

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

**FINANCIAL MANAGEMENT (562)**

**CHECKLIST**

**SEMESTER: SPRING, 2014**

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:

The Mailing Officer  
Mailing Section, Block No. 28  
Allama Iqbal Open University  
H-8, Islamabad  
Phone: 9057611-12

Ms. Nadia Rashid  
(Course Coordinator)

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD**  
(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**

**Course: Financial Management (562)**

**Semester: Spring 2014**

**Level: MBA**

**Total Marks: 100**

**Pass Marks: 40**

- Q. 1 Discuss in detail the role of financial markets in moving funds from the savings sector to the investment sector of Pakistan. **(20)**
- Q. 2 (a) Mahir Co. has total annual sales (all credit) of Rs.800,000 and a gross profit of 40 percent. Its current assets are Rs.160,000, Current liability are Rs.120,000, Inventories are Rs.60,000 and Cash are Rs.20,000.
- (i) How much average inventory should be carried if management wants the inventory turnover to be 8?
- (ii) How rapidly must accounts receivable be collected if management wants to have an average of Rs.100,000 invested in receivables? **(10)**
- (b) Discuss in detail the benefits that can be derived by the firm from preparing cash flow statement of a year. **(10)**
- Q. 3 Ahmed has decided to start saving for his retirement. Beginning on his twenty-first birthday, he plans to invest Rs.2,000 each birthday into a savings investment earning a 7 percent compound annual rate of interest. He will continue this savings program for a total of 10 years and then stop making payments. But his savings will continue to compound at 7 percent for 35 more years, until he retires at age 65. Rohila also plans to invest Rs.2,000 a year, on each birthday, at 7 percent, and will do so for a total of 35 years. However, she will not begin her contributions until her thirty-first birthday. How much will Ahmed's and Rohila's savings programs be worth at the retirement age of 65? Who is better off financially at retirement, and how much? **(20)**
- Q. 4 (a) The stock of Health Corporation is currently selling for Rs.20 a share and is expected to pay Rs.1 dividend at the end of the year. If you buy the stock now and sell it for Rs.23 after receiving the dividend, what rate of return you would earn? **(8)**
- (b) Ravi Industries bond has a 12 percent coupon rate and Rs.1,000 face value. Interest is paid on annual basis, and the bond has 10 years to maturity. If

investors require a 14 percent yield, what is the bond's value? What is the effective annual yield on the bond? (12)

Q. 5 Consider the following information:

| State of Economy | Probability of State of Economy | Rate of Return if state occurs |      |      |
|------------------|---------------------------------|--------------------------------|------|------|
|                  |                                 | A                              | B    | C    |
| Recession        | 0.25                            | 0.06                           | 0.05 | 0.20 |
| Normal           | 0.30                            | 0.11                           | 0.09 | 0.11 |
| Boom             | 0.45                            | 0.21                           | 0.14 | 0.35 |

- (a) What is the expected return on an equally weighted portfolio of the se three stocks? (12)
- (b) What is the variance of a portfolio invested 40 percent each in Stock A and Stock C, and 20 percent in Stock B. (8)

### **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 in the following way:

- 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. The student 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-oriented 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 give 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 roll number</b> |
|--------------|--------------------------------------|
| 1            | 2,5                                  |
| 2            | 1,4                                  |
| 3            | 3,6                                  |
| 4            | 7,9                                  |
| 5            | 0,8                                  |

**Topics:**

1. Functions of Financial Management
2. Ratio Analysis of Financial Statements of a Corporation
3. Cash Management by a Firm
4. Application of Risk and Managerial Options for an Investment Project by a Company
5. Dividend Policy of a Firm

**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. Conclusion (one page brief covering important aspects of your report)
8. Recommendations (specific recommendations relevant to issue assigned)
9. References (as per APA format)
10. 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 do that until you are confident enough. Some people also use a mirror when rehearsing as a substitute for an audience.

**WEIGHTAGE OF THEORY & PRACTICAL ASPECTS IN ASSIGNMENT # 2 & WORKSHOP PRESENTATIONS:**

Assignment # 2 & workshop presentations are evaluated on the basis of theory & its applicability. The weightage of each aspect would be:

|   |     |
|---|-----|
| Theory  | 60% |
| Applicability (practical study of the organization) | 40% |

**FINANCIAL MANAGEMENT (562)**

**Course Outline**

**Credit Hours: 03**

**Unit 1: Introduction to Financial Management**

- 1.1 The Role of Financial Management
  - 1.1.1 Defining financial management
  - 1.1.2 Goals of 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 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 Distribution 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
  - 5.1.1 Working capital
  - 5.1.2 Financing current assets: Short-term and long-term mix
  - 5.1.3 Combining liability structure
- 5.2 Cash and Marketable Securities Management
  - 5.2.1 Motives for holding cash
  - 5.2.2 Speeding up cash receipts
  - 5.2.3 Slowing down cash payment
  - 5.2.4 Electronic commerce
  - 5.2.5 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 the 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 the 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
  - 8.2.3 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
  - 9.2.1 Term loans
  - 9.2.2 Equipment and lease financing
  - 9.2.3 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). *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.

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