

FAR WESTERN UNIVERSITY
Faculty of Management

Course Title: **Corporate Finance I**

Course Code: **MGT 342**

Nature of course: Theory

Semester: Fourth

Level: BBA

Total Marks: 100

Pass Marks: 45

Time per period: 1 hr.

Total periods: 45

Credit hours: 3

COURSE OVERVIEW:

The Corporate Finance I introduces the students about the various aspects of corporate finance which facilitates the decision making domain pertaining to financing, investment and dividend decisions. This course aims at providing the students with the fundamental concepts, principles and approaches of corporate finance, enable the students to apply relevant principles and approaches in solving problems of corporate finance. Specific topics include Risk and Return Theory, Time value of Money, Valuation, Cost of Capital, Capital Budgeting and dividend policy decision.

LEARNING OBJECTIVES:

A. The general objectives of the course are as follows:

- (1) To familiarize students with the concepts, tools and practices of corporate finance,
- (2) To enables to understand the decisions to be taken by financial managers of business firms.

B. Specific Objectives and Contents

| Specific Objectives | Contents |
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| <ul style="list-style-type: none"> • Introduce the concept of corporate finance/financial management • Acquaint the goal of the firm, and responsibility of finance manager. • Provide the basic knowledge of agency problem • Understand the basic concept of financial market | <p>Unit I: Introduction to Corporate Finance (2)</p> <p>1.1. Concept of Corporate Finance 1.2. The Financial Manager 1.3. Financial Management Decisions 1.4. The Goal of Financial Management 1.5. Agency Relationships 1.6. Financial Markets: Primary versus Secondary Markets</p> |
| <ul style="list-style-type: none"> • Understand the basic financial statements • Understand the concept and uses of financial ratios • Compute different types of ratios • Explain uses and limitations of ratio analysis | <p>Unit II: Financial Statements and Analysis (6)</p> <p>2.1. Financial Statements and Reports: The Four Key Financial Statements, 2.2. Analysis of Financial Statements: Liquidity Ratios, Asset Management Ratios, Debt Management Ratios, Profitability Ratios, Market Value Ratios 2.3. Tying the Ratios Together: The Du Pont Equation 2.4. Uses and Limitations of Ratio Analysis</p> |
| <ul style="list-style-type: none"> • Understand the relationship between risk and return. • Measuring risk and return by calculating expected return, standard deviation, and coefficient of variation of individual security and portfolio. | <p>UNIT III : Risk and Return Theory (6)</p> <p>3.1. Defining Risk and Return 3.2. Attitudes Toward Risk 3.3. Risk and return of Individual asset 3.4. Risk and Return in a Portfolio Context 3.5. Portfolio Theory</p> |

