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

FINANCIAL MANAGEMENT (8513)

CHECKLIST

SEMESTER: AUTUMN, 2012

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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Nadia Rashid
Course Coordinator
ASSIGNMENT No. 1
Course: Financial Management (8513) Semester: Autumn 2012
Level: MBA (3½ Years) Total Marks: 100
Pass Marks: 50

Q. 1 Discuss in detail the significance of financial management’s role in the corporate sector of Pakistan. (20)

Q. 2 Critically examine the financial environment of Pakistan. Also compare it with the financial environment of India. (20)

Q. 3 Select latest five years financial statements of a public bank of Pakistan. Using Common-size and Index analysis, evaluate trends in the company’s financial condition and performance. (20)

Q. 4 (a) Prepare an amortization schedule for a ten-year loan of Rs.100,000. The interest rate is 10 percent per year, and the loan calls for equal annual payments. How much interest is paid in the third year? How much total interest is paid over the life of the loan? (10)
(b) Pearson 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? (10)

Q. 5 If the following situation is given:

<table>
<thead>
<tr>
<th>State of Economy</th>
<th>Probability of state</th>
<th>Return if state occurs</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>Stock X</td>
</tr>
<tr>
<td>Bust</td>
<td>0.25</td>
<td>-0.10</td>
</tr>
<tr>
<td>Normal</td>
<td>0.50</td>
<td>0.10</td>
</tr>
<tr>
<td>Boom</td>
<td>0.25</td>
<td>0.20</td>
</tr>
</tbody>
</table>

(a) Calculate the expected return on each stock. (15)
(b) Assuming the capital asset pricing model (CAPM) holds and stock X’s beta is greater than stock Y’s beta by 0.25, what is the expected market risk premium? (5)
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:

- 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. You 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
(Units: 1–9)                Total Marks: 100
This assignment is a research-oriented activity. Prepare a report of about 1000 words on the issue allotted to you to be submitted to your teacher for evaluation.

You are required to select one of the following issues according to the last digit of your roll number. For example, if your roll number is P-3427180 then you will select issue # 0 (the last digit):

List of Issues/Topics:
0. Critically examine the current tax environment of Pakistan. Also give a comprehensive theoretical background of the topic.
1. Select a manufacturing company of your choice and critically examine its inventory and management control system in detail.
2. Select any financial institution. Discuss in detail the structure and functions of finance department of selected institution in terms of reporting lines.
3. Select any bank of your choice operating in Pakistan. Discuss in detail the procedure of cash management in it.
4. Select any bank that operates in Pakistan. Discuss its procedure for analyzing the credit applicant. Give a comprehensive theoretical background of the topic and then analyze its practical application in an organization selected by you.
5. Discuss in detail various working capital issues faced by the financial managers of a merchandising organization operating in Pakistan. Also give the theoretical background of the topic.
6. Discuss with examples various project evaluation methods used by an investment company for evaluating a project’s future worth.
7. Select any two corporations listed on stock exchange. Calculate latest two years financial ratios of both corporations. Give calculations and analytical comments with each year’s ratio. Also make the comparison between the financial ratios of both corporations.

8. Higher risk gives more return, but it also leads to financial collapse. Thus, it is the management of risk that results in handsome return. Give a comprehensive theoretical background of the topic and then analyze its practical application in an organization selected by you.

9. Critically examine the features of various common money market instruments available in corporate sector of Pakistan. Also give theoretical background of the topic.

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:

<table>
<thead>
<tr>
<th>Theory</th>
<th>60%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Applicability (practical study of the organization)</td>
<td>40%</td>
</tr>
</tbody>
</table>

FINANCIAL MANAGEMENT (8513)
Course Outline

Unit 1: Introduction to Financial Management
1.1 The Role of Financial Management
   1.1.1 Defining Financial Management
   1.1.2 Goal of the 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 The 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 The 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 Distributions 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 Issues
      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 Payouts
      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-Tex 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 the 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
8.2.4 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
9.3.1 Term Loans
9.3.2 Equipment and Lease Financing
9.3.3 Lease Financing vs. Debt Financing

Recommended Books:
