

# Subject CB1

## 2025 Study Guide

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## 1 Introduction

This Study Guide has been created to help you navigate your way through Subject CB1. It contains useful information you will need before starting to study Subject CB1 for the 2025 exams. You may also find it useful to refer to throughout your studies.

Further information on study skills can be found on our website at [ActEd.co.uk](https://www.acted.co.uk).

**Please read this Study Guide carefully before reading the Course Notes**, even if you have studied for some actuarial exams before.

### Before you start

When studying for the Institute and Faculty of Actuaries' exams, you may need:

- a copy of the **Formulae and Tables for Examinations of the Institute and Faculty of Actuaries, 2nd Edition (2002)** – these are referred to simply as the *Tables*
- a **scientific calculator** and/or **software package** to help with calculations.

The *Tables* are available from the Institute and Faculty of Actuaries' eShop. Please visit [actuaries.org.uk](https://www.actuaries.org.uk).

## 2 Subject sequencing and contents

### 2.1 Links to other subjects

#### Associateship Qualification

Business Finance (Subject CB1) is considered a fundamental subject contributing to the foundations of the Associateship Qualification. Knowledge gained from this subject is implicitly assumed and applied across many other subjects, in particular:

- Business Economics (Subject CB2)
- Business Management (Subject CB3)
- Actuarial Mathematics for Modelling (Subject CM1)
- Actuarial Practice (Subject CP1).

#### Fellowship Qualification

An understanding of Business Finance may be required for any of the Specialist Advanced (SA) examinations, particularly as these examinations tend to focus on 'real world' scenarios, and the subject is particularly relevant for the potential scenarios presented in Investment & Finance Specialist Principles (Subject SP5), Pensions & Other Benefits (Subject SA4) and Investment & Finance (Subject SA7) examinations.

### 2.2 Subject contents

There are six parts to the Subject CB1 course. The parts cover related topics and are broken down into chapters. At the end of parts 2, 4 and 6 there is an assignment testing the material from the previous two parts.

The following table shows how the parts and chapters relate to each other. The final column shows how the chapters relate to the days of the regular tutorials. This table should help you plan your progress across the study session.

<b>Part</b>	<b>Chapter</b>	<b>Title</b>	<b>No of pages</b>	<b>X Assignment</b>	<b>Tutorial – 3 days</b>
<b>1</b>	1	Key principles of finance	26	X1	1
	2	Key principles of corporate governance and ethics	15		
	3	Business ownership	20		
	4	Taxation	22		
<b>2</b>	5	Long-term finance	39		
	6	Issue of shares	30		
	7	Short- and medium-term finance	20		
	8	Alternative sources of finance	18		
<b>3</b>	9	Introduction to accounts	39	X2	2
	10	The main accounts	34		
	11	Constructing accounts	52		
<b>4</b>	12	Accounts for groups, insurance companies and banks	27		
	13	Interpreting accounts (1)	27		
	14	Interpreting accounts (2)	31		
<b>5</b>	15	Derivatives	22	X3	3
	16	Growth and restructuring of companies	17		
	17	Weighted average cost of capital	37		
<b>6</b>	18	Capital structure and dividend policy	36		
	19	Capital project appraisal (1)	31		
	20	Capital project appraisal (2)	27		

## 3 Syllabus

The Syllabus for each subject is produced by the Institute and Faculty of Actuaries. It includes information to support the study of this subject. The Syllabus will guide you through what you need to learn, the application of learning, as well as the skills that you need to develop.

Students can use the Syllabus as a guide for learning and development. We recommend that you use the Syllabus as an important part of your study.

### 3.1 Aim

Develop an understanding of the key principles underpinning corporate finance and governance, including a knowledge of the instruments used by companies to raise finance and manage financial risk. The understanding and interpreting of the accounts and financial statements of companies as well as financial institutions is also developed.

