

Course Outline

Department of Accounting and Finance
School of Business and Economics

FNCE 4130-3
Advanced Financial Management (3,0,0)

Calendar Description

Building on either FNCE 2120: Financial Management or FNCE 3120: Finance Management, students further develop their knowledge and skills in business finance. Topics include corporate governance and executive compensation, matching the maturities of assets and liabilities, pro forma financial statements, capital budgeting, incorporating risk in capital budgeting decisions, sustainable growth, sources of permanent financing, working capital management, capital structure and debt policy, and dividend policy.

Educational Objectives/Outcomes

Upon completing this course, students will be able to:

1. Evaluate the corporate governance and executive compensation policies of a publicly traded company.
2. Assess the degree to which a company matches the maturity of its assets and liabilities and the problems it may create.
3. Conduct a complex capital budgeting analysis of a new project or venture using spreadsheet software.
4. Investigate the net present value of capital projects under conditions of uncertainty.
5. Determine the optimal capital structure of an organization based on an assessment of its operational leverage and other factors.
6. Develop an appropriate dividend policy for an organization.
7. Appraise the various sources of permanent financing.
8. Create a short-term financial plan for an organization which complies with its lending requirements and attains its financial objectives.

Prerequisites

FNCE 2120 (grade of C+ or better) or FNCE 3120 (grade of C+ or better); ECON 2330 or equivalent

Note: Students cannot receive credit for FNCE 4110 and FNCE 4130.

Co-requisites

None

Texts/Materials

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

Student Evaluation

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

Students must pass the exam to pass the course.

Course Topics

1. Introduction, Corporate Governance and Executive Compensation
 - Topics in financial management
 - Best practices for corporate governance
 - Best practices for executive compensation
2. Matching the Maturity of Assets and Liabilities
 - Why match maturities?
 - Aggressive and conservative strategies
 - Factors affecting the maturity matching decision
3. Pro-forma Financial Statements
 - Cash budgeting
 - Percentage-of-sales method
4. Capital Budgeting
 - Capital budgeting methods
 - Internal Rate of Return
 - Net Present Value
 - Modified IRR
 - Limitations of methods
 - Advanced NPV applications
 - Investment Tax Credits
 - Changes in net working capital over time
 - CCA, Recaptures, Terminal Losses, and Capital Gains
 - Effect of end-of-year cash flow discounting
 - Allowing for inflation – nominal and real approaches
 - Capital rationing
 - Hard and Soft Rationing
 - Methods for rationing capital
 - Profitability Indexes
 - Allocation using Solver
 - Comparing projects of varying lives
 - Capital budgeting practises in large and small business

5. Incorporating Risk in Capital Budgeting Decisions

- Reduced payback period
- Risk-adjusted cost of capital
- Certainty Equivalents
- Sensitivity Analysis
- Scenario Analysis
- Simulation
- Decision Trees and Management Options

6. Sustainable Growth

- What is Sustainable Growth?
 - Sustainable Growth formula
 - Managing the rate of Sustainable Growth

7. Sources of Permanent Financing

- Debt financing
 - Term loans
 - Mortgages
 - Leasing
 - Mezzanine financing
 - Project financing
 - Bonds
- Equity
 - Startup capital
 - Personal savings
 - Residential mortgages
 - Personal lines of credit
 - Credit cards
 - Family and friends
 - Swaps of business services for equity
 - Angels and venture capital
 - Limited partnerships
 - Joint ventures
 - Franchises
 - Retained earnings
 - Common and preferred shares
 - ESOP
- Government financing programs
 - Business Development Bank of Canada (BDBC)
 - Export Development Corporation (EDC)

8. Working Capital Management

- Cash conversion cycle
- Managing cash and temporary investments
- Managing accounts receivable

- Managing inventory
 - Sources of short-term financing
 - Accrued expenses
 - Trade credit
 - Operating loans, lines of credit, revolving credit agreements
 - Specific assignment of accounts receivable
 - Factoring
 - Securitization/structure financing
 - Specific assignment of inventory
 - Trusts
 - Warehouse financing
 - Commercial paper and banker's acceptances
 - Letters of credit
9. Capital Structure and Debt Policy
- How Borrowing affects value
 - Capital Structure and Corporate Taxes
 - Costs of financial distress
 - Explaining Financing Choices
 - Trade-Off Theory
 - Pecking Order Theory
 - Financial Slack
 - Bankruptcy Procedures
10. Dividend Policy
- Mechanics of dividends
 - Capital gains versus dividend income
 - Dividend payment
 - Dividend Reinvestment Plans (DRIPs) and Stock Purchase Plans (SPPs)
 - Stock Dividends, Stock Splits, Reverse Stock Splits
 - Stock Repurchases
 - Dividend Policy – Is it relevant?
 - Transactions costs
 - Flotation costs
 - Irrational investor behaviour
 - Taxes
 - Agency costs
 - Asymmetric information
 - Dividend Theories
 - Clientele Effect
 - Signalling Theory
 - Pecking Order Theory
 - Managed Dividend Theory
 - Other factors affecting dividend policy

As per TRU policy

Attendance Requirements – Include if different from TRU Policy

As per TRU policy

Special Course Activities – Optional

Use of Technology – Optional