paradigm shift.

Financial Management 2025 – New Content Added for 2025 Workbook

Please note that some chapters do not have any new content for 2025 so the omission of certain chapters in our review below is not an error.

This document is not intended to cover all points in the relevant sections: instead, we just want to give you an overview of the main points.

If you have also purchased access to our Professional Level subscription package, don't forget to make use of the online quick-fire questions on these 2025 syllabus updates which are provided as part of our Financial Management course: the quick-fire questions will get you working with the following content in an active way, which is always the best way to learn!

Chapter 3   Risk and decision-making

3   Predictive and prescriptive analytics

- Data analytics can be used to support decision making

- Intelligent use of data can reveal patterns and insight into how a business operates, which can help identify previously unknown issues

- A company's data analytics activities must be aligned with their risk management strategy

- Predictive analytics uses historical and current data to create predictions about the future and support risk management

    Definitions

    - **Big data**: Describes datasets whose size exceeds the capacity of typical database software to capture, store, manage, and analyse

    - **Data analytics**: The process of collecting, organising, and analysing large data sets to uncover patterns and information for future business decisions

    - **Data mining**: Entails analysing large datasets to discover patterns, relationships, and insights, using AI and statistical algorithms to identify correlations and trends that convert raw data into actionable information

3.1   Predictive analytics

- The increasing use of big data within organisations has generated new forms of data that can be analysed to create predictions, facilitating the identification of trends to understand how future events might affect the organisation

3.10.1   What is data bias?

- **Data bias:** Occurs when the data being analysed is not representative of the population it aims to represent, with bias introduced either during the data collection phase or by those conducting the analysis

Chapter 4   Sources of finance

3.3.4   Covenants

- **Machine Learning**: Machine learning refers to the capability of computer systems to learn from and make predictions or decisions based on large volumes of data without explicit programming. Supervised learning involves training with labelled data, while unsupervised learning involves identifying patterns and relationships without labelled responses

- **Blockchain**: Blockchain is a type of distributed ledger technology that records data in a decentralised, immutable manner across multiple nodes, enhancing security by preventing tampering. It allows public verification of data, supports cryptocurrencies, and has applications in supply chain oversight, digital identity, and secure voting

- **Distributed ledger**: Distributed ledger technology (DLT) refers to decentralised databases recording transactions across multiple sites, enhancing transparency and reducing the need for audits. Blockchain is a form of DLT though other DLTs may organise data differently, offering varying privacy levels

4   Developing technologies and the financing decision

- Emerging technologies are reshaping the business landscape by opening access to new financing platforms such as Fintech, Crowdfunding, Initial Coin Offerings, Peer-to-peer lending, Revenue-based finance, and AI-supported financing decisions

4.1   Financial Technology (FinTech)

- Financial technology is transforming the financial services landscape globally, altering commerce practices and user expectations

- Fintech advancements include crowdfunding, peer-to-peer lending, cryptocurrency apps, digital wallets, algorithm-driven financial advice, and digital-only start-up banks

4.2   Crowdfunding

- Digital crowdfunding platforms are increasingly important financing sources for businesses, enabling companies to raise equity finance by pitching to investors online

- Successful crowdfunding requires an attractive business plan and reassurances about product/business prospects and management team quality

- Crowdfunding is particularly advantageous for startups with limited access to traditional financing, helps build consumer awareness, and can be a rapid way to raise funds

- Companies seeking crowdfunding look for platforms seasoned in their industry, often regulated by the Financial Conduct Authority to reassure investors

- Costs of crowdfunding include platform fees, legal and advisory costs, and administrative overheads

- Crowdfunding platforms exemplify how technology reduces international capital flow barriers, seen in platforms like Kickstarter, which funds creative projects

4.3 Initial coin offering (ICO)

- An Initial Coin Offering (ICO) is similar to an IPO but based on cryptocurrency, raising finance through blockchain crowd sales

- Unlike an IPO, ICO tokens might give shareholders product/service access (e.g., utility tokens), with payment made in cryptocurrency (e.g., bitcoin)

- The increasing regulatory scrutiny of ICOs is causing them to be treated as securities offerings, requiring them to meet regulatory standards (e.g., full prospectuses)

- ICOs are high-risk, speculative investments with risks including lack of regulation (allowing potential for fraud), significant price volatility, and being tied to early-stage ventures

  Definition

  - **Cryptocurrency**: A digital asset functioning as a medium of exchange and store of value, operating through decentralised computer networks, independent of central authorities. Cryptocurrencies use blockchain technology to ensure transparency and immutability

4.5 Revenue based finance

- Revenue based finance (RBF) allows businesses to raise short-to-medium-term capital in exchange for investors receiving a percentage of ongoing revenues

