

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD  
(COL MBA / MPA PROGRAMME)**

**CORPORATE FINANCE (5585)**

**CHECKLIST**

**SEMESTER: AUTUMN, 2012**

This packet comprises the following material:

1. Text Books
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:

Mailing officer  
Services Block No. 28  
Allama Iqbal Open University  
H-8, Islamabad

**Salman A. Qureshi**  
(Course Coordinator)

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD**  
**(Commonwealth MBA / MPA Programme)**

**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"**

**Course: Corporate Finance (5585)**

**Semester: Autumn, 2012**

**Level: Executive MBA/MPA**

**Total Marks: 100**

**Instructions:**

- (a) All written assignment must be well organized, presented in an easy-to-read format and neat. Moreover, pay particularly close attention to grammar, spelling, punctuation and understandability. Communication is extremely important in this course.
- (b) Documentation is likewise very important. Un-supported statements or opinions are worth less to the reader, who desires to verify your finding. Complete and specific documentation is mandatory. Also, your references should be to primary sources, except in rare unusual situation.
- (c) Quoting should be kept to an absolute minimum.

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**Guidelines for Doing Assignments**

We expect you to answer each question as per instructions in the assignment. You will find it useful to keep the following points in mind:

- 1) **Planning:** Read the assignments carefully, go through the Units on which they are based. Make some points regarding each question and then rearrange them in a logical order.
- 2) **Organization:** Be a little selective and analytical before drawing up a rough outline of your answer. Give adequate attention to question's introduction and conclusion.  
Make sure that:
  - a) The answer is logical and coherent,
  - b) It has clear connections between sentences and paragraphs,
  - c) The presentation is correct in your own expression and style.
- 3) **Presentation:** Once you are satisfied with your answer, you can write down the final version for submission. It is mandatory to write all assignments neatly. If you so desire, you may underlining the points you wish to emphasize. Make sure that the answer is within the stipulated word limit.

Wishing you all the best

### **ASSIGNMENT No. 1**

- Q. 1 a) Identify the various business forms and their implications for obtaining financing. **(10)**  
b) Describe the relationship between financial institutions, regulators, and markets with reference to Pakistan. **(10)**
- Q. 2 Perform the ratio analysis of any listed company; write in-depth interpretations of each ratio calculated. You are required to take past three years financial statements for the ratio analysis. (Also make line chart to show the trend of each ratio). **(20)**
- Q. 3 Su& Fun Sports Equipment must decide whether to obtain \$1,000,000 of financing by selling common stock at its current price of \$40 per share or selling convertible bonds. The firm currently has 250,000 shares of common stock outstanding. Convertible bonds can be sold for their \$1,000 par value and would be convertible at \$45. The firm expects its earnings available to common stockholders to be \$700,000 each year over the next several years. **(20)**  
a) Calculate the number of shares the firm would need to sell to raise the \$1,000,000.  
b) Calculate the earnings per share resulting from the sale of common stock.  
c) Calculate the number of shares outstanding once all bonds have been converted.  
d) Calculate the earnings per share associated with the bond financing after conversion.  
e) Which of the financing alternatives would you recommend the company adopt? Why? **20**
- Q. 4 a) Describe different types of financial risks faced by the firm. **(10)**  
b) Explain the risk management techniques used to minimize the financial risks within an organization. **(10)**
- Q. 5 a) Financial lease makes sense when the lessee faces a lower marginal tax rate than the lessor. Does this tax advantage carry over to operating lease? Discuss in detail.  
b) Ajax Finance Corporation has received a request from a customer to lease a fire truck. If the cost of the vehicle is \$ 10, 00,000, determine the monthly lease payments based upon the following parameters: **(20)**  
• Lease term – 5 years  
• Interest rate – 10%  
• Estimated salvage value at the end of the lease - \$5, 00,000.

## ASSIGNMENT No. 2

**Marks: 100**

### *Instructions:*

1. This assignment is a research-oriented activity. You are required to develop a term paper and submit to the tutor for evaluation prior to the final examination. The last date of this assignment will be notified separately by our directorate of regional services and the same will be communicated to you directly as well as through approved study centres assigned to you.
2. You will have to participate in the activity fully, actively, and practically to be eligible to sit in the final examination of the course. Please send one copy of this assignment to COL MBA/MPA Programme office, Department of Business Administration, Block No. 11, Allama Iqbal Open University, Sector H-8, Islamabad.
3. For the preparation of this assignment, you should first thoroughly review the conceptual framework of the topic and develop a scholarly material of the same giving references, quotations, and extracts of various scholars and experts. Then visit any business/commercial organization and study the relevant practical aspects there. Combining the theoretical and practical aspects, develop a comprehensive paper consisting of at least 20 to 25 typed pages to be submitted to your tutor.
  - a) Introduction to the topic
  - b) Important sub-topics
  - c) Practical study of the organization with respect to the topic
  - d) Review of theoretical and practical situations, merits, de-merits deficiencies or strengths of the organization with respect to the topic under study.
  - e) Conclusion and recommendation
  - f) Annex, if any
4. Prepare a copy of this assignment and submit to your tutor for your evaluation.
5. You should add any illustrative material/data/tables/analysis for effective submission.
6. If you fail to submit this assignment in the class, then you will not be able to sit in the final examination conducted by AIOU.
7. A number of topics given below are the general aspects of the course and you are required to select one of the topics according to the last digit of your roll number. For example, if the roll number is N-9337241, you will select topic number 1, and if the roll number is O-3427185 then you will select topic number 5 (the last digit).
  1. Goal of Corporate Financial Management
  2. Impact of Market and the Corporation
  3. Financial Statement and Long-Term Financial Planning
  4. Capital Investment Decision
  5. Present and Future Values of Multiple Cash Flows
  6. Valuing Stock and Bonds
  7. Investment Criteria