### 3.2 Topics and topic weightings

This subject covers the following topics:

- |    |  |       |
|----|--|-------|
| 1. | Corporate governance and organisation          | (18%) |
| 2. | How corporates are financed                    | (35%) |
| 3. | Evaluating projects                            | (15%) |
| 4. | Constructing and interpreting company accounts | (32%) |

The topic weighting percentage noted alongside the topics is indicative of the volume of content of a topic within the subject and therefore broadly aligned to the volume of marks allocated to this topic in the examination. For example, if a topic is 20% of the subject then you can expect that approximately 20% of the total marks available in the examination paper will be available on that topic.

Students should ensure that they are well prepared across the entire syllabus and have an understanding of the principal terms used within the course.

### 3.3 Objectives

The detailed syllabus objectives for Subject CB1 are given below. To the right of each objective are the chapter numbers in which the objective is covered in the ActEd course. The relevant individual syllabus objectives are also included at the start of each course chapter.

- |           |   |              |
|-----------|---|--------------|
| <b>1.</b> | <b>Corporate governance and organisation</b>  | <b>(18%)</b> |
|           | Understand corporate governance and regulation and the different objectives and stakeholders that companies might try to satisfy. |              |
| 1.1       | The regulation of financial reporting of incorporated entities.   | (Chapter 2)  |
| 1.2       | Key principles of corporate governance and the regulation of companies.   | (Chapter 2)  |

1.3 Key principles of finance. (Chapter 1)

1.3.1 Relationship between finance, real resources and objectives of an organisation.

1.3.2 Relationship between the stakeholders in an organisation (including lenders and investors).

1.3.3 Role and effects of the capital markets.

1.3.4 Maximisation of shareholder wealth and the strategies designed to achieve it.

1.3.5 Problems relating to the maximisation of shareholder wealth in practice: social responsibility concerns, agency problems and divergent objectives.

1.3.6 Determinants of value and the actions managers can take to influence value.

1.4 Ethical responsibilities of the owners and managers of businesses. (Chapter 2)

## 2. How corporates are financed (35%)

Know the different types of corporations, how they are structured and financed and factors which should be considered when deciding on their structure.

2.1 Structure and methods of financing a company.

2.1.1 Characteristics of sole traders, partnerships, limited companies and social enterprises as business entities. (Chapter 3)

2.1.2. Different types of loan and share capital. (Chapter 5)

2.1.3 Authorised and issued share capital. (Chapter 5)

2.1.4 The main differences between a private and public company. (Chapter 3)

2.1.5 Advantages to a company of limited liability. (Chapter 3)

2.1.6 Different types of medium-term company finance: (Chapter 7)

- credit sale
- leasing
- bank loans.

2.1.7 Different types of short-term company finance: (Chapter 7)

- bank overdrafts
- trade credit
- factoring
- bills of exchange
- commercial paper.

- 2.1.8 Alternative methods of raising finance outside the regular banking system, including 'shadow banking', direct project financing, peer-to-peer lending, crowd-funding and micro-finance. (Chapter 8)
- 2.2 Principles of personal and corporate taxation. (Chapter 4)
- 2.2.1 Taxation of personal income and capital gains.
- 2.2.2 Company taxation, including for the individual shareholder.
- 2.2.3 Different systems of company taxation from the points of view of an individual shareholder and the company.
- 2.2.4 The principles of double taxation relief in the international corporate tax system.
- 2.2.5 Taxation and the use of offshore investment funds.
- 2.3 Principal forms of financial instrument issued or used by private companies and the ways in which they may be issued.
- 2.3.1 Reasons for seeking a quotation on a stock exchange. (Chapter 6)
- 2.3.2 How shares are issued and traded. (Chapter 6)
- 2.3.3 The advantages and disadvantages of remaining as a private company versus becoming a publicly quoted company. (Chapter 6)
- 2.3.4 Characteristics of the following: (Chapter 5)
- debenture stocks
  - unsecured loan stocks
  - Eurobonds
  - preference shares
  - ordinary shares
  - convertible unsecured loan stocks
  - convertible preference shares
  - contingent convertibles
  - floating rate notes
  - subordinated debt
  - asset-backed securities
  - options issued by companies.
- 2.3.5 Characteristics and possible uses by a non-financial company of: (Chapter 15)
- financial futures
  - options
  - interest rate and currency swaps.

