



# FP-BoK Topic 02: Financial Analysis

Version: 2.1.0

Last Updated: November 1, 2023

Both CFP professionals and QAFP professionals are expected to possess the knowledge that will allow them to clearly document, analyze, project and present financial information related to an individual's goals, needs and priorities. Such knowledge will aid professionals to explain the time value of money; make financial projections to determine the achievability of goals; and evaluate how an individual's current and projected cash flow may impact their ability to meet their goals.

Sub-Topic	Knowledge Topics Common to Both QAFP Professionals and CFP Professionals	Knowledge Topics For Which CFP Professionals Are Expected to Have Deeper Knowledge
2.1 Time Value of Money	☑	
2.2 Personal Financial Statements	☑	
2.3 Financial Statements for a Business		☑

## Taxonomy of the FP-BoK

The **verbs** used in the FP-BoK articulate the depth of knowledge expected of QAFP professionals and CFP professionals. The verbs are grouped into four **knowledge levels** which set out the depth or level of knowledge required for each knowledge topic.

### KNOWLEDGE LEVELS

Knowledge Level	Associated Verbs Used in the BoK
Awareness	Define, Identify
Understanding	Explain
Application	Determine, Compare, Estimate, Calculate, Convert
Evaluation	Evaluate, Interpret

### GLOSSARY OF VERBS USED IN THE FP-BOK

Verb	Description
Define	To state exactly the meaning of
Identify	To be aware of / to recognize and correctly name / to locate an appropriate resource
Explain	To make clear the meaning of / to describe something in more detail or reveal relevant facts or ideas related to it
Determine	To ascertain / to come to a decision, such as by investigation or reasoning
Compare	To note the similarities and differences between two or more things
Estimate	To determine an approximate value for
Calculate	To find the value using mathematics
Convert	To change from one form or purpose to another
Evaluate	To reach a conclusion or make a through careful study
Interpret	To give the meaning of / to construe or understand / to translate orally

## TOPIC 02 KNOWLEDGE REQUIREMENTS

### 2.1 TIME VALUE OF MONEY

#### 2.1.1 TIME VALUE OF MONEY

##### Knowledge Common to Both QAFP Professionals and CFP Professionals

- Explain the concept of the time value of money.
- Explain the use of the time value of money in financial planning.
- Define the variables that impact time value of money calculations.
  - Present value
  - Future value
  - Interest rate
  - Amount of cash flows
  - Timing of cash flows (beginning or end of period)
  - Frequency of cash flows
  - Number of compounding periods
  - Frequency of compounding
- Explain the effect of a change in one variable on the other variables impacting time value of money calculations.
- Calculate time value of money computations.
  - Present value of a single sum
  - Present value of a deferred single sum
  - Future value of a single sum
  - Future value of a deferred single sum
  - Present value of an immediate periodic payment stream
  - Present value of a deferred periodic payment stream
  - Future value of a periodic payment stream
  - Future value of a deferred periodic payment stream
  - Interest rate
  - Internal rate of return for cash flows
  - Value of cash flows
  - Frequency of cash flows
  - Number of compounding periods
  - Frequency of compounding
  - Net present value for a cash flow
- Interpret the results of time value of money computations.

## 2.2 PERSONAL FINANCIAL STATEMENTS

### 2.2.1 NET WORTH STATEMENT

#### Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a net worth statement.
- Explain the purpose of a net worth statement.
- Explain what a net worth statement may be used for.
- Define asset.
- Define liability.
- Define net worth.
- Calculate net worth.
  - Current
  - Projected
- Determine how each of the factors may impact net worth over a period of time, such as:
  - Asset values
  - Liability values
  - Cash flow surpluses / deficits
  - Growth in asset values
  - Reduction in asset values
  - Growth in liability values
  - Reduction in liability values
- Evaluate how each of the factors may impact net worth over a period of time.
- Interpret a change in net worth over a period of time.

### 2.2.2 CASH FLOW STATEMENT

#### Knowledge Common to Both QAFP Professionals and CFP Professionals

- Define a cash flow statement.
- Explain the purpose of a cash flow statement.
- Explain what a cash flow statement may be used for.
- Define net cash flow.
- Compare cash inflows and income.
- Compare cash outflows and expenses.
- Compare net cash flow and net income.
- Calculate net cash flow.
  - Projected
  - Current
- Determine how each of the factors may impact net cash flow, such as:
  - Purchase of assets

- Sale of assets
- Change in income
- Change in expenses
  - Debt servicing
  - Lifestyle Expenses
  - Savings
- Evaluate how each of the factors may impact net cash flow.
- Explain the potential impact of positive or negative net cash flow on net worth.
- Interpret a change in net cash flow over a period of time.
- Explain the relationship between cash flow and net worth.
- Define a personal savings rate.
- Explain a personal savings rate.
- Calculate a personal savings rate.
- Interpret a personal savings rate.
- Explain the importance of maintaining sufficient resources for emergency purposes.
- Identify suitable resources that may be used for emergency purposes.
  - Amount
  - Characteristics
- Evaluate the ability to financially sustain an emergency.

## 2.3 FINANCIAL STATEMENTS FOR A BUSINESS

### 2.3.1 FINANCIAL STATEMENTS FOR A BUSINESS

#### Additional Knowledge Expected of CFP Professionals

- Define the financial statements produced for a business, such as:
  - Statement of Financial Position
  - Statement of Comprehensive Income
  - Statement of Changes in Equity
  - Statement of Cash Flows
  - Statement of Management Discussion and Analysis
- Explain the importance of the notes that accompany the financial statements of a business.
- Explain how the financial statements of a business may be used.
- Define the level of assurance service provided for the financial statements of a business.
  - Compilation
  - Review
  - Audited
- Define the reports that may accompany the financial statements of a business.
  - Notice to Reader
  - Review Engagement
  - Audited
- Compare the levels of assurance service provided for the financial statements of a business.
- Define liquidity ratios, such as:
  - Current Ratio
  - Quick Ratio
  - Working Capital Ratio
- Define debt ratios, such as:
  - Interest Coverage Ratio
  - Debt-to-Assets Ratio
  - Debt-to-Equity Ratio
- Define profitability ratios, such as:
  - Gross Profit Margin
  - Operating Profit Margin
  - Net Profit Margin
  - Return on Assets
  - Return on Equity
- Explain how financial ratios for a business may be used.

- Define the types of approaches that may be used to value a business, such as:
  - Going-concern
  - Liquidation
  - Discounted future earnings
  - Market value