8. Security Market Line and Return, Risk.
9. Short Term Finance and Planning
0. Global impacts on corporate financing activities in Pakistan

## **COPORATE FINANCE (5585)**

### **COURSE OUTLINES**

#### **Block 01: The Financial System and the Economy**

##### **Objectives and Introduction**

Introduction: Finance

##### **Forms of a Business Organization**

- Sole Proprietorship
- Partnership
- Corporations
- Summary – Forms of Business

##### **Role of the Financial Manager**

- Finance and Accounting
- Finance and Economics

##### **Goals of an Organization**

- Profit Maximization
- Maximization of Shareholder Wealth
- Agency Problem and Control

##### **Financial Institutions, Markets, and Regulation**

- Financial Institutions
- Financial Markets
- Primary vs. Secondary Markets
- The Capital Market
- The Canadian Security Exchanges

#### **Block 02: Financial Modelling**

##### **Objectives and Introduction**

Introduction: Financial Modelling

##### **Financial Ratio Tools.**

- Liquidity Ratios
- Activity Ratios
- Leverage (Debt Ratios).
- Profitability Ratios
- Market Ratios
- Shareholder Value and the DuPont Identity

### **Cash Flow Budget**

- Cash Receipts
- Cash Disbursements

### **Financial Projections/Pro Forma Statements**

- Pro Forma Income Statement
- Pro Forma Balance Sheet

### **Block 03: Leasing**

Introduction: Leasing

#### **Operating versus Financial Leases**

- Examples of Accounting for Operating and Financial Leases
- *Operating Lease*
- *Financial Lease*

#### **Determining the Magnitude of Lease Payments**

#### **Tax Treatment of Leases**

#### **Lease or Buy?**

- Advantages of Leasing
- Disadvantages of Leasing

### **Block 04: Derivatives and Hybrids**

#### **Objectives and Introduction**

Introduction: Derivatives and Hybrids

#### **Convertible Securities**

- Features of Convertible Securities
- Why Issue Convertible Securities?
- Determining the Value of a Convertible Bond

#### **Stock Purchase Warrants**

- Determining the Value of a Warrant
- Implied Value of a Warrant
- Theoretical Value of a Warrant
- Warrants and Leverage
- Example of a Warrant Issue

#### **Options**

- Option Gains/Losses
- Gains/Losses on Call Options
- Gains/Losses on Put Options
- Why are Options Purchased/Sold?

## **Block 05: Managing Financial Risk**

Introduction: Managing Financial Risk

### **Financial Risk**

- Risk Avoidance
- Loss Prevention and Control
- Risk Retention
- Risk Transfer

### **Hedging and Insurance**

- Hedging vs. Insurance Example

### **Hedging Tools**

- Hedging Using Forward and Futures Contracts
- Terminology of Forward Contracts
- Swap Contracts – for Currency and Interest Rates
- Hedging by Matching Assets to Liabilities
- Matching Example
- Interest Rate Caps

## **Block 06: Mergers and Acquisitions**

Introduction: Mergers and Acquisitions

### **Building the Business Case for an Acquisition or Merger**

- Additional Revenue
- Cost Savings
- Tax Savings
- Reduction in Fixed and Working Capital

### **Legal Structure**

- Sample Merger - TCPL Merger with Nova
- Acquisition with Share/Cash or a Mixture Thereof
- Asset Purchase: An Alternative to Acquiring Shares

### **Taxes and Acquisitions**

### **Accounting for Mergers and Acquisitions**

### **Structuring the Purchase Consideration**

- Example: X takes over Y, making it a wholly owned subsidiary
- Case A: Cash Acquisition
- Case B: Share Acquisition
- Considerations in Choosing Cash versus Stock

### **Defensive Strategies**

**Going Private and Leveraged Buyouts**  
**International Mergers**

**Block 07: International Managerial Finance**

Introduction: International Financial Management

**Borderless Trading**

World Trade Organization (WTO)

**The International Organization**

- Taxation
- Accounting

**Risk**

- Political Risk
- Exchange Risk

**Financing Decisions**

**Impact on Capital Projects**

**Personnel and Management**

***Recommended book:***

*Title: Principals of Corporate Finance*

*Author: Richard A. Brealey and Stewart C. Myers.*

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