

# FINANCIAL MANAGEMENT

## MEM 121

**Semester: Second**

**Credit Hr: 3**

### **General Objectives:**

- To provide the students with an understanding of the major principles of financial management and enable them to effectively contribute in the financial decision making.

### **Specific Objectives:**

Specific objectives of this course are to:

- enable the students with an understanding of the nature of financial management, financial statements and cash flows.
- familiarize the students with the financial environment in which business firms operate.
- develop analytical skills required to evaluate the financial performance.
- equip the students with the tools and techniques of capital budgeting and their application in project evaluation.
- understand the issues related to working capital management.
- familiarize the students with dividend related issues and practices.

### **Course outline:**

This course provide an overview of financial management with a special emphasis on nature of finance, financial statements and cash flows, financial analysis, time value of money, cost of capital, capital budgeting, working capital management and dividend policy.

### **Course Contents**

#### **Unit 1: Nature of financial management**

**4 hrs**

Nature of financial management, finance functions, goal of the firm, organization of the finance functions, agency relationships, business ethics, social responsibility and corporate governance.

#### **Unit 2: The Financial environment: institutions, markets, securities and interest rates**

**2 hrs**

Financial institutions, financial markets, financial instruments (corporate bonds, common stock and preferred stock), cost of money, interest rate levels and the determinants of market interest rates.

#### **Unit 2: Financial statements and cash flows**

**4 hrs**

Financial statements and reports, the balance sheet, the income statement, statement of retained earnings, statement of cash flows, modifying accounting data for managerial decisions.

#### **Unit 3: Analysis of financial statements**

**4 hrs**

Ratio analysis, liquidity ratios, assets management ratios, debt management ratios, profitability ratios, market value ratios, The Du-Pont chart and equation, index analysis, common size analysis, predictive power of ratios, uses and limitations of ratio analysis.

#### **Unit 4: Time value of money**

**4 hrs**

Time line, future value, present value, solving for interest rate and time, future value of an annuity, present value of an annuity, perpetuities and present value, uneven cash flow stream, semiannual and other compounding periods, comparison of different types of interest rates, amortized loan.

#### **Unit 5: Cost of capital**

**4 hrs**

Specific cost of capital: cost of debt, cost of preferred stock, cost of common stock, weighted average cost of capital (WACC), factors affecting weighted average cost of capital.

**Unit 6: The basics of capital budgeting****6 hrs**

Importance of capital budgeting, generating ideas for capital projects, project classifications, cash flow estimation, capital budgeting decision rules: payback period, net present value, internal rate of return, comparison between NPV and IRR, modified internal rate of return(MIRR), profitability index, NPV profiles and crossover rate, conclusion on capital budgeting methods.

**Unit 7: Working capital management****6 hrs**

Working capital terminology, alternative current assets investment policies, working capital financing policies, risk-return trade off, cash conversion cycle and working capital financing requirement, cash management: motives for holding cash, cash budget, cash management techniques, cash conversion models and investment in marketable securities, inventory management: inventory costs, inventory control systems-computerized system, just in time and outsourcing- ABC system, EOQ model, reorder point, receivables management: credit policy and its components, collection policy and aging schedule, analyzing proposed changes in credit policy.

**Unit 8: Financial Planning and Control**

Concept of financial planning, Contents of financial plan, Financial planning models.

**Unit 9: Risk and Return****4 hrs**

Return, Risk, CV and Correlation, Concept of Portfolio CAPM.

**Unit 10: Stock Valuation****4 hrs**

Common and Preferred Stock, Difference between bond valuation, Determining value, Common stock under zero, Constant and non constant growth.

**Unit 11: Dividend policy****3 hrs**

Dividend fundamentals, the relevance of dividend policy, types of dividend policies, other forms of dividends

**References:**

- Brigham, E. F., Gapenski, L. C. and Ehrhardt M. C. *Financial Management: Theory and Practice*. New Delhi: Harcourt Asia Pte. Ltd.
- Brealey, Richard A. and Stewart C. M. *Principles of Corporate Finance*. New Delhi: Tata McGraw-Hill Publishing Company Ltd.
- Gitman L. J. *Principles of Managerial Finance*. New Delhi: Addison Wesley Longman (Singapore) Pte. Ltd.
- Van Horne James C. *Financial Management and Policy*. New Delhi: Prentice Hall of India.
- Pradhan, R.S. *Research in Nepalese Finance*. Kathmandu: Buddha Academic Publishers and Distributors.
- Paudel R.B., Baral K.J., Gautam R.R. and Rana S.B. *Managerial Finance*. Kathmandu: Asmita Publication.
- Shrestha M.K. *Financial Management*. Kathmandu: Curriculum Development Centre, T.U.
- Chandra P. *Financial Management: Theory and Practice*. New Delhi: Tata McGraw Hill Publishing Company Ltd.