- The repayment period typically spans from 1 to 5 years, ending once a capped maximum repayment amount is reached

- RBF payments are tied to performance; higher revenues result in increased repayments and lower revenues lead to reduced payments, lessening the strain on cash flow

- RBF lies between debt and equity financing; unlike traditional debt, there are no fixed payments or interest, and investors share in revenue without taking ownership

- RBF is growing in popularity, particularly among start-ups, e-commerce businesses, and subscription-based businesses

- RBF has risks, including required payments even during revenue downturns and, over time, can be more expensive than traditional financing

4.6 The use of Artificial Intelligence in the financing decision

  Definition

  - **Artificial Intelligence**: AI refers to advanced computer systems that perform tasks requiring human intelligence, including learning from data, solving problems, language processing, and adapting to new environments. Machine learning often underpins AI

- AI's role in financing decisions includes:

  - **AI risk assessment and credit scoring** – AI systems rapidly analyse large data volumes to assess credit risk, predict financial behaviours, and reduce erroneous approvals or rejections

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- **Loan approval and automation** – AI speeds up the loan approval process by automating tasks like information gathering and document verification, reducing bias and manual labour

- **Matching lenders and borrowers** – AI algorithms match lenders and borrowers by quickly analysing credit histories, financial data, loan preferences, and profiles

- **Fraud prevention** – AI detects patterns indicating possible fraudulent activities, flagging suspicious documentation for further verification

- **Real-time financial analysis** – AI enables up-to-the-minute analysis and decision making, allowing quick approval of finance and better risk management

- **Predictions and forecasting** – AI supports forecasting and predicting future trends, giving businesses insights vital for strategic financial planning

Chapter 5   Cost of capital

2   **Cost of debt**

- The cost of revenue based finance can be calculated using the IRR spreadsheet function

2.9   **Revenue based finance**

- Revenue based finance allows companies to raise capital from investors who receive a percentage of the company's ongoing revenues in return for their investment

- Repayment typically lasts between 1 to 5 years, making this approach suitable for fulfilling short to medium-term capital needs

- Revenue based finance was addressed in more detail in Chapter 4

- The cost to the company of using revenue based finance can be determined by applying the IRR (Internal Rate of Return) spreadsheet function

Chapter 8   Business valuation

2.4   Digital assets

- A digital asset refers to content that is stored electronically and adds value to the company

- Types of digital assets include digital photos, audio-visual media, spreadsheets, word documents, websites, blockchain technology, cryptocurrencies, initial coin offerings, and big data

- Valuing digital assets is especially relevant for technology companies but remains important for any business model

- Data as a digital asset can add value to a company in various ways:

    - **(a) Targeted marketing** - data insights into customer preferences can lead to increased sales, improved cash flow, and higher overall company value

    - **(b) Product and service improvement** - customer data analysis can enhance product/service quality, increasing customer satisfaction and future cash flows

    - **(c) Operational efficiencies** - data assets can optimise processes (e.g., supply chain or inventory management), driving cost savings and improved profitability

    - **(d) Risk management** - data analytics help companies identify risks and develop effective risk mitigation strategies, improving the company's overall value

- Blockchain technology adds value by streamlining processes, reducing administrative costs, and enhancing data security

- Certain digital assets, such as digital subscriptions (e.g., online newspaper subscriptions), offer ongoing revenue streams through a recurring revenue model with minimal marginal costs, enhancing profitability

- As the subscriber base grows, revenues increase without significant cost growth, leading to higher profit margins and an increase in company valuation

- Challenges in valuing intangible and digital assets and related income streams include:

    - Difficulties in predicting future cash flows due to rapid technological changes and volatile market conditions

    - Lack of comparable data for benchmarking purposes as a result of unique products and services or the use of non-standardised valuation methods

    - The technology sector is sensitive to market trends, investor sentiment, and regulatory shifts, causing potential fluctuations in valuations

4.1   Valuation methods

- Customer-based metrics (e.g., Average Revenue Per User – ARPU) assist in valuing subscription-based companies like Netflix

- ARPU is calculated as total revenue divided by the number of users/subscribers

- Revenue projections for inclusion in NPV valuations can involve analysing historical ARPU data and applying potential growth trends

- Forecast ARPU can be combined with user growth forecasts and additional customer metrics (e.g., churn rate) to estimate future revenue

- Valuing a business acquisition can involve evaluating the price per user to determine whether the acquisition price is reasonable, by comparing value per user in similar acquisitions

4.2 Financing for technology companies

- Technology companies require steady financing to fuel growth, innovation, and future operations

- Key financing options for technology firms include:

  - **Angel investors** – individuals investing their own funds in exchange for a minority equity stake (10%-25%), often providing mentorship alongside capital (e.g., investors on BBC's Dragons' Den)

