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LICENSING EXAMINATION STUDY OUTLINE

For July to December 2024 Examinations

(Issued in May 2024)

Module 7 Financial Statement Analysis and Asset Valuation

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(This document consists of 9 pages including the cover page)

STUDY OUTLINE

MODULE 7: FINANCIAL STATEMENT ANALYSIS AND ASSET VALUATION

This examination is designed to test a candidate's knowledge and understanding of the Malaysian equity market. It is one of the examinations to be passed by individuals who:

- (1) intend to apply for a Capital Market Services Representative's Licence (CMSRL) to carry on the regulated activity of dealing in securities;
or
- (2) who is a holder of CMSRL in financial planning and provides specific advice on equities, debentures or warrants listed on Bursa Securities;
or
- (2) intend to hold the following positions in a firm which is a holder of a Capital Markets Services Licence (CMSL) for carrying on the business of dealing in securities:
 - Head of Operations
 - Head of Compliance
 - Compliance Officer;or
- (3) intend to be employees of registered persons who carry out the capital markets activities as stipulated in Item 1, Part 1 of Schedule 4 of the Capital Markets & Services Act 2007.

Candidates are advised to refer to the Licensing Handbook for detailed combination of examinations required for each regulated activity.

Candidates are expected to possess good knowledge and understanding of the subject matter provided in this study outline and specified reference. In addition, candidates will be tested on the ability to analyse and apply the information at a basic level. It is estimated that this module will require a minimum of 80 hours of study time. Candidates may need less or more depending on the education background and work experience.

Candidates are expected to update themselves with the latest changes relevant to this examination as all questions will be continuously updated to reflect these changes. Module 7 examination is a closed-book test and candidates are not allowed to use any reference material during the examination.

Candidates are required to comply with the terms and conditions of the SC licensing examination. Severe penalties will be taken against candidates for any misconduct during the examination.

At the end of this study outline are 5 sample questions of various formats used in the Module 7 examination. The samples provided do not in any way reflect the level of difficulty or the subject-matter distribution of the actual examination. They are merely intended to familiarise candidates with the styles of multiple-choice questions used in the examination.

EXAMINATION STRUCTURE

Details of this examination are as follows:

Types of Questions	Multiple-Choice
Number of Questions	60 questions
Passing Mark	60%
Time Allocated	90 minutes
Reference/Text	<u>Study Guide</u> eGuide Module 7: Financial Statement Analysis & Asset Valuation (First Edition 2022)

REFERENCE MATERIAL

The reference material for this examination can be purchased from the SIDC website at www.sidc.com.my

LEARNING OBJECTIVES

Candidates are expected to have good knowledge, understanding and ability to apply in the following areas:

- Users and uses of financial statements in financial and investment analysis
- Important accounting policies or choices and treatment of accounting information for financial reporting purposes including explaining the reasons for usage and demonstrating the ability to deal with adjustments necessary for purposes of comparability
- Company financial and company information or other crucial factors such as industry position and economic outlook, necessary for relevant and reliable assessment of the company’s performance
- Limitations of the use of financial statements and related important accounting issues when interpreting financial statements for informed investment decision making
- Elements and characteristics of fixed income and equity securities which is linked to the purposes of financial and investment planning
- Concepts of time value of money in pricing and the valuation of fixed income and equity securities
- Methods and indicators, including their required adjustments, to assess the company financial performance or gain greater insight into company operating results
- Fixed income and equity securities, including derivatives based on various methods of valuation and examining the factors affecting pricing
- Explain technical analysis with respect to securities trading (charts and technical indicators, analysis of technical indicators and patters, forecasting price movement and volume

EXAMINATION SYLLABUS

The syllabus for the examination is divided into 3 sections and the maximum composition of questions from each section is as follows:-

Section	Composition of Questions (Maximum)	Number of Questions (Maximum)
Section 1	60%	36
Section 2	30%	18
Section 3	30%	18

Details of the syllabus are as below:

