

Corporate Finance (“CF”)

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The CF section (Study Session 11) contributes approximately 8 to 9 marks (out of 100 marks) of the Level 1 CFA examination. In terms of marks awarded per study session, the CF section awards a higher mark for the study session, as opposed to the FRA section (approximately 5 marks for each study session).

In addition to the valuation readings (valuation methods, cash flows, cost of capital etc.), candidates should note that the CF section also includes a corporate governance reading. Candidates should have a precise understanding of the corporate governance principles highlighted in this reading, as the examination answers provided are normally very near to each other, and students are normally required to choose the ‘best’ answer, but not the ‘correct’ answer.

The valuation readings in the CF section are linked to the Quantitative Analysis study sessions (NPV and IRR) and Equity Investments study sessions (cost of capital). Therefore, candidates should prepare for the Quantitative Analysis and Equity Investments study sessions first, prior to studying for the CF study session, in order to prepare for the CFA examinations more efficiently.

Secondly, a substantial portion of the CF examination questions are qualitative in nature, as opposed to quantitative (i.e. calculations). Therefore, a candidate must be able to interpret valuation methods, NPV profiles, cash flows etc., instead of only able to calculate them. The sample questions included at the end of each reading in the CF section of the CFA curriculum textbooks provide good examples of these ‘interpretation’ questions.