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|  **Course Outline****Department of Accounting, Finance, and Law****Bob Gaglardi School of Business and Economics** |

 **FNCE 2120-07 (3,0,0)**

**Financial Management**

**Fall, 2024**

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| Instructor:  | Phone:  |
| Office:  | E-mail:  |
| Office Hours: |

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**Calendar Description**

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| Students develop a basic understanding of business finance that deals with how organizations effectively manage their operating and fixed assets and fund them with an optimal mix of debt and equity financing. Topics include the role of the financial manager; goals of the firm and agency costs; time value of money; financial statement analysis; capital budgeting; risk and return including the capital asset pricing model; common and preferred share valuation; bond valuation and interest rates; financial markets, institutions, and instruments; cost of capital; and optimal capital structure. |

**Educational Objectives/Outcomes**

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| Upon completion of this course, students will be able to:1. Explain the importance of share price maximization and how it is influenced by agency costs.
2. Solve business problems using time value of money concepts.
3. Examine the performance of an organization using different financial statement analysis tools.
4. Evaluate the financial viability of new projects employing various capital budgeting techniques.
5. Demonstrate how risk is incorporated into the calculation of an asset’s required rate of return.
6. Value the stocks and bonds issued by companies to finance their operations.
7. Employ yield curves to estimate spot and forward interest rates.
8. Describe the markets, institutions, and instruments used to raise debt and equity financing.
9. Calculate the appropriate cost of capital in different investment scenarios.
10. Determine a company’s optimal capital structure.
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**Prerequisites**

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| At least three credits of university English or Communications with a minimum C-; MATH 1070 or equivalent with a minimum C-; ACCT 2210 or equivalent with a minimum C-; ECON 2320 or equivalent with a minimum C-Note: Students cannot receive credit for more than one of FNCE 2120, FNCE 2121 or FNCE 3120. |

**Co-requisites**

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| None |

**Texts/Materials**

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| OER Modules  Introduction to Financial Management Time Value of Money Financial Statement Analysis Maturity Matching Capital Budgeting Risk and Return and Stock Valuation Bond Valuation and Interest Rates Cost of Capital Optimal Capital Structure |

**Student Evaluation**

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| The evaluation consists of:Quizzes (9) - 20%Cases (2) - 25%Mid-term (1) - 15%Final exam (1) - 40%Ten percent of the total weightings for the course will be moved from the mid-term exam to the final exam if it increases a student’s final grade. Students must pass the final exam (i.e. 50% or higher) to receive a passing grade for the course. QuizzesQuizzes help ensure that students are thoroughly familiar with the readings in each module. They cover the readings only and NOT the learning problems on the mid-term and final exams.  Students should thoroughly study the readings to prepare for the quiz.  Quizzes are 20 minutes long and contain 30 randomly selected true/false questions.  Questions are primarily qualitative, except for the Time Value of Money quiz. In this quiz, students are given 30 minutes to complete 10 short numerical problems.Students can open a quiz anytime between 6:00 AM and 11:59 PM on the date designated in the course outline, and it will close automatically after 20 or 30 minutes.  Once a question is answered, students cannot change their responses. Quizzes are "closed book," meaning course materials and other sources cannot be referenced during the quiz.  Students must not receive assistance from anyone while taking the quiz. If a student misses a quiz, they will not be given a re-test and will receive a grade of zero. Each quiz is delivered online through Moodle.  Links to the quizzes are in the quizzes section of the Moodle site.  A practice quiz is provided that should be completed before each actual quiz, so students are familiar with how the Moodle quiz feature works.Case StudiesCase 1 Financial Statement AnalysisCase 2 Capital Budgeting and Cost of CapitalCases are completed in groups of two students.  They are distributed through Moodle, and responses are submitted using a Moodle drop box.  A grade of zero will be given for late submissions unless permission is received in advance from the instructor.  Student instructions are provided for each case.  Each group member is expected to contribute equally to the joint submission.  A group member who feels their partner is not making an equal contribution should discuss it with them.  If the problem is not rectified, they should contact the instructor, who will take appropriate action, including assigning that person a grade of zero for the case. Mid-term ExamA 90-minute mid-term exam is scheduled during regular class time. The exam consists of qualitative and numerical problems similar to the learning problems at the end of each module. A formula sheet is provided before the exam, which will be included in the exam.  Any student who misses the mid-term without the instructor’s prior permission will receive a grade of zero.  Illness and family emergencies are generally the only acceptable reasons for missing a midterm, and a substitute exam will be administered in these cases.  A scientific or financial calculator may be used during the exam.  Translators or other electronic devices, such as cell phones, are not permitted.Final ExamA three-hour comprehensive final exam is scheduled during the regular exam period.  The exam consists of qualitative and numerical problems similar to the learning problems at the end of each module. A formula sheet is provided before the exam, which will be included with the final exam. Any student who misses the final exam without the instructor’s prior permission will receive a grade of zero.  Illness and family emergency are generally the only acceptable reasons for missing a final exam and a substitute exam will be administered in these cases.  A scientific or financial calculator may be used during the exam.  Translators or other electronic devices, such as cell phones, are not permitted.   |

