FAR WESTERN UNIVERSITY

Faculty of Management

Course Title: **Advance Corporate Finance**	Total Marks: 100
Course Code: **FIN 382**	Pass Marks: 45
Nature of course: Theory	Time per period: 1 hr.
Semester: Eighth	Total periods: 45
Level: BBA	Credit hours: 3

1. Course Description

This course is a broad overview of major topics in Corporate Finance. Students are assumed to have seen many of the topics in earlier courses; however this course provides more in depth coverage. The course develops theoretical framework for understanding and analyzing major financial problems of modern company in market environment. The course covers some advanced topics of corporate finance, including working capital management, risk analysis in investment projects analysis, capital structure and dividend theories and option valuation models.

2. Course Objective

The main objective is to provide an advanced background and deeper understanding in the mainstream issues of modern corporate finance.

Other objectives are as follows:

1. Provide marketable skills in corporate finance.
2. Introduce both the theory and application of corporate finance topics.
3. Understand the concept and techniques of management of the components of working capital.
4. Provide advanced knowledge of capital structure theory and dividend policy.
5. Compare various models of investment decision making under uncertainty.

Learning Objectives	Units and contents
• Acquaint the students with the subject Corporate Finance. • Understand financial decisions and goal of the firm. • Provide the basic knowledge of agency relationship and corporate governance. • Understand concept of business ethics and corporate responsibility.	**UNIT-I: Introduction..................................LH 2** 1.1. Concept of Corporate Finance 1.2. Historical Background of Corporate Finance 1.3.Relationship of Corporate Finance with other disciplines 1.4. Financial Goal of the Corporation 1.5. Business Ethics and Social Responsibility 1.6. Agency Problem and Corporate Governance 1.7. Carrier Opportunities in Finance.
• Understand the concept of WCM, • Describe the WCM Policies • Determine working capital cash flow cycle & operating cycle • Estimate the amount of WC • Analyze the effect of working capital	**UNIT-II: Working Capital Management..................................LH 12** 2.1. Working Capital Management: 2.1.1. Concepts, Classification and Importance of working capital. 2.1.2. Factors determining working capital requirements

policies on risk and return. • Describe the techniques of managing components of working capital (Cash, Account Receivables and Inventory) • Solve the numerical problems of Cash, Account receivable and Inventory Management	2.1.3. Working Capital Policies 2.1.4. Forecast of working capital requirement; 2.1.5. Determining the working capital Financing Mix. 2.2. Management of Cash: 2.2.1. Nature of Cash 2.2.2. Motives of holding Cash 2.2.3. Cash Management; 2.2.4. Advantages of maintaining adequate cash balance; 2.2.5. Determining Optimum Cash Balance; 2.2.6. Cash Management Models; Cash Management Techniques. 2.3. Receivables Management: 2.3.1. Concept and Objectives of Receivable Management 2.3.2. Credit Policy 2.3.3. Cost of maintaining Receivables 2.3.4. Formation and Execution of Collection Policy. 2.4. Inventory Management: 2.4.1. Meaning and Nature of Inventory 2.4.2. Purpose and Benefits of Holding Inventory 2.4.3. Cost of Holding Inventory 2.4.4. Inventory Management tools and techniques.
• Understand financial planning and forecasting • Explain the concept and need of financial forecasting • Apply percent of sales method and regression method of financial forecasting	**UNIT-III: Financial Planning and Forecasting:. LH 5** 3.1. Nature of financial planning and forecasting 3.2. Strategic plans; Operating plans; Financial plan; 3.3. Sales forecast 3.4. Forecasting Financial statement: 3.4.1. Percent of sales method, (Determination of AFN using projected financial statement method and formula Method) 3.4.2. simple linear regression and excess capital adjustments.
• Understand the types and sources of risk in capital budgeting. • Evaluate the capital projects using different	**UNIT-IV: Risk analysis in Capital budgeting LH 8** 4.1. Introduction 4.2. Types and sources of Risk in capital Budgeting; 4.3. Risk Adjusted Discount Rate

techniques.	4.4. Certainty Equivalent 4.5. Sensitivity Analysis 4.6. Probability Distribution Approach 4.7. Decision – tree approach.
• Describe capital structure and financial structure • Analyze the effect of capital structure on risk and return of shareholders • Compute different types of break even points • Provide the basic knowledge of business and financial risk • Compute DFL & DCL. • Understand and evaluate Capital structure theories	**UNIT- V: Capital Structure:.........................LH 8** 5.1. Concept of Capital Structure; 5.2. Capital Structure and Financial Structure; 5.3. Determinants of Optimal Capital Structure; 5.4. Business Risk and Financial Risk; 5.5. Break-Even analysis; Leverage; EBIT EPS Analysis. 5.6. Capital Structure Theories: 5.6.1. Net Income Approach; 5.6.2. NOI Approach; 5.6.3. NI and NOI Approach with Corporate Tax; 5.6.4.Traditional Approach; 5.6.5. MM Hypothesis without and with corporate Tax; 5.6.6. MM with Personal Tax; 5.6.7. Pecking order Theory and Signaling Theory; 5.6.8. Effect of Bankruptcy and Agency Cost.
• Understand the concept and importance of dividend policy. • Understand the factors affecting dividend policy of a firm. • Understand theories of dividend policies. • Evaluate and analyze the effect of different dividend policies on valuation of firm.	**UNIT VI: Dividend Policy: ………………LH 5** 6.1. Nature of dividend policy 6.2. Significance of dividend policy 6.3. Factors affecting dividend policy 6.4. Theories of relevance and irrelevance of dividend in firm valuation (Walter's model, Gordon's Model, MM Hypothesis, Bird-in-hand theory and Dividend signaling theory). 6.5. Relevance of dividend policy under market imperfections.
• Understand concept features and kinds of Options. • Compute the value of Options using different models.	**UNIT VII: PRICING OF OPTION:………LH 5** 7.1. Concept of Option: Futures Vs. Options; 7.2. The Features and Types of Options 7.3. Determinants of Option Prices; 7.3.1. Binomial pricing models; 7.4.1. Black Scholes Option pricing model and its assumptions

Main Texts:

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. Copeland Weston Shastri: Financial theory & Corporate Policies, Pearson