

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

CORPORATE FINANCE (5585)

CHECKLIST

SEMESTER: SPRING, 2014

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:

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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: Spring, 2014

Level: Executive MBA/MPA

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.

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.

ASSIGNMENT No. 1

- Q.1 a) Explain why wealth maximization as opposed to profit maximization should be the goal of the firm. (10)
- b) Describe the relationship between financial institution, regulators and markets. (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 five year financial data from the financial statements for the ratio analysis. (Also make line chart to show the trend of each ratio). (20)
- Q.3 Hyperion Limited leases an executive jet for two years at a monthly rental of \$75,000. The leased jet has a fair market value of \$9 million and an estimated remaining service life of 15 years. There is no bargain purchase option contained within the lease. The lease runs from January 1, 2002 to December 31, 2003. Discuss the impact of the aircraft lease on the income statement of Hyperion for the fiscal year ended on December 31, 2002. (20)
- Q.4 Describe financing options beyond the stocks and bonds. What factors contribute to the pricing of these securities? (20)
- Q.5 As an organization expands its operations into different countries there is an increase in political risk as there are more levels of government to deal with and varying government regulations and policies. It is important that a company understand the risk that exists in all countries they operate in. Critically comment on this statement with the help of examples. (20)

ASSIGNMENT No. 2

Total 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 centers 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.
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).

List of topics

1. Advantages and Disadvantages of lease
2. Capital Investment Decision
3. Features of convertible Securities
4. Hedging vs. Insurance with Examples
5. Impact of globalization on Corporate Financing Activities in Pakistan
6. Mergers and Acquisitions with Examples of Pakistan
7. Security Market Line and Return, Risk
8. Short-term Finance and Planning
9. Types of financial Risks
10. Valuing Stock and Bonds

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.