

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD  
(Department of Business Administration)**

**FINANCIAL MANAGEMENT (5535)**

**CHECKLIST**

**SEMESTER: AUTUMN, 2013**

This packet comprises the following material:

1. Text Book (One)
2. Course Outline
3. Assignment No. 1, 2
4. Assignment Forms (2 sets)

In this packet, if you find anything missing out of the above mentioned material, please contact at the address given below:

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**(Department of Business Administration)**

**WARNING**

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE, IF FOUND AT ANY STAGE.**
2. **SUBMITTING ASSIGNMENTS BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**

**ASSIGNMENT No. 1**

(Units: 1-4)

**Course: Financial Management (5535)**  
**Level: MBA**

**Semester: Autumn, 2013**  
**Total Marks: 100**

- Q. 1 Select any financial institution of your choice and discuss the role of its financial management in detail. (20)
- Q. 2 "Financial environment of a state sets the present and future trend for its economy." Discuss the statement in detail. (20)
- Q. 3 Select a company of your choice and calculate its financial ratios for evaluating its financial performance for a year. Also show calculations and analytical comments with each calculated ratio. (20)
- Q. 4 Find the amount to which Rs.5 million will grow (use the formula to calculate the value) under each of the following conditions:-
- i. 10 percent compounded annually for 5 years.
  - ii. 10 percent compounded semi-annually for 5 years.
  - iii. 10 percent compounded quarterly for 5 years.
  - iv. 10 percent compounded monthly for 5 years. (20)
- Q. 5 (a) Calculate the expected rate of return on the basis of following information: (12)

<b>State of Economy</b>	<b>Probability of State of Economy</b>	<b>Rate of Return if state occurs</b>
Recession	0.25	-0.10
Normal	0.35	0.15
Boom	0.40	0.20

- (b) A stock has an expected return of 10 percent, its beta is 0.70, and the risk-free rate is 5.5 percent. What must be the expected return on the market using the CAPM approach? (08)

### **GUIDELINES FOR ASSIGNMENT No. 1**

You should look upon the assignments as a test of knowledge, management skills, and communication skills. When you write an assignment answer, you are indicating your knowledge to the teacher:

- Your level of understanding of the subject;
- How clearly you think;
- How well you can reflect on your knowledge & experience;
- How well you can use your knowledge in solving problems, explaining situations, and describing organizations and management;
- How professional you are, and how much care and attention you give to what you do.

To answer a question effectively, address the question directly, bring important related issues into the discussion, refer to sources, and indicate how principles from the course materials apply. You must also be able to identify important problems and implications arising from the answer.

The references should be given at the end of the assignment. For citing references, writing bibliographies, and formatting the assignment, APA format should be followed.

### **ASSIGNMENT No. 2**

**Total Marks: 100**

**Pass Marks: 40**

This assignment is a research activity. You are required to visit any business/ commercial organization and prepare a research report of about 15 to 20 pages on one of the topics given below. To avoid the duplication, a student is required to select the topic according to the last digit of his/ her role number. For example if your roll number is I-342718 then you will select topic # 8 from the given below list (last digit).

As there are five topics, you will select the topic according to the last digit of your roll number mentioned as under:

<b>Topic</b>	<b>Last digit of the role number</b>
1	2,5
2	1,4
3	3,6
4	7,9
5	0,8

#### **Topics:**

- 1 Capital Budgeting Techniques
- 2 Short-term Financing
- 3 Assessment of Credit Application
- 4 Debt Instruments of a Corporation
- 5 Lease Financing

### **GUIDELINES FOR THE PREPARATION OF ASSIGNMENT # 2**

**The report should follow the following format:**

1. Title page

2. Acknowledgements
3. An abstract (one page summary of the paper)
4. Table of contents
5. Introduction to the issue (brief history & significance of issue assigned)
6. Data collection methods
7. Practical Study related to the Issue
8. Conclusion (one page brief covering important aspects of your report)
9. Recommendations (specific recommendations relevant to issue assigned)
10. References (as per APA format)
11. Annexes (if any)

**Other Guidelines:**

- 1.5 line spacing
- Use headers and subheads throughout all sections
- Organization of ideas
- Writing skills (spelling, grammar, punctuation)
- Professionalism (readability and general appearance)
- Do more than repeat the text
- Express a point of view and defend it.

You should use transparencies and any other material for effective presentation. The transparencies are not the presentation, but only a tool; the presentation is the combination of the transparencies and your speech. Workshop presentation transparencies should only be in typed format.

You are required to prepare two copies of 2nd assignment. Submit one copy to your tutor/ teacher for evaluation and the second copy for presentations in the workshop in the presence of the resource person and classmates, which will be held at the end of the semester prior to the final examination.

**GUIDELINES FOR WORKSHOP PRESENTATION:**

- Make eye contact and react to the audience. Don't read from the transparencies or from report, and don't look too much at the transparencies (occasional glances are acceptable to help in recalling the topic to cover).
- A 15-minute presentation can be practiced several times in advance, so prepare on that until you are confident enough. Some people also use a mirror when rehearsing as a substitute for an audience.