SECTION 1

- 1. Importance of Financial Statement Analysis**
 1. Importance of Financial Statement Analysis
 2. Financial Statement Analysis within a Wider Context
 3. Relationship between Share Price and Company Profits
 4. Introduction to Financial Statements
 5. Pre-requisites for Drawing up Financial Statements
 6. Financial Reporting Framework
 7. Auditor's Report
 8. Other Information in the Annual Report

- 2. Elements of Financial Statements**
 1. Introduction to the Balance Sheet/*Statement of Financial Position*
 2. Items in the Balance Sheet/*Statement of Financial Position*
 3. Introduction to Income Statement/*Statement of Comprehensive Income*
 4. Introduction to Statement of Changes in Equity or Comprehensive Income/*Statement of Changes in Equity*
 5. Introduction to Cash Flow Statements/*Statement of Cash Flows*
 6. A Brief on Consolidated Financial Statements

- 3. Financial Statement Analysis**
 1. Using Financial Statement Analysis to Assess Performance
 2. Techniques of Analysis
 3. A Working Example of Ratio Analysis
 4. Limitations of Ratio Analysis
 5. Advantages of Ratio Analysis
 6. Accounting Issues in Financial Statement Analysis

SECTION 2

4. Fixed Income and Money Markets

Section A

1. Malaysian Fixed Income Securities
2. Understanding Bonds
3. Credit Rating
4. Term Structure of Interest Rates and Yield Curves
5. Theories of Interest Rate Determination
6. Economic Factors Affecting Interest Rates

Section B

1. Time Value of Money
2. Compounding and Discounting Techniques
3. Pricing Fixed Income Securities
4. Determining the Yield (Internal Rate of Return)
5. Valuing Money Market Securities
6. Pricing a Bond
7. Calculating Bond Yield

8. Structured Products

1. Introduction
2. What is a Structured Product?
3. Issuers of Structured Products in Malaysia
4. Uses and Benefits of Using Structured Products
5. Components of a Structured Product
6. Features and Payout Structures of Structured Products
7. Risks of Investing in Structured Products
8. Conclusion

SECTION 3

5. Equity Markets

1. Malaysian Equity Markets
2. Shares
3. Changes in Number of Shares Issued
4. Equity Hybrids
5. Classification of Shares for Investment Purposes
6. The Role of Valuation
7. The Valuation of Equities
8. Real Estate Investment Trusts (REITs)

6. Technical Analysis

1. Definition of Dividend Policy
2. Bar Charts
3. Support and Resistance Areas
4. Volume and Open Position
5. Candlestick Chart
6. Indicators

7. Exchange-traded Funds

1. Introduction
2. The Structure of an Exchange-traded Fund
3. Investing in Exchange-traded Funds
4. Comparative Analysis
5. Case for Malaysia

SAMPLE QUESTIONS AND ANSWERS

Sample Question 1

All of the following expenses represent cash payments, EXCEPT:

- (A) advertising expense
- (B) interest expense
- (C) depreciation expense
- (D) income tax expense

Sample Question 2

In fundamental analysis, an analyst takes into account the following factors, EXCEPT:

- (A) economy
- (B) industry outlook
- (C) investors' sentiment
- (D) financial structure of the company

Sample Question 3

Which of the following BEST describes capital gains?

- (A) Taxable profit that occurs when a company decides to capitalise some of its accumulated reserves
- (B) When a company decides on an upward revaluation its fixed assets
- (C) Total dividends a shareholder receives for the duration of his share holding
- (D) Profit resulting between the purchase and sale of securities

Sample Question 4

A company has total assets of RM2,000,000, long term debt of RM900,000 and its shareholders' equity is RM900,000. What is the company's total debt to asset ratio?

- (A) 31%
- (B) 40%
- (C) 45%
- (D) 55%

Sample Question 5

ABC Berhad has a total number of issued shares of 60 million. The company has recently declared gross dividend amounting to RM1.5 million. Its shares are currently trading at RM5.20 each.

Based on the information above, what is the dividend per share of ABC Berhad?

- (A) 1.5 sen
- (B) 2.0 sen
- (C) 2.5 sen
- (D) 3.0 sen

Answers

Sample Question 1 - C

Sample Question 2 - C

Sample Question 3 - D

Sample Question 4 - D

Sample Question 5 - C