INSTITUTE OF BUSINESS ADMINISTRATION
BUSINESS FINANCE-1
COURSE OUTLINE
Fall 2011

Instructor: Sana Tauseef
Email: sasghar@iba.edu.pk, sanatauseef143@hotmail.com
Counseling hours:
Main Campus: Tuesdays and Fridays (12:50p.m. to 2:30p.m)
City Campus: Mondays and Thursdays (9:00a.m. to 1:00 p.m.)
Saturdays (3:30 p.m. to 6:00 p.m.)

COURSE OBJECTIVES:

To introduce the students to the field of Finance!! The course is designed to give an understanding of the fundamental finance concepts like evaluating the financial performance of a firm; derive the expected rate of return; understand the valuation of financial securities; evaluate the long term projects; and calculate the financing cost. The students should be able to identify link between the concepts that they have learned/ are learning in the course to the financial decisions that they are making in their personal as well as on-job lives. Since the course gives a basic understanding of many areas in finance, the students after taking the course will be able to identify the area/areas which interest them most. This will help the students in selecting the elective courses in finance and ultimately in selecting their career path.

COURSE OUTCOMES:

Successful completion of this course will enable the student to evaluate the financial performance of the firm; calculate the measures of risk and return; understand the principles of discounted cash flows; understand the valuation of financial securities and long-term projects, and identify the techniques used to manage the firm’s current accounts so that an acceptable level of net working capital is maintained.
COURSE CONTENTS:

<table>
<thead>
<tr>
<th>SESSION</th>
<th>DISCUSSION TOPICS</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Basics of Business finance; Importance of Financial Decisions</td>
</tr>
<tr>
<td>2,3</td>
<td>Financial environment; Role of Financial Institutions and Intermediaries; Cost of money and its Determinants. Term Structure of Interest rates; Theories and practice</td>
</tr>
<tr>
<td>4</td>
<td>Corporate taxes and their impact on investment and financing decisions</td>
</tr>
<tr>
<td>5-7</td>
<td>Financial Health and Performance Assessment; Common-Size Statements; Liquidity, Solvency, Asset Management, Profitability and Market Value Ratios; Du pont Analysis; Sustainable Growth, PRAT Analysis; Discussion on short cases and Assignment 1</td>
</tr>
<tr>
<td>8</td>
<td>Financial planning; Projected Financial Statements</td>
</tr>
<tr>
<td>9</td>
<td>Breakeven Analysis; Operating and Financial Leverage Analysis, measures and significance</td>
</tr>
</tbody>
</table>

**First Term**

| 10-12   | Risk and Return Analysis; Risk Diversification for portfolios; CAPM Model; Discussion of Assignment 2 |
| 13,14   | Time value of money; Discounted Cash flows, Annuities and Perpetuities; Loan Amortization |
| 15      | Features of Bonds (TFCs); Bond valuation; Calculation of Bond yields |
| 16,17   | Stock valuation; No growth, constant and non-constant growth Stocks; Dividend and Capital Gains Yields |

**Second Term**

| 18,19   | Capital Budgeting Projects, Projecting the Cash flows; Evaluation Techniques: Payback, NPV and IRR |
| 22,23   | Cash conversion cycle; Cash Budget; Managing Float (Collection and Disbursement) |
Case-based Assignment

Discussion Agenda:
- Assessment of Clarkson’s financial performance and health
- Profit decomposition, impact of financial leverage, sustainable vs. actual and target growth rates, as well as business and financial risks.
- Sources of financing the sales growth

Assignment:
Study Groups
Set 1: Will represent Mr. Clarkson
Set 2: Will represent Northrup National Bank

- Make the assumptions (financing, operating, working capital levels, etc)
- Prepare the 5-year business and financial plan
- Prepare the schedule of security pledges
- List the restrictive covenants

Course Assignment # 1 (Individual): Analysis of Financial position and performance

Selection of the company: 2nd session
Criteria for Selection:
- The Company must be listed on Karachi stock Exchange
- At least five years of published financial statements must be available
- The market share prices of the company are available from January 2010 till date

Data Needed: Financial Statements (years ended 2006-2010)
Source of Data: Primary and Secondary

Required Calculations:
- Common-size Statements for 5 years
- Liquidity, Solvency, Asset Utilization, Profitability, and Market Value Ratios.

Required Analysis:
• Comments on the financial health and performance of the company in relation to industry averages and competitors.
• Comments on the change in ratios over the 5-year period, reasons for change?

Due Date: 7th session
Page limit: 6-10 pages (excluding the copy of financial statements)

Course Assignment # 2 (Group, 2 students each): Analysis of Risk and Return of stocks and a two stock portfolio

Data Needed: Week-end prices (January 2010 to August 2011) for two stocks listed on Karachi Stock Exchange and KSE-100 indices for the same days. If the last day of the week is a holiday, the closing price of the previous day should be taken.
Required Calculations:
– Weekly returns for each stock and the market.
– Average weekly returns and the standard deviations.
– Co-relation between the two stocks and the beta for each stock.
– Risk and return for two-stock portfolio with different weights for two securities.

Required Analysis: Comments on the relative riskiness of the two stocks, and on the risk of the portfolios. Linking the stocks’ market performance with the accounting performance.
Due Date: 13th session
Page limit: 4-6 pages

Course Assignment # 3 (Individual): Article/ Topic Presentation

The students will select a recently published article or a topic from any area of finance and make a 10 minutes presentation in class. The idea is to make the students familiar with the happenings in the financial world around them.

Selection of the topic:
Presentation Date: Will be assigned depending on the topic

Examples:
• Banking Sector Reforms in Pakistan (4th Session)
• KSE-100 Index: Objective and Basic Calculation Methodology (11th Session)
• Engro Rupiya Certificates (15th Session)
• GDR Issuances by Pakistani Firms (16th Session)
TEXT BOOKS:

Required:

Recommended:
2. Fundamentals of Corporate Finance, Ross, Westerfield and Jordan.
3. Fundamentals of Corporate Finance, Brealey Myers Marcus.
4. CFA Level-1 Curriculum: Corporate Finance and Portfolio Theory.

COURSE REQUIREMENTS:
- Students must bring text book in the class. The supplementary materials will be handed out in the class.
- It is anticipated that students prepare the topics in advance to be ready for the discussion and quizzes.
- Active class participation will be rewarded by adjusting the grade upwards when it is on the margin.
- Since subsequent topics build on previously learned material, it is imperative that students keep up with the material. In addition, students should ensure that lectures are understood properly.
- A student who misses a class is responsible for obtaining any handouts and information on course content, assignments, due dates, test dates, etc.
- Financial calculator is necessary in the class.
- The quizzes may be in advance or from the previous topic. There will be a perfect zero if you miss the quiz.
- You are expected to complete the assignments on the due date. No excuses will be entertained in late submission unless there is some extreme case.

GRADING:

<table>
<thead>
<tr>
<th>Component</th>
<th>Percentage</th>
</tr>
</thead>
<tbody>
<tr>
<td>Quizzes</td>
<td>10%</td>
</tr>
<tr>
<td>Home Assignments</td>
<td>15%</td>
</tr>
<tr>
<td>Class Assignments and Participation</td>
<td>10%</td>
</tr>
<tr>
<td>Term Exams</td>
<td>30%</td>
</tr>
<tr>
<td>Final Exam</td>
<td>35%</td>
</tr>
</tbody>
</table>