**Course Topics**

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| 1. Introduction to Financial Management
* Finance discipline
* Financial management
* Investments and portfolio management
* Finance function in the organization
* Professional designations in finance
* Goals of the firm and agency costs
* Reducing agency costs
* Corporate governance
* Executive and director compensation
* Financial reporting
* Personal and corporate income taxes
* Personal tax brackets and rates
* Taxation of dividends versus capital gains
* Capital cost allowance
* Loss carrybacks and carryforwards
* Investment tax credits
* Foreign tax credits
1. Time Value of Money
	* Future value and compounding
	* Present value and discounting
	* Annuities and perpetuity
	* Growing annuity or perpetuity
	* Types of loans
		+ Discount loans
		+ Interest only
		+ Amortized
		+ Goal Seek function in Excel
		+ Predefined future value and present value functions in Excel
2. Financial Statement Analysis
	* Ratio analysis
		+ - Liquidity ratios
			- Activity or asset management ratios
			- Solvency or long-term debt-paying ability ratios
* Coverage ratios
* Leverage ratios
	+ - * Profitability ratios
	+ In relation to sales
	+ In relation to investment
* Effects of financial leverage
* 3-way and 5-way analysis of return on equity
* Segmented reporting
	+ - * Market valuation ratios
* Vertical analysis using common-sized financial statements
* Horizontal analysis using common-sized financial statements
	+ Cash flow analysis
	+ Cash flow statement analysis
	+ Cash flow-based financial ratios
	+ Manipulation of financial statements
	+ Industry average ratios and limitations
1. Maturity Matching
* Rationale for matching the maturity of assets and liabilities
* Restrictive, flexible and compromise maturity matching policies
* Mismatching the average terms of long-term assets and liabilities
* Maturity matching in practice
* Temporary financing
* Trade credit
* Commercial line of credit
* Permanent financing
* Commercial mortgage loans
* Term loans
* Revolving credit facilities
1. Capital Budgeting
	* Capital budgeting process
	* Capital budgeting methods and their limitations
		+ Payback
		+ Discounted payback
		+ Internal rate of return
		+ Net present value
	* Complex net present value analysis
		+ Standalone and replacement projects
		+ Initial costs and residual values
		+ Changes in net working capital
		+ Tax shield from Capital Cost Allowance (CCA)
		+ Estimating incremental/relevant cash inflows and outflows
			- Sunk costs, opportunity costs, side effects and financing costs
2. Risk and Return and Stock Valuation
* Diversification
* Non-diversifiable, systematic, or market risk
* Asset classes and correlation coefficients
* Capital asset pricing model
* Beta
* Risk-free rate
* Market risk premium
* Holding return components
* Dividend yield
* Capital gains yield
* Stock valuation
* Definitions of value
* Market value
* Fair market value
* Intrinsic value
* Income approach
* One-stage, two-stage, three-stage dividend discount model
* Market multiples approach
* Comparing P/E, P/S, P/BV multiples
* P/E benchmark multiples
* Comparable companies
* Historical average multiples
* Estimating EPS
* Trailing and leading EPS
* Raising equity capital
* New venture financing
* Self-funding
* Crowdfunding
* Angels, incubators, accelerators
* Venture capital
* Private equity placements
* Advantages and disadvantages of going public
* Public equity placements
* Secondary market
* Stock exchanges
* Trading floors
* Role of a specialist or market maker
* Electronic trading
* Electronic communication network (ECN)