- 2.3.6 Methods of obtaining a quotation for securities: (Chapter 6)
- offer for sale
  - offer for sale by tender
  - offer for subscription
  - placing
  - introduction.
- 2.3.7 Rights issue to existing shareholders. (Chapter 6)
- 2.3.8 Role of underwriting in the issue of securities. (Chapter 6)
- 2.4 Factors a company should consider when deciding on its capital structure and dividend policy. (Chapter 18)
- 2.4.1 Impact of chosen capital structure on the market valuation of the company.
- 2.4.2 Impact of taxation on the capital structure chosen by a company.
- 2.4.3 Principal factors a company should consider in setting dividend policy and the impact on the market valuation.
- 2.4.4 Alternative ways of distributing profits, such as buybacks.
- 2.5 Corporate growth, restructuring and divestment. (Chapter 16)
- 2.5.1 Why companies want to grow larger, how companies achieve internal growth and the relationship between growth and profitability.
- 2.5.2 Constraints on a company's growth.
- 2.5.3 Why a company may wish to divest subsidiaries or business units.
- 3. Evaluating projects (15%)**
- Understand the evaluation of investment projects in a corporate setting.
- 3.1 Interaction of the cost of capital of a company with the nature of the investment projects it undertakes. (Chapters 17, 19 and 20)
- 3.1.1 A company's cost of capital.
- 3.1.2 The calculation a company's weighted average cost of capital.
- 3.1.3 Principal methods used to determine the viability of a capital project.
- 3.1.4 Cashflow projections and the application of techniques to estimate cashflows.
- 3.1.5 Methods used to evaluate risky investments including simulation, scenario planning and certainty equivalents.
- 3.1.6 Determination of the required rate of return for a capital project.

- 3.1.7 Factors underlying the choice of discount rate within project assessment, including:
- assumptions underlying the limitations of the use of the weighted average cost of capital
  - allowance for leverage
  - allowance for risk.
- 3.1.8 Methods to identify risks present for different types of project.
- 3.1.9 Techniques to identify the probability and financial impact of different risks occurring over varying timescales.
- 3.1.10 Techniques to ascertain the distribution of possible financial outcomes of a capital project.

#### **4. Constructing and interpreting company accounts (32%)**

Understand the construction and interpretation of company accounts.

- 4.1 Basic construction and principal features of the different types of company accounts and reports. (Chapters 9 to 12)
- 4.1.1 Reasons why companies are required to produce annual reports and accounts.
- 4.1.2 Value of financial reporting on environmental, social and economic sustainability.
- 4.1.3 Alternatives to traditional financial reporting.
- 4.1.4 Relevant accounting concepts in the drawing up of company accounts.
- 4.1.5 The purpose of:
- a statement of financial position
  - a statement of comprehensive income
  - a cashflow statement
  - the notes to the accounts.
- 4.1.6 The construction of simple statement of financial position and statement of profit or loss.
- 4.1.7 Interpretation of cashflow statements.
- 4.1.8 The basic structure and content of insurance company accounts.
- 4.1.9 The basic structure and content of banking company accounts.
- 4.1.10 Difference between a subsidiary company and associate company.
- 4.1.11 Purpose of consolidated accounts.
- 4.1.12 Treatment of depreciation in company accounts.



- 4.1.13 Meaning of share capital, other reserves and retained earnings.
- 4.2 Interpreting company accounting information. (Chapters 13 and 14)
  - 4.2.1 Priority percentages and gearing.
  - 4.2.2 Interest cover and asset cover for loan capital.
  - 4.2.3 The impact of interest rate movements on a highly geared company.
  - 4.2.4 The price earnings ratio, dividend yield, dividend cover and Earnings Before Interest, Taxation, Depreciation and Amortisation (EBITDA).
  - 4.2.5 The calculation of accounting ratios that indicate:
    - profitability
    - liquidity
    - efficiency.