  - **Venture capital** – risk capital from venture capital firms or individual venture capitalists, given in exchange for equity stakes in high-growth potential, private companies; returns are often realised via stock market listings, despite high-risk investments

  - **Crowdfunding** – accessing finance via online platforms by pitching to a large pool of potential investors; an example is Kickstarter, a platform for creative projects, where creators set funding goals and deadlines, and backers pledge to support projects they like

  - **Peer-to-peer lending (P2P)** – financial technology connecting individual lenders to borrowers without traditional banks, facilitated through P2P platforms

  - **Revenue-based finance** – a funding model where investors receive a percentage of the company's ongoing revenues until a pre-agreed repayment target is reached, directly linked to company performance

  - **Start-Up Loans Scheme** – a UK government-funded initiative offering loans from £500 to £25,000 for aspiring entrepreneurs, with fixed annual interest rates of 6% over a 1 to 5-year repayment period, including business mentoring and no application or early repayment fees

Chapter 10   Managing financial risk: International trade

3.11   Cryptocurrencies

- Blockchain technology is used in many distributed ledger systems to ensure that only valid transactions are recorded

- The most prominent application of blockchain is in recording transactions for Bitcoin and other cryptocurrencies

- Cryptocurrencies are digital tokens that facilitate online trading between users

- They are secured by cryptography, preventing counterfeiting and fraudulent transactions

- Cryptocurrencies act as an alternative to traditional currencies

- A key difference between traditional and cryptocurrencies is that cryptocurrency transactions do not involve a third party

- In traditional financial systems, banks verify and facilitate transactions, whereas cryptocurrencies operate through peer-to-peer exchanges

- Cryptocurrency transactions are direct interactions between users, with no intermediaries involved

- While cryptocurrencies are increasingly adopted by individuals and businesses, they come with substantial risks:

    - **(a) Volatility** – cryptocurrency values are prone to significant fluctuations, making it difficult to determine their intrinsic value, which largely depends on the market

    - **(b) Security** – online digital wallets that store cryptocurrencies can be subject to hacking

    - **(c) Privacy** – the privacy inherent in cryptocurrency transactions could facilitate illegal activities and help users evade money laundering regulations

- Some of the well-known cryptocurrencies include Bitcoin, Ethereum, Litecoin, and Ripple (XRP)

Glossary of terms

Artificial intelligence: AI involves the development and utilisation of advanced computer systems to perform tasks that traditionally require human intelligence

These tasks include learning from data, reasoning and problem-solving, sensory understanding, language processing, and pattern recognition

AI systems are noted for their adaptability to new information or environments, autonomy, and their ability to make informed decisions

AI often involves Machine Learning, though this is not always the case

Big data: Refers to datasets so large that typical database software cannot capture, store, manage, or analyse them effectively

Blockchain: A specific form of distributed ledger technology that records information in a decentralised and immutable manner across multiple nodes

Blockchain technology ensures data is tamper-proof and secures it by eliminating single points of failure

Blockchains are commonly public, enabling anyone to verify the data, though private configurations tailored for organisations also exist

Blockchain technology supports the use of cryptocurrencies and has applications beyond finance, such as in supply chain oversight, digital identity, and secure voting

Cryptocurrency: A digital asset created to function as a medium of exchange and store of value

Cryptocurrencies operate through decentralised networks independent of central authorities, such as a national bank

Blockchain technology underpins cryptocurrencies, ensuring decentralisation, transparency, and immutability

Cryptocurrencies are distinct from traditional monetary systems or financial assets and are not recognised as cash under IFRS Accounting Standards

Some cryptocurrencies may be treated as intangible assets or inventory depending on the circumstances

Data analytics: The process of collecting, organising, and analysing large sets of data to discover patterns and trends

Data analytics is used by organisations to inform future business decisions

Data bias: Occurs when data is not representative of the entire population being analysed

Bias can be inherent in the collected data or introduced by those analysing it

Data mining: The process of examining large datasets to uncover patterns, relationships, and insights

Data mining utilises AI and statistical algorithms to identify correlations and trends that can transform raw data into actionable insights

Distributed ledger: A decentralised database system in which transactions are recorded and validated across multiple sites

Distributed ledgers enhance transparency and reduce the need for central authority or audits

Blockchain is a prominent type of distributed ledger, but other forms of DLT may structure data differently and offer varying levels of access and privacy

Machine Learning: Machine Learning is the ability of computer systems to learn from data and make decisions or predictions based on vast amounts of training data

Machine Learning does not require explicit programming to perform these predictions or decisions

There are two main approaches in machine learning – supervised and unsupervised learning

In supervised learning, the model trains on labelled data to predict outcomes based on input data with known answers

Unsupervised learning works with data that has no labelled responses, allowing the system to identify patterns and relationships independently