

FIN 202: Basic Financial Management

Credits: 3

Lecture Hours: 48

Course Objective:

The main objective of this course is to provide students with the basics of financial management and the skills needed for managing the finance of a firm.

Course Objective:

The course deals with the nature of financial management, cost of capital, capital budgeting, capital structure, dividend policy, working capital management.

Course Details:

Unit 1: Introduction:

LH 4

Nature of financial management; Goals of financial management; Managerial actions to maximize shareholders' wealth; Functions of financial management; Role of financial manager in the organization structure of a firm; Responsibilities of a financial manager; Business ethics and social responsibility; Relationship with other functions of management.

Unit 2: Cost of Capital:

LH 6

Nature of cost of capital; Significance of cost of capital; Cost of debt; Cost of preferred stock; cost of retained earnings; The CAPM approach; Cost of equity; Weighted average cost of capital (WACC); Factors affecting WACC; Adjusting cost of capital for risk; Estimating project risk; Problem areas in cost of capital.

Unit 3: Capital Budgeting:

LH 8

Nature of capital budgeting; Significance; Project classifications; Identifying relevant cash flows; Evaluating capital budgeting projects; Analysis of cash flows; Introduction to project risk analysis; Techniques for measuring stand-alone risk; Incorporating project risk into capital budgeting.

Unit 4: Capital Structure:

LH 8

Nature of capital structure; Significance of capital structure management; Target capital structure; Business risk: operating leverage; Financial risk; Determining optimum capital structure: WACC and capital structure changes, Hamada equation and optimum capital structure; Capital structure theory: effect of taxes, effect of potential bankruptcy; Trade-off theory; Signaling theory.

Unit 5: Dividend Policy:

LH 8

Nature of dividend policy; Significance of dividend policy; Factors affecting dividend policy; Dividend versus capital gains: Dividend irrelevance theory, bird-in-the-hand theory, tax preference theory and which theory is best; Dividend policy in practice: setting target payout ratio; Earnings, cash flows and dividends, and payment procedures; Stock dividends and stock split; Stock repurchases.

Unit 6: Working Capital Management:

LH 10

Nature of working capital management; Objectives; Cash conversion cycle; Cash management: reasons for holding cash and cash budget, cash management techniques; Inventory management: inventory costs, inventory control systems; Receivables management: accumulations of receivables, monitoring receivables position, DSO and aging schedules; Credit policy: setting credit period and standards; Setting collection policy; Cash discounts; Factors influencing credit policy; Sources of working capital financing: accrued liabilities, trade credit, short-term bank loans, Criteria for choosing a bank.

Unit 7: Financial Planning and Forecasting:

LH 4

Nature of financial planning and forecasting; Strategic plans; Operating plans; Financial plan; Sales forecast; Financial statement forecasting: percent of sales method, and forecasting free cash flow; Additional funds needed formula; Other techniques for forecasting financial statements: simple linear regression and excess capital adjustments.

Textbook:

Eugene F. Brigham and Joel F. Houston. *Fundamentals of Financial Management*. Singapore: Thomson, South-Western

Reference Book:

James C. Van Horne and John M. Wachowicz, Jr. *Fundamentals of Financial Management*. New Delhi: Prentice-Hall Limited

Stephen A. Ross, Randolph W. Westerfield and Bradford D. Jordan. *Fundamentals of Corporate Finance*. New Delhi: Tata McGraw-Hill Education Pvt. Limited