## 4 Core Reading

This section explains the role of the Core Reading and how it links to the Syllabus, supplementary ActEd text and the examination.

### 4.1 Core Reading

The Core Reading has been produced by the Institute and Faculty of Actuaries. It supports students in their learning and development of this subject by providing information and explanation of the topics and objectives in the Syllabus.

The Core Reading is updated annually to reflect any changes to the Syllabus and current practice, as well as for continuous improvement.

The current version of the Core Reading is up-to-date as of 31 May 2024. It references the version of any legislation, standards, professional guidance, *etc* as of this date. Any known upcoming changes to the references are noted where relevant in the Core Reading.

#### Accreditation

The Institute and Faculty of Actuaries would like to thank the numerous people who have helped in the development of the material contained in the Core Reading.

#### Further reading

A list of additional resources to support candidate learning and development for this subject can be found on the Module pages on the Institute and Faculty of Actuaries' website:

[actuaries.org.uk/curriculum/](https://actuaries.org.uk/curriculum/)

### 4.2 Links to the Syllabus

Each part of the Core Reading relates directly to the Syllabus.

The relevant syllabus objectives are included at the start of each chapter for reference.

The Core Reading supports coverage of the Syllabus in helping to ensure that both depth and breadth are re-enforced.

### 4.3 Links to the examination

Examiners can set questions based on any area of the Syllabus within any examination sitting and will consider and draw from the Core Reading when setting examinations questions.

Students will be expected to apply the Core Reading to scenarios and questions proposed by the examiners.

The exams in April and September 2025 will be based on the Syllabus and Core Reading as at 31 May 2024. We recommend that you always use the up-to-date Core Reading to prepare for the exams.

Past papers indicate to students how the examiners apply the Core Reading. The Examiners' Reports provide further insight as to how students answered the questions and how marks were awarded.

#### 4.4 ActEd text

The Core Reading deals with each syllabus objective and covers what is needed to pass the exam, and the Subject CB1 Course Notes include the Core Reading in full, integrated throughout the course.

However, the tuition material that has been written by ActEd enhances it by giving examples and further explanation of key points. Here is an excerpt from some ActEd Course Notes to show you how to identify Core Reading and the ActEd material. **Core Reading is shown in this bold font.**

In the example given above, the index *will* fall if the actual share price goes below the theoretical ex-rights share price. Again, this is consistent with what would happen to an underlying portfolio.

**After allowing for chain-linking, the formula for the investment index then becomes:**

$$I(t) = \frac{\sum_i N_{i,t} P_{i,t}}{B(t)}$$

**where  $N_{i,t}$  is the number of shares issued for the  $i$ th constituent at time  $t$ ;**

**$B(t)$  is the base value, or divisor, at time  $t$ .**

This is ActEd text

This is Core Reading

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Legal action will be taken if these terms are infringed. In addition, we may seek to take disciplinary action through the Institute and Faculty of Actuaries or through your employer.

These conditions remain in force after you have finished using the course.

## 5 Skills and assessment

### 5.1 Technical skills

Subjects CB1 and CB2 are less mathematical than the other Core Principles subjects, instead involving in-depth understanding of economics / business / accounting principles.

### 5.2 Exam skills

In each examination, students will be expected to demonstrate, through their answers, that they have knowledge of, can apply and use higher order skills in this subject:

- Knowledge will be demonstrated through answering questions that assess understanding of that knowledge as well as through questions that ask for the application of relevant knowledge to scenarios.
- Application will be demonstrated through answering questions that assess the ability to identify and apply relevant concepts and skills to solve problems (both numerical and non-numerical).
- Higher order skills will be demonstrated through questions that will assess the ability to use relevant knowledge, concepts and skills to solve problems, draw appropriate conclusions, and make meaningful and appropriate comments on those conclusions.

