FIN 510: Financial Management

Credits: 3
Lecture Hours: 48

Course Objective

This course aims to enable students to appreciate the significance of concepts, theories and practice of financial decision making in firms and to make them acquainted with analytical and problem solving skills for making investment, financing and dividend decision along with managing working capital.

Course Description

The course covers core area of financial management – investment, financing and dividend decisions and their peripherals. They are organized in eight units. The major topics covered in this course are: financial management and environment, financial statements analysis, security and corporate valuation, risk-return and the portfolio theory, capital structure and cost of capital, investment decision, dividend decision, and working capital management.

Course Details

Unit 1: Financial Management and Environment LH 5

Financial Management: Functions and Concept, Objectives of Corporation: Value Maximization, Value Maximization and Social Welfare, Managerial Action to Maximize Shareholder Wealth; Role of Financial Manager; Agency Conflicts: Conflict between Stockholders and Creditors, Conflict between Insider Owner/Managers and Outside Owners, Conflict between Managers and Shareholders; Corporate Governance, Business Ethics and Corporate Social Responsibility; Financial Environment in Nepal: Financial Securities, Financial Institutions, Financial Market; Tax Environment.

Unit 2: Financial Statement Analysis LH 5

Financial Statements and Reports; Financial Ratio Analysis: Liquidity Ratios, Asset Management Ratios, Debt Management Ratios, Profitability Ratios, Market Value Ratios; Trend Analysis; Common Size Analysis; Percentage Change Analysis; The Du-Pont Equation; Comparative Ratio and Benchmarking; Uses and Limitations of Ratio Analysis.

Unit 3: Security and Corporate Valuation LH 6

Time Value of Money and Financial Asset Valuation: Discounting and Compounding of Different Cash Flow Streams; Valuation of Bonds; Required Return and Bond Values; Changes in Bond Values Over Time; Bond Yields; The Basic Stock Valuation Models: Zero Growth Model, Normal Growth Model, Supernormal Growth Model, Single Period and Multi-period Valuation Model; Market Multiples and Stock Valuation; Valuation of Entire Corporation.

Unit 4: Risk-Return and Portfolio Theory LH 6

Investment Returns and Risk; Risk in a Portfolio Context; Efficient Portfolio; The Optimal Portfolio; Capital Assets Pricing Model (CAPM); The Capital Market Line (CML) and Security Market Line (SML); The Efficient Market Hypothesis and Behavioral Finance.

Unit 5: Capital Structure and Cost of Capital LH 6

An Overview of Cost of Capital Structure: Business Risk and Financial Risk; The Optimal Capital Structure; Component Cost of Capital; Weighted Average Cost of Capital (WACC); Marginal Cost of Capital (MCC) and Breaks in MCC Schedule.

Unit 6: Investment Decision **LH 8**

An Overview of Capital Budgeting; Estimating Cash Flows; Evaluating Cash Flows: Payback Period, Discounted Payback Period, Net Present Value, Internal Rate of Return, Profitability Index, Modified Internal Rate of Return; Projects with Unequal Lives; NPV Profiles and Crossover Rate.

Unit 7: Dividend Decision **LH 6**

Procedural Aspects of Paying Dividends; Dividend Distribution Model: Residual vs Stable; Cash Distributions and Firm Value; Clientele Effect; Signaling; Stock Dividends and Stock Splits; Stock Repurchase; Managerial Considerations as to Share Repurchase Policy; Dividend Payment Practices in Nepal.

Unit 8: Working Capital Management **LH 6**

An Overview of Working Capital Management; Financing Current Assets; The Cash Conversion Cycle; Cash Management and Target Cash Balance; Inventory Management; Receivable Management.

References

Bigham, E. F& Ehrhardt, M. C. ***Financial Management: Theory and Practice.*** New Delhi: Cengage Learning**.**

Van Horne, J. C. ***Financial Management and Policy.*** New Delhi: Pearson Education.

Ross, S. A., Westerfield, R. W., & Jordan, B. D. **Corporate Finance.** New Delhi: Tata McGraw-Hill.

Gitman, L. J. ***Principles of Managerial Finance***. Delhi: Pearson Education.

Pradhan R. S. ***Financial Management***. Kathmandu: Buddha Academic Publishers and Distributors.

Paudel, R. B., Baral K. J., Gautam R. R., & Rana S. B. ***Financial Management***. Kathmandu: Asmita Books Publishers and Distributors.

Sharma, D. R., Thapa, K., Risal, N. & Pathak, D. D. ***Financial Management.*** Kathmandu: Khanal Publication Pvt. Ltd.