

# Corporate finance course notes



**ASSIGN  
BUSTER**

**COURSE OBJECTIVE** The course is aimed at to develop in-depth understanding of Finance function of a corporation and build capacity to apply theory in real world situations. The course will present the ‘ Big Picture’ of Corporate Finance so that students understand how things fit together. After successfully completing the course, students should be able to take optimal decisions in a corporate setting, when working as professionals in the field. **COURSE OUTLINE** Introduction to Corporate Finance: Financial Management; Corporate Finance; Corporate Finance vs.

Financial Management; Differences between ‘ Finance’ and ‘ Accounting’; Investment, Financing, and Dividend decisions Role of Financial Management: Goals of a Firm; Profit Maximization Approach vs.

Shareholders' Wealth Maximization Approach; Time Value of Money and Uncertainty; Agency Problem; Social Responsibility Business Environment, Taxes, and Financial Environment: Forms of Business Organizations; Financial Instruments; Money Market and Capital Market Instruments; Financial Intermediaries; Financial Risk and Return

Concepts in Valuation / Time Value of Money: Present Value vs. Future Value; Simple Interest vs. Compound Interest; Annuities vs. Simple Compounding and Discounting; Future Value of an Ordinary Annuity and Annuity Due Concepts in Valuation: (Continued) Present value of an ordinary annuity and annuity due; Amortization and perpetuity; Concept of nominal rate of interest and effective rate of interest; Problem solving Valuation of Long-term Securities: Bonds; types of bonds; characteristics of bonds; Zero coupon bond vs. on-zero coupon bond; Perpetual bond; Perpetuity vs. Perpetual bonds Valuation of Long-term Securities: (Continued) Preferred stock;

Features of Preferred Stock; Valuation of Preferred Stock; Common Stock; Features of Common Stock; Dividend Discount Models; No-growth Model; Continuous (constant) Growth Model Valuation of Long-term Securities: (Continued) Supernormal growth to constant growth model; Concept of yield to maturity (YTM); Difference between yield to maturity and yield to call; YTM of bonds, Preferred Stock, and Common Stock

Risk and Return: Defining risk and return; using probability distribution to measure risk, expected risk and standard deviation Risk and Return: (Continued) Coefficient of Variation; Risk and Return in a portfolio context; Questions and problems from chapter Financial Ratio Analysis and Financial Planning: Financial Statements; Why analysis of financial statements; Different methods of doing the analysis; Ratio analysis - liquidity ratios, debt or leverage ratios; Questions and problems

Financial Ratio Analysis and Financial Planning: (Continued) Profitability Ratios; Activity ratios; Questions and Problems Financial Ratio Analysis and Financial Planning: (Continued) Working Capital Management; Questions and problems relating to Working Capital Management Financial Ratio Analysis and Financial Planning: (Continued) Common Size Analysis; Index Analysis; Questions and Problems Financial Ratio Analysis and Financial Planning: (Continued) Problems relating to ratios, index, and common size analysis Funds Analysis, Cash Flow Analysis and Financial Planning:

Flow of funds; Sources and uses of funds; Cash Flow Statement; Sources and uses of funds; Cash flow statement by using the indirect method Funds Analysis, Cash Flow Analysis and Financial Planning: (Continued) Cash flow

statement by using direct method; Difference between the direct method and the indirect method of cash flow statements Funds Analysis, Cash Flow Analysis and Financial Planning: (Continued) How to adjust the non-cash entries in the cash flow statement; Adjustment of depreciation; Questions and problems Making Capital Investment Decisions:

What is capital budgeting; Cash budgeting vs. Capital budgeting; Capital budgeting techniques; Payback period method, Accounting Rate of Return (ARR), Advantages and Disadvantages of Payback and ARR method for capital budgeting Making Capital Investment Decisions: (Continued) Discounted capital budgeting techniques; Net present value method vs. Internal Rate of return method of capital budgeting; Questions and problems Making Capital Investment Decisions: (Continued) Profitability Index (PI); PI advantages and disadvantages; Mutually exclusive and independent projects; Questions and problems

Risk and Real Options in Capital Budgeting: Capital budgeting decisions; Calculations of expected and standard return when projects are dependent; independent, firm portfolio approach; managerial options; options to expand; abandon; postponed Theory of Capital Structure: What is Capital Structure? Capital structure determination; Theories to capital structure; Net Income Approach; Net Operating Income Approach Theory of Capital Structure: (Continued) Modigliani Miller approach to Capital Structure Theory; Traditional approach to Capital Structure Theory. Questions and problems

Dividends and Share Repurchase Decisions: Procedural Aspects of Paying Dividends; Theories of Dividend Payment; MM Approach, etc. ; Dividend

Payout Irrelevance; Arguments for Dividend payout mattering Cash and Marketable Securities Management: Motives for Holding Cash; Speeding-up Cash Receipts; Outsourcing; Cash Balance to Maintain; Investment in Marketable Securities; Slowing Down Cash Payment; Questions and Problems Lease financing and Financial Markets: Features of a Lease; Accounting and Tax treatment of Leases; Returns to the Lessors, After Tax Analysis of Lease vs. Buying Option