In Subject CB1, the approximate split of assessment across the three skill types is:

- Knowledge – 30%
- Application – 50%
- Higher Order skills – 20%.

The Institute and Faculty of Actuaries use command verbs (such as 'Define', 'Discuss' and 'Explain') to help students to identify what the question requires. The examination can be composed of questions drawing from any part of the syllabus and using any command verb.

The Institute and Faculty of Actuaries has produced guidance on 'Command verbs used in the Associate and Fellowship examinations', to help students to understand what each command verb is asking them to do.

You can find the relevant document on the Institute and Faculty of Actuaries' website at:

**[actuaries.org.uk/qualify/prepare-for-your-exams](https://actuaries.org.uk/qualify/prepare-for-your-exams)**

### 5.3 Assessment

At the time of writing it is unknown what the assessment method is for Subject CB1. The IFoA have previously announced that the exam will be changing to Objective-Based Assessment (OBA), but it is unclear when this change will take place. You should therefore monitor communications from the IFoA for further details.

If it is to be an Objective Based Assessment (OBA), the assessment is expected to be in the form of a 1 hour 40 minute timed, online objective-based assessment (OBA) examination. This is likely to consist of 60 questions of varying styles. Sample questions illustrating the form of the question types are available on the IFoA website.

If it is to use a traditional (non-OBA) approach, the assessment is expected to consist of one 3 hour 20 minute timed, online examination. This time includes reading time, as well as the time taken for students to download and/or print the question paper.

In this case, students can expect to answer a number of questions of varying marks, using Microsoft Word to construct and type their answers.

## 5.4 Further information

The Institute and Faculty of Actuaries has produced a number of documents, which it advises students to read and understand. In particular, the:

- Qualification Handbook, which contains information on studying and preparing for exams, as well as available support and resources
- Examinations Handbook, which contains practical assistance on how to sit an Institute and Faculty of Actuaries' examination
- Assessment Regulations document, which includes rules on eligibility, entry and conduct during an online assessment.

The Qualification Handbook can be found at:

**[actuaries.org.uk/qualify/student-and-associate-exam-news/qualification-handbook](https://actuaries.org.uk/qualify/student-and-associate-exam-news/qualification-handbook)**

The Examinations Handbook and Assessment Regulations document can be found at:

**[actuaries.org.uk/qualify/my-exams/ifo-exams](https://actuaries.org.uk/qualify/my-exams/ifo-exams)**

**IMPORTANT NOTE: These documents may be updated and re-published in the weeks leading up to each exam session. It is important that you keep up-to-date with any changes and developments.**

## 6 ActEd study support

An overview of ActEd's products and services, and guidance on how to choose the best ones for you, can be found on our website at [ActEd.co.uk/productguide](https://www.acted.co.uk/productguide).

### 6.1 Summary of ActEd products and services

Detailed descriptions of all ActEd's products and services can be found on our website at [ActEd.co.uk](https://www.acted.co.uk). The details of the specific products and services available for Subject CB1 are dependent on the assessment method, which is uncertain at the time of writing. However, available products and services are likely to consist of:

- Course Notes
- X Assignments\*
- Series X Marking (if non-OBA)
- Online Classroom – around 60 tutorial units
- Flashcards
- Past Exam Questions with ActEd Solutions (PEQAS) (if OBA)
- ASET (2020 to 2023) – four years of exam papers, *ie* eight sittings (if non-OBA)
- Mini ASET – covering the April 2024 exam paper (if non-OBA)
- Mock Exam\* – one exam-style test
- Additional Mock Pack (AMP)\* – two additional exam-style tests
- Mock Exam Marking (if non-OBA)
- Marking Vouchers (if non-OBA).

Products are generally available in both paper and eBook format. Visit [ActEd.co.uk](https://www.acted.co.uk) for full details about available eBooks, software requirements and restrictions.

