for valuation and assess the limitations of different types of information.^[2]

2. Valuation of equity

- a) Apply asset-based valuation models: carrying amount (statement of financial position), net realisable value and net replacement cost bases.^[2]
- b) Apply income-based valuation models: price/earnings and earnings yield methods.^[2]
- c) Apply cash flow-based valuation models: dividend valuation and dividend growth models, and discounted cash flows.^[2]
- d) Assess the appropriateness and limitations of each valuation model.^[2]

3. Valuation of debt and other financial assets

- a) Apply appropriate valuation methods to debt: irredeemable debt, redeemable debt, convertible debt and preference shares.^[2]

4. Efficient Market Hypothesis (EMH) and practical considerations in the valuation of shares

- a) Assess the impact of weak form efficiency, semi-strong form efficiency and strong form efficiency.^[2]
- b) Analyse practical considerations in the valuation of shares and businesses: marketability and liquidity of shares, availability of information, market imperfections, market capitalisation and pricing anomalies.^[2]
- c) Assess the significance of investor speculation and behavioural finance for valuations.^[2]

F Risk management

1. Nature and types of risk

- a) Assess different types of foreign currency risk, including translation, transaction and economic risk.^[2]
- b) Assess different types of interest rate risk, including gap exposure and basis risk.^[2]
- c) Explain the impact of basis risk on the outcome of a hedging recommendation.^[1]

2. Exchange rate differences and interest rate fluctuations

- a) Analyse the causes of exchange rate fluctuations, including:
 - (i) balance of payments.^[1]
 - (ii) purchasing power parity theory.^[2]
 - (iii) interest rate parity theory.^[2]
 - (iv) four-way equivalence.^[2]
- b) Apply and assess exchange rate forecasting methods using purchasing power parity and interest rate parity.^[2]

- c) Analyse the causes of interest rate fluctuations: term structure of interest rates and yield curves, expectations theory, liquidity preference theory and market segmentation.^[2]

3. Hedging techniques for foreign currency risk

- a) Apply the following methods of foreign currency risk management:
 - (i) currency of invoice.^[1]
 - (ii) netting and matching.^[2]
 - (iii) leading and lagging.^[2]
 - (iv) forward exchange contracts.^[2]
 - (v) money market hedging.^[2]
 - (vi) asset and liability management.^[1]
 - (vii) exchange-traded currency futures.^[2]
 - (viii) over-the-counter (OTC) currency options.^[2]
- b) Assess the appropriateness of the main foreign currency hedging methods.^[2]

4. Hedging techniques for interest rate risk

- a) Apply the following traditional and basic methods of interest rate risk management:
 - (i) matching and smoothing.^[1]
 - (ii) asset and liability management.^[1]
 - (iii) forward rate agreements.^[2]
 - (iv) exchange-traded interest rate futures.^[2]
 - (v) OTC interest rate options.^[2]
- b) Assess the appropriateness of the main interest rate hedging methods.^[2]

7. Approach to examining the syllabus

The E4 Finance and Investment syllabus is assessed by a three-hour computer-based examination.

The examination will consist of three sections:

Section A will contain 15 two-mark objective test questions (OTs).

Section B will contain three 10-mark case questions, each comprising of five two-mark OTs which are based around a common scenario.

Section C will contain two 20-mark constructed response questions. These questions will be scenario based and will have a number of requirements.

Section A will test across the whole syllabus. The case questions in Section B will each focus on one of the working capital, business finance, business valuations or risk management sections of the syllabus. The constructed response questions in Section C will each focus on one of the working capital, investment appraisal, business finance or risk management sections of the syllabus.

8. Guide to ACCA examination structure and delivery mode

The structure of examinations varies, depending on the level of the qualification.

The Expertise examinations contain 100% compulsory questions to encourage candidates to study across the breadth of each syllabus.

All Expertise examinations are assessed by three-hour computer-based examinations.

The pass mark for all Expertise examinations is 50%.

9. Guide to ACCA examination assessment

ACCA reserves the right to examine anything contained within the study guide at any examination session. This includes knowledge, techniques, principles, theories, and concepts as specified.

For specified financial accounting, audit and tax examinations, except if indicated otherwise, ACCA will publish examinable documents once a year to indicate exactly what regulations and legislation could potentially be assessed within identified examination sessions. Regulation issued, or legislation passed on or before 31 August annually, will be assessed from 1 September of the following year to 31 August of the year after. Please refer to the examinable documents for the examination (where relevant) for further information.

Regulations issued or legislation passed in accordance with the above dates may be examinable if the effective date is in the future, unless explicitly stated otherwise in the syllabus and study guide or examinable documents. The terms ‘issued’ or ‘passed’ relate to when regulation or legislation has been formally approved.

The term ‘effective’ relates to when regulation or legislation must be applied to entity transactions and business practices.

The study guide offers more detailed guidance on the depth and level at which the examinable documents will be examined. The study guide should therefore be read in conjunction with the examinable documents list, where applicable.

10. Learning hours and education recognition

The ACCA Qualification does not prescribe or recommend any particular number of learning hours for examinations because study and learning patterns and styles vary greatly between people and organisations. This also recognises the wide diversity of personal, professional and educational circumstances in which ACCA candidates find themselves.

As a member of the International Federation of Accountants, ACCA seeks to enhance the education recognition of its qualification on both national and international education frameworks, and with educational authorities and partners globally. In doing so, ACCA aims to ensure that its qualifications are recognised and valued by governments and regulatory authorities and employers across all sectors. To this end, ACCA qualifications are currently recognised on the educational frameworks in several countries. Please refer to your national education framework regulator for further information about recognition.