* Stock market reporting
* Stock indexes
* Market-capitalization weighted, equal-weighted, and price-weighted indexes
* Characteristics of common and preferred shares
* Choosing between preferred shares and debt
* Efficient market hypothesis
* Strong form efficiency
* Semi-strong form efficiency
* Weak form efficiency
1. Bond Valuation and Interest Rates
* Bond valuation
* Valuing a straight bond
* Premiums, discounts, par value
* Bond quotes and yields
* Current yield
* Yield to maturity
* Floating rate, zero-coupon, deep discount bonds
* Interest rate risk
* Re-investment risk
* Corporate bond features
* Interest rate and currency
* Bond indenture and protective covenants
* Bond sinking fund
* Collateral
* Subordination
* Credit rating
* Callable bonds
* Convertible bonds
* Corporate bond market
* Public placement
* Private placement
* Over-the-counter market
* Interest rate components
* Shape of the yield curve
* Explaining the shape of the yield curve
* Liquidity premium theory
* Segmentation theory
* Expectation theory
* Interest rate forecasting using the yield curve
1. Cost of Capital
* Weighted average cost of capital (WACC)
* Valuing a business from the firm and equity perspectives
* Book, market value, and target capital structure weights
* Cost of common equity
	+ Capital asset pricing model (CAPM)
	+ Implied cost of common equity
	+ Treasury spread
	+ Cost of debt
	+ Implied cost of debt
	+ Treasury spread
	+ Cost of preferred shares
	+ Implied cost of preferred shares
	+ Incorporating issuance costs
	+ Weighted marginal cost of capital
	+ Divisional cost of capital
	+ Adjusting for project risk
1. Optimal Capital Structure
* Definition of optimal capital structure
* Business risk
* Sales risk
* Operating risk and cost structure
* Degree of operating leverage
* Financial risk
* Degree of financial leverage
* Degree of combined leverage
* Tradeoff between business risk and financial risk
* Determination of the optimal capital structure
	+ Industry average ratios
	+ Worst-case scenario
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**Course Schedule**

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| **Week** | **Module** | **Evaluation** |
| September 1-7**(September 2 - Labour Day)** | Introduction to Financial Management | None |
| September 8-14 | Time Value of Money | Quiz 1 – Intro to Financial ManagementFriday, September 13 |
| September 15-21 | Financial Statement Analysis | Quiz 2 – Time Value of MoneyFriday, September 20 |
| September 22-28 | Financial Statement Analysis |  |
| September 29-October 5**(September 30 - National Day for Truth and Reconciliation)** | Maturity Matching | Quiz 3 – Financial Statement AnalysisFriday, October 4 |
| October 6-12 | Maturity Matching | Quiz 4 – Maturing MatchingFriday, October 11 |
| October 13-19**(October 14 – Thanksgiving)** | Capital Budgeting | Case 1 Due – Financial Statement AnalysisSaturday, October 19 |
| October 20-26 | Capital Budgeting | Mid-term examTuesday, October 22 |
| October 27-November 2 | Risk and Return and Stock Valuation | Quiz 5 – Capital BudgetingFriday, November 1 |
| November 3-9**(November 7-8 - Mid-term Break)** | Bond Valuation and Interest Rates | Quiz 6 – Risk and Return and Stock ValuationFriday, November 8 |
| November 10-16**(November 11 – Remembrance Day)** | Cost of Capital | Quiz 7 – Bond Valuation and Interest RatesFriday, November 15 |
| November 17-23 | Optimal Capital Structure | Quiz 8 – Cost of Capital |
| November 24-November 30 | Optimal Capital Structure | Quiz 9 – Optimal Capital StructureFriday, November 29Case 3 Due – Capital Budgeting, Cost of CapitalFriday, November 29 |