## **FINANCIAL MANAGEMENT (5535)**

### **Course Outline**

**Unit–1 Introduction to Financial Management**

- 1.1 Role of Financial Management
  - 1.1.1 Defining Financial Management
  - 1.1.2 Goal of a Firm
  - 1.1.3 Functions of Financial Management
- 1.2 The Business, Tax and Financial Environments
  - 1.2.1 Business Environment
  - 1.2.2 Tax Environment

1.2.3 Financial Environment

**Unit–2 Tools of Financial analysis and Planning**

- 2.1 Financial Statement Analysis
  - 2.1.1 Financial Statements
  - 2.1.2 Balance Sheet Ratios
  - 2.1.3 Income Statement and Income Statement/Balance Sheet Ratios
  - 2.1.4 Trend Analysis
  - 2.1.5 Common-Size and Index Analysis
- 2.2 Cash-Flow Analysis and Financial Planning
  - 2.2.1 Accounting Statement of Cash Flows
  - 2.2.2 Cash-flow Forecasting
  - 2.2.3 Range of Cash-Flow Estimates
  - 2.2.4 Forecasting Financial Statements

**Unit–3 Valuation**

- 3.1 Time Value of Money
  - 3.1.1 Simple and Compound Interest
  - 3.1.2 Annuities
  - 3.1.3 Compounding More than Once a Year
  - 3.1.4 Amortizing a Loan
- 3.2 The Valuation of Long-Term Securities
  - 3.2.1 Distinctions Among Valuation Concepts
  - 3.2.2 Bond Valuation
  - 3.2.3 Preferred Stock Valuation
  - 3.2.4 Common Stock Valuation
  - 3.2.5 Rates of Return (or Yields)

**Unit–4 Risk and Return**

- 4.1 Defining Risk and Return
- 4.2 Using Probability Distributions to Measure Risk
- 4.3 Attitudes Toward Risk
- 4.4 Risk and Return in a Portfolio Context
- 4.5 Diversification
- 4.6 Capital Asset Pricing Model(CAPM)
- 4.7 Arbitrage Pricing Theory(APT)

**Unit–5 Working Capital Management-I**

- 5.1 Overview of Working Capital Management
  - 6.1.1 Working Capital Issues
  - 6.1.2 Financing Current Assets: Short-Term and Long-Term Mix
  - 6.1.3 Combining Liability Structure
- 5.2 Cash and Marketable Securities Management
  - 6.2.1 Motives for Holding Cash
  - 6.2.2 Speeding up Cash Receipts
  - 6.2.3 Slowing Down Cash Payouts
  - 6.2.4 Electronic Commerce
  - 6.2.5 Investment in Marketable Securities

**Unit–6: Working Capital Management-II**

- 6.1. Accounts Receivable and Inventory Management
  - 6.1.1 Credit and Collection Policies
  - 6.1.2 Analyzing Credit Applicant
  - 6.1.3 Inventory Management and Control
- 6.2. Short-Term Financing
  - 6.2.1 Spontaneous Financing
  - 6.2.2 Negotiated Financing
  - 6.2.3 Composition of Short-Term Financing

**Unit-7 Investment in Capital Assets**

- 7.1. Overview of Capital Budgeting Process
- 7.2. Estimating Project “After-Tax Incremental Operating Cash Flows”
- 7.3. Capital Budgeting Techniques
- 7.4. Risk and Managerial Options in Capital Budgeting

**Unit-8: Cost of Capital**

- 8.1. Required Returns and Cost of Capital
  - 8.1.1 Overall Cost of Capital of the Firm
  - 8.1.2 CAPM: Project-Specific and Group-Specific Required Rates of Return
  - 8.1.3 Evaluation of Projects on Basis of Their Total Risk
- 8.2. Operating and Financial Leverage
  - 8.2.1 Operating Leverage
  - 8.2.2 Financial Leverage
  - 8.2.3 Total Leverage
  - 8.2.4 Cash-Flow Ability to Service Debt
- 8.3. Dividend Policy
  - 8.3.1 Active Versus Passive Dividend Policies
  - 8.3.2 Factors Influencing Dividend Policies
  - 8.3.3 Stock Dividend and Stock Splits

**Unit-9 Long-term Financing**

- 9.1 Long-Term Debt, Preferred Stock and Common Stock
  - 9.1.1 Types of long-Term Debt Instruments
  - 9.1.2 Bonds and Their Features
  - 9.1.3 Preferred Stock and Its Features
  - 9.1.4 Common Stock and Its Features
  - 9.1.5 Dual-Class Common Stock
- 9.2 The Loans and Leases
  - 9.3.1 Term Loans
  - 9.3.2 Equipment and Lease financing
  - 9.3.3 Lease Financing vs. Debt Financing

**Recommended Books:**

- Horne, J. C. V. & Wachowicz, J. R. (2005). *Fundamentals of Financial Management (12<sup>th</sup> ed.)*. U.S.A.: Pearson Education Ltd.
- Khan, M. Y. & Jains, P. K. (2007). *Basic Financial Management (2<sup>nd</sup> ed.)*. New Delhi, India: Tata McGraw-Hill/Irwin

Brigham, E. F. & Ehrhardt, M. C. (2001). *Financial Management* (10<sup>th</sup> ed.). Ohio, U.S.A.: South Western Pub.