\* If OBA, X Assignments and mock exams will be delivered through our virtual learning environment, The Hub, and – given the online, objective-based nature – there will be no marking services. If non-OBA, you should use the three X Assignments that are included in this CMP, and the mock exams that will be delivered to you in the usual way.

**ActEd might release additional products throughout the year so please keep an eye on our website at [ActEd.co.uk](https://www.acted.co.uk) for the latest news on products.**

## 6.2 Tuition

The following tutorials are typically available for Subject CB1:

- Regular Tutorials (three full days / six half days)
- Block Tutorials (three days).

Tutorials are typically available both face-to-face and live online.

Full details are set out in our *Tuition Bulletin*, which is available on our website at **ActEd.co.uk**.

## 6.3 Questions and queries

Our online discussion forum at **ActEd.co.uk/forums** (or use the link from our home page at **ActEd.co.uk**) is dedicated to actuarial students so that you can get help from fellow students on any aspect of your studies from technical issues to study advice. ActEd tutors visit the site regularly to ensure that you are not being led astray and we also post other frequently asked questions from students on the forum as they arise.

If you are still stuck, then you can send queries by email to the Subject CB1 email address **CB1@bpp.com**, but we recommend that you try the forum first. We will endeavour to contact you as soon as possible after receiving your query but you should be aware that it may take some time to reply to queries, particularly when tutors are running tutorials. At the busiest teaching times of year, it may take us more than a week to get back to you.

If you have many queries on the course material, you should raise them at a tutorial or book a personal tuition session with an ActEd tutor. Please email **ActEd@bpp.com** for more details.

## 6.4 Feedback

If you find an error in the course, please check the corrections page of our website (**ActEd.co.uk/paper\_corrections.html**) to see if the correction has already been dealt with. Otherwise, please send the details via email to the Subject CB1 email address **CB1@bpp.com**. Our tutors work hard to ensure that the courses are as clear as possible and free from errors.

ActEd also works with the Institute and Faculty of Actuaries to suggest developments and improvements to the Syllabus and Core Reading. If you have any comments or concerns about the Syllabus or Core Reading, these can be passed on via ActEd. Alternatively, you can send them directly to the Institute and Faculty of Actuaries' Examination Team by email to **memberservices@actuaries.org.uk**.

## 7 General information and support

### 7.1 Safeguarding

We want you to feel comfortable within our learning environment and safe in the knowledge that if you ever needed support, you know where to go.

If you need support, please contact BPP's Safeguarding team at [safeguarding@bpp.com](mailto:safeguarding@bpp.com) or for urgent concerns call 07464 542 636.

Additional information can be found at [ActEd.co.uk/learningsupport](https://ActEd.co.uk/learningsupport).

### 7.2 BPP learning support

BPP's Learning Support team offers a wide range of support for all students who disclose a learning difficulty or disability. This support is accessible to all ActEd students free of charge.

Please contact BPP's Learning Support team at [LearningSupport@bpp.com](mailto:LearningSupport@bpp.com) for more information.

Additional information can be found at [ActEd.co.uk/learningsupport](https://ActEd.co.uk/learningsupport).

### 7.3 The Prevent Duty

The Prevent Duty is to protect people from radicalisation and being drawn into extremist views and terrorism. As a Government-regulated training provider, ActEd has a duty to ensure that our learners are well informed and stay safe, and to empower our students to know what to look for and when to report concerns.

Please report any concerns to a tutor or email [safeguarding@bpp.com](mailto:safeguarding@bpp.com) or for urgent concerns call 07464 542 636.

More information is available at:

- [ActEd.co.uk/learningsupport](https://ActEd.co.uk/learningsupport)
- [officeforstudents.org.uk/advice-and-guidance/student-wellbeing-and-protection/counter-terrorism-the-prevent-duty/](https://officeforstudents.org.uk/advice-and-guidance/student-wellbeing-and-protection/counter-terrorism-the-prevent-duty/)