

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

FINANCIAL MANAGEMENT (191)

CHECKLIST

SEMESTER: AUTUMN, 2013

This packet comprises the following material:

1. Text Books (one)
2. Course Outline
3. Assignment No. 1 and 2
4. Assignment Forms (2 sets)
5. Schedule for submitting the assignments.

Please contact at the address given below, if you find anything missing in the packet.

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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".**

Note: Prepare your assignment as per the guidelines and it may be re-evaluated by the Quality Assurance Cell, Department of Business Administration at any time.

Course: Financial Management (191)
Level: BBA

Semester: Autumn 2013
Total Marks: 100
Pass Marks: 40

ASSIGNMENT No. 1
(Units: 1–4)

- Q. 1 Discuss in detail the decisions that a financial manager has to take regarding the financial matters of a corporation. **(20)**
- Q. 2 (a) Saarim is looking into an investment that will pay him Rs.10,000 per year for the next 5 years. If he requires a 10 percent return, what is the most he would pay for this investment? **(10)**
- (b) Fared Corp. bond carries 6 percent coupon paid semi-annually. The par value is Rs.1,000 and the bond mature in five years. If the bond currently sells for Rs.912, what is the yield to maturity? **(10)**
- Q. 3 Write a detail note on the functioning of efficient financial markets. **(20)**
- Q. 4 Consider the following information:

State of Economy	Probability of state of Economy	Return if state occurs		
		Stock X	Stock Y	Stock Z
Boom	0.20	0.30	0.45	0.33
Good	0.40	0.12	0.10	0.15
Poor	0.30	0.01	-0.15	-0.05
Bust	0.10	-0.06	-0.30	-0.09

Required:

- (a) Calculate the expected return and standard deviation of each stock. **(12)**
- (b) Suppose the portfolio is invested 30 percent each in Stock X and Stock Z, and 40 percent in Stock Y, what is the expected return of the portfolio? **(08)**

- Q. 5 (a) What do you mean by NPV and IRR? Give your answer with the help of illustration. (12)
- (b) What is the difference between cash dividend and stock dividend? Explain. (08)

ASSIGNMENT No. 2

(Units: 5–9)

Total Marks: 100

- Q. 1 Explain in detail the procedure that a credit officer follow for the assessment of a credit application. (20)
- Q. 2 What do you mean by financial markets? Explain in detail the financial instruments that are traded in financial markets for the purpose of long-term financing. (20)
- Q. 3 Write notes on the following with the help of suitable examples: (20)
- (a) Private placements
 - (b) Convertible securities
 - (c) Future markets
 - (d) Currency contracts
- Q. 4 What do you mean by economic exposure? Discuss the kind of economic exposure financial managers of multi-national corporations are facing in Pakistan. (20)
- Q. 5 A company has total annual sales (all credit) of Rs.600,000 and a gross profit margin of 6 percent. Its current assets are Rs.120,000; current liabilities are Rs.90,000; Inventories are Rs.75,000 and cash is Rs.15,000.
- (a) How much average inventory should be carried if management wants the inventory turnover to be 2? (10)
 - (b) How rapidly (in how many days) must accounts receivable be collected if management wants to have an average of Rs.75,000 invested in receivables? (assume 360 days per year). (10)

FINANCIAL MANAGEMENT

Course Outline (BBA-191)

UNIT 1: BASIC FOUNDATION OF FINANCIAL MANAGEMENT

- Creation of Value
- Investment Decision
- Financing Decision
- Dividend Decision Financial Management
- Valuation in financial Management
- The Time Value of Money
- Present Values
- Effective annual Interest Rate (EAR)
- Bond Returns
- The Return from a Stock Investment Dividend Discount Models
- Measuring Risk — The Standard Deviation

UNIT 2: MARKET RISK, RETURNS AND VALUATION

- Efficient Financial Markets
- Security Portfolios
- Multiple Security Portfolio Analysis and Selection
- Capital Asset Pricing Model
- Expected Return for Individual Security
- Certain Issues with the CAPM
- Multi Variable and Factor Valuation
- Extended CAPM
- Factor Models in General
- Arbitrage Pricing Theory
- Option Valuation

UNIT 3: INVESTMENT IN ASSETS AND REQUIRED RETURNS

- Principles of Capital Investment
- Methods for Evaluation
- NPV versus IRR
- Depreciation and Other Refinements in Cash-Flow Information
- Capital Rationing
- Inflation and Capital Budgeting Information to Analyze an Acquisition
- Quantifying Risk and its Appraisal
- Total Risk for Multiple Investments
- Real Options in Capital Investments

UNIT 4: FINANCING AND DIVIDEND POLICIES

- Theory of Capital Structure
- Introduction to the Theory
- Modigliani-Miller Position
- Taxes and Capital Structure
- Effect of Bankruptcy Costs
- Other Imperfections
- Financial signaling
- Making, Capital Structure Decisions
- EBIT-EPS Analysis
- Cash-Flow Ability to Service Debt
- Other Methods of Analysis
- Timing and Flexibility
- Dividend Policy: Theory and Practice
- Procedural Aspects of Paying Dividends
- Dividend Payout Irrelevance
- Arguments for Dividend Payout Mattering
- Empirical Testing and Implications for Payout
- Share Repurchase
- Stock Dividends and Stock Splits
- Managerial Considerations as to Dividend Policy

UNIT 5: LIQUIDITY AND WORKING CAPITAL MANAGMENT

- Liquid Assets and Liability Structuring
- Liquidity and Its Role
- Receivables and Inventories Liability Structure
- Management of Cash and Marketable Securities
- The Function of Cash Management
- Managing Collections and Control of Disbursements
- Electronic Funds Transfers
- Investment in Marketable Securities
- Credit and-collection Policies
- Evaluating the Credit Applicant
- Inventory Management and Control
- Uncertainty and Safety Stock
- Inventory and the Financial Manager

UNIT 6: FOUNDATIONS FOR LONGER-TERM FINANCING

- The Purchase of Financial Markets
- Nomination and Real Rates of Return
- Yield Curves and Their Use
- Pricing Default Risk off Treasuries
- Features of a Lease
- Accounting and Tax Treatment of Leases
- Return to the Lesser
- To Lease or to Buy/Borrow Decisions

UNIT 7: INVESTMENT MANAGEMENT

- Public Offering of Securities
- Selling, Common Stock through a Rights Issue
- Initial Financing
- Information Effects
- Private Placements
- Preferred Stock
- Option Financing: Warrants, Convertibles, and Exchangeable
- The Use of Warrants
- Convertible Securities
- Value of convertible Securities
- Exchangeable Debt
- Managing Financial Risk
- Derivative Securities Heading Risk
- Futures Markets
- Forward and Option Contracts
- Interest-Rate Swaps
- Currency and Commodity Contracts

UNIT 8: INTERNATIONAL FINANCIAL MANAGEMENT

- Background concept of International Financial Management
- Types of Exposure Translation Exposure Transactions Exposure
- Economic Exposure
- Currency Market Hedges
- Macro Factors Governing Exchange Rate Behavior
- Structuring International Trade Transactions

UNIT 9: TOOLS OF FINANCIAL ANALYSIS AND CONTROL

- Financial Ratio Analysis
- Liquidity Ratios
- Debt Ratios
- Coverage Ratios Profitability Ratios
- Market-Value Ratios
- Predictive Power of financial Ratios Financial Planning
- Methods of Analysis
- Source and Use of Funds
- Cash Budgeting
- Pro forms Statements
- Sustainable Growth Modeling