**Honour Code**

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| SOBE’s honour code states:As a Gaglardi School of Business and Economics student at Thompson Rivers University, I promise to act honestly, ethically, and with integrity. I accept responsibility for my actions. I will not cheat, plagiarize, or condone such behaviour in others. |

**Academic Integrity**

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| TRU Policy ED 5-0 Academic Integrity outlines the different types of infractions and the enforcement mechanisms used by the university. All students are encouraged to familiarize themselves with this policy to avoid a violation. |

**Grading**

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| TRU Policy ED 3-5 Grading Systems describes the grading system to be followed in all courses at TRU to help ensure the comparability of grades across campus. Letter grades do not become official until they are approved by the Chairperson responsible for the course, and they subsequently appear on the student’s transcript. For an undergraduate course, the letter grade system is:

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| **Letter Grade** | **Numerical Grade** | **Grade Points** | **Letter Grade Definitions** |
| A+AA- | 90-10085-8980-84 | 4.334.003.67 | Excellent. Superior performance showing a comprehensive, in-depth understanding of the subject matter. Demonstrates initiative and fluency of expression. |
| B+BB- | 77-7973-7670-72 | 3.333.002.67 | Very Good. Clearly above average performance with knowledge of principles and facts, generally complete with no serious deficiencies. |
| C+C | 65-6960-64 | 2.332.00 | Satisfactory. A basic understanding with knowledge of principles and facts is at least adequate for communicating intelligently in the discipline. |
| C- | 55-59 | 1.67 | Pass. Some understanding of principles and facts but with definite deficiencies. |
| D | 50-54 | 1.00 | Minimal Pass. A passing grade indicates marginal performance. Students are not likely to succeed in subsequent courses in the subject. |
| F | 0-49 | 0.00 | Unsatisfactory. Fail. Knowledge of principles and facts is fragmentary. |
| DNC |  | 0.00 | Did not complete the course, less than 50% of the course work completed, or mandatory course component(s) not completed. No official withdrawal. |

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**Attendance**

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| TRU Policy ED 3-5 Student Attendance states that students may be:* Removed from a course if they miss the first two classes without prior arrangements acceptable to the instructor.
* Refused admission to a course by the instructor for lateness, class misconduct, or failure to complete required work.
* Removed from a course by the instructor for deficient attendance without cause, with the permission of the instructor’s Chairperson or Dean.

This semester, your instructor will enforce the following rules:* Cell phones should be turned off and stored away during class unless authorized.
* Students are required to attend regularly.  Attendance will be taken, and those who miss more than five classes during the semester will be removed.  Students who are removed will receive a Withdrawal (“W”) on their transcript if they leave before the drop date set by TRU’s Registrar.  If they are removed after the drop date, they will receive a Did Not Complete (“DNC”).
* Students must arrive at class on time.  The instructor may allow the student to enter the classroom or deny admission if late.  In either situation, the student will be marked absent.
* The absences permitted are for any reason, including work or medical.  Students who inform their instructors of their absence before the beginning of class will still be marked absent.  Students should set a goal of zero absences and use the absences permitted for emergencies only.  Exceptions are only made for students experiencing serious medical or family issues.
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