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| <ul style="list-style-type: none"> • Describe the portfolio opportunity set and efficient set • Analyze the equilibrium price of security • Division of total risk into systematic and unsystematic components • Determine the required rate of return using CAPM | <p>3.6. Portfolio opportunity set and efficient portfolio 3.7. Selection of Optimal Portfolio 3.8. The Capital-Asset Pricing Model (CAPM)</p> |
| <ul style="list-style-type: none"> • Give the concept of the time value of money. • Understand the relationship between present and future value. • Calculate both the future and present value of (a) Single cash flow; (b) an annuity; and (c) a stream of mixed cash flows. • Distinguish between an “ordinary annuity” and an “annuity due.” • Build an “amortization schedule” for an installment-style loan. | <p>UNIT IV: Time Value of Money (8) 4.1. Concept of Time Value of Money 4.2. Nature of Cash Flow and Time Lines 4.3. Future Values and Present Values 4.4. Finding the Interest Rate and Number of Years 4.5. Future Value and Present Value of an Ordinary Annuity, Annuities Due and Perpetuities 4.6. Finding Annuity Payments, Periods, and Interest Rates 4.7. Future Value and Present Value of an Uneven Cash Flow Stream 4.8. Semi-annual and Other Compounding Periods 4.9. Fractional Time Periods 4.10. Amortized Loans Lab work: The students are required to compute the problems of time value of money using EXCEL functions.</p> |
| <ul style="list-style-type: none"> • Define the terminology and characteristics of bonds, preferred stock, and common stock. • Distinguish among the various terms used to express value, including liquidation value, going-concern value, book value, market value, and intrinsic value. • Value bonds, preferred stocks, and common stocks. • Calculate the rates of return (or yields) | <p>UNIT V: Security Valuation (6) 5.1. Bond Valuation 5.1.1. Concept of Bond 5.1. 2. Key Characteristics of Bonds 5.1. 3. Valuation of different types of bond 5.1. 4. Changes in price of Bond Values over Time 5.1. 5. Bonds with Semi-annual Coupons 5.1. 6. Bond Yields 5.2. Common Stock 5.2.1. Rights and Privileges of Common Stockholders 5.2.2. Types of Common Stock 5.2.3. The Market Price versus Intrinsic Value 5.2.4. Valuing Common Stocks: Zero growth, Constant Growth, Nonconstant Growth Stocks 5.2. 5. Yields on common stock 5.2.5. Stock Valuation by the Free Cash Flow Approach 5.3. Preferred Stock 5.3.1. Concept of Preferred Stock 5.3. 2. Characteristics of Preferred Stock 5.3. 3. Valuation Preferred Stock 5.4. Stock Market Equilibrium</p> |
| <ul style="list-style-type: none"> • Explain the concept and significance of cost of capital • Enable learner to understand the different methods of calculating | <p>UNIT VI: Cost of Capital (4) 6.1. Concept and significance of Cost of Capital, 6.2. Specific cost of Capital 6.2.1. Cost of Debt 6.2.2. Cost of Preferred Stock</p> |

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| cost of capital | 6.2.3. Cost of common stock 6.3. Weighted average cost of capital (simple problems) |
| <ul style="list-style-type: none"> • Understand “capital budgeting” and identify the steps involved in the capital budgeting process. • Suggest the different techniques of evaluating capital budgeting | UNIT VII: The Basics of Capital Budgeting (10) 7.1. Concept of Capital budgeting 7.2. Characteristics of Capital budgeting 7.3. Classification of projects 7.4. Capital budgeting process 7.5. Evaluation techniques 7.5.1. Payback Period (PBP) 7.5.2. Net Present Value (NPV) 7.5.3. Discounted Payback Period (DPBP) 7.5.4. Internal Rate of Return (IRR) 7.5.5. Profitability Index (PI) 7.5.6. Modified Internal Rate of Return (MIRR) 7.5.7. NPV Profiles 7.6. Decision Criteria Used in Practice Lab work: The students are required to compute the problems of Capital budgeting using EXCEL functions. |
| <ul style="list-style-type: none"> • Understand the concept of dividend and its payment procedure • Explain the dividend payout scheme • Explain the factors affecting dividend | Unit XI: Dividend Decision (3) 8.1. Meaning and significance of dividends 8.2. Dividend payment procedure 8.3. Dividend payout scheme 8.4. Types of dividends, stock split, reverse stock split, repurchase of stock 8.5. Factors influencing dividend policy |

Basic Book and References:

Basic Books

1. Brealey R.A; Myers S. C; Principles of Corporate Finance. Tata McGraw Hill, New Delhi.
2. Ross, Stephen A., Westerfield, Randolph, and Jeffrey Jaffe, Corporate Finance, Tata McGraw Hill
3. Brigham E. F, and Huston J. F; Fundamentals of Financial Management: Singapore Thamson South-western

Reference Books:

4. Van Horne J.C; and Wachowicz J. M; Fundamentals of Financial Management: Prentice Hall of India, New Delhi.
5. Brigham E.F, and Ehrhardt M.C; Financial Management –Text and Cases; Cengage Learning India Limited New Delhi
6. Gitman, Lawrence J; Principles of Managerial Finance. Pearson Education Asia, New Delhi..
7. Khan M.Y and Jain P.K.; Financial Management: Text and Problems; Tata McGraw Hill, New Delhi.
8. Pandey I. M; Financial Management: Vikas Publishing House, New Delhi.
9. Prasanna Chandra; Financial Management Theory and Practice: Tata McGraw Hill, New Delhi.