

Course Outline

Department of Accounting and Finance
School of Business and Economics

FNCE 2120-3
Financial Management (3,0,0)

Calendar Description

Students develop a basic understanding of business finance, which deals with how organizations effectively manage their operating and fixed assets and fund them with an optimal mix of debt and equity financing. Topics include the role of the financial manager; goals of the firm; financial statement analysis; time value of money; stock and bond valuation; risk and return, including the capital asset pricing model; interest rates; capital budgeting; weighted cost of capital; and capital structure.

Educational Objectives/Outcomes

Upon completing this course, students will be able to:

1. Explain the importance of share price maximization and the influence of agency costs.
2. Solve business problems that incorporate the time value of money.
3. Examine the performance of an organization using different financial statement analysis techniques.
4. Demonstrate how risk is incorporated into the calculation of an asset's required rate of return.
5. Value the stocks and bonds issued by companies to finance their operations.
6. Explain the shape of the yield curve, risk-free rate and sources of risk premium.
7. Appraise the financial viability of new projects using capital budgeting techniques.
8. Calculate the appropriate cost of capital for a business in different situations.
9. Analyze the optimal capital structure for a company based on an assessment of its operational leverage and other factors.

Prerequisites

ACCT 1000, ACCT 1210/1220, or ACCT 2210; CMNS 1290; MATH 1070 or equivalent; ECON 2320 or equivalent

Note: Students may not receive credit for both of FNCE 2120 and FNCE 3120.

Co-requisites

None

Texts/Materials

Brealey, Myers, Marcus, Maynes, and Mitra, Fundamentals of Corporate Finance, McGraw Hill–

Student Evaluation

Tests/quizzes	30-40%
Case studies/research projects/assignments	30%
Final exam	30-40%

Students must pass the final exam to pass the course.

Course Topics

1. Introduction to Financial Management
 - Organization of the corporate finance function
 - Professional designations in finance
 - Goals of the firm – share price maximization
 - Agency costs
2. Financial Statement Analysis
 - Vertical analysis
 - Horizontal analysis
 - Ratio analysis
 - Liquidity
 - Asset management
 - Long-term debt paying ability
 - Profitability including DuPont analysis
 - Market valuation
 - Cash flow statement analysis
3. Time Value of Money
 - Relationship between required rates and the value of financial assets
 - Compound and Simple interest
 - Real and nominal rates
 - The effect of inflation on values
 - Effective annual rates
 - Present and future values
 - Single and multiple cash flows
 - Perpetuities and annuities
4. Stock and Bond Valuation
 - Stock valuation
 - No growth
 - One and two-stage growth models
 - Bond valuation
 - Straight bonds

- Zero-coupon bonds

5. Risk and Return: Beta and CAPM

- Individual risk – standard deviation
- Diversification - Systematic versus Non-systematic Risk
- Characteristic Line and the calculation of Beta
- Calculating the required rate of return using the CAPM and SML

6. Interest Rates

- Theories explaining the shape of the yield curve
 - Liquidity
 - Segmentation
 - Expectations
- Risk-free rate and sources of risk premium

7. Capital Budgeting

- Capital budgeting methods and their limitations
 - Payback
 - Discounted payback
 - Internal rate of return
 - Net present value
- Net present value analysis

8. Weighted Cost of Capital

- Calculating the Weighted Average Cost of Capital
 - Cost of common shares, preferred shares, and bonds
 - Appropriate weights
 - Book value
 - Market value
 - Target capital structure
- Calculating the Weighted Marginal Cost of Capital
 - Pure Play approach
 - Divisional costs of capital
 - Adjusting for varying project risk
- Incorporating flotation costs

9. Capital Structure

- Measures of operational and financial leverage
- Business risk and its effect on the use of financial leverage
- Determination of the optimal capital structure
 - Industry average ratios
 - Worst-case scenario

Methods for Prior Learning Assessment and Recognition

As per TRU policy

Attendance Requirements – Include if different from TRU Policy

As per TRU policy

Special Course Activities – Optional

Use of Technology – Optional