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

**BUSN 6020-02 (3,0,0)**

**Corporate Finance**

**Summer, 2025**

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

**Calendar Description**

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| Students develop the knowledge and skills required to manage a firm’s operating and fixed assets effectively and to fund those assets with an optimal mix of short-term and long-term debt and equity financing. Topics include time value of money; goals of the firm, corporate governance and executive compensation; financial statement analysis; financial reporting quality; maturity matching; short-term financial planning; capital budgeting; risk and return and stock valuation; bond valuation and interest rates; cost of capital; capital structure; and dividend policy. |

**Educational Objectives**

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| Upon completion of this course, students will be able to:  1. Incorporate the concept of the time value of money in decision-making.  2. Defend the importance of share price maximization and progressive corporate governance and executive compensation practices to the success of a corporation.  3. Analyze an organization’s performance utilizing appropriate financial statement analysis techniques.  4. Evaluate the quality of an organization’s financial reporting and make the necessary adjustments to better reflect actual performance.  5. Assess the degree to which a company matches the maturity of its assets and liabilities and the problems that mismatching may create.  6. Develop a short-term financial plan for an organization that achieves its financial goals and objectives.  7. Conduct a capital budgeting analysis for a new project or venture.  8. Evaluate risk and incorporate it in the calculation of a required rate of return.  9. Value the bonds and shares issued by organizations.  10. Determine the appropriate cost of capital for different projects or ventures.  11. Determine the optimal capital structure of a company based on an assessment of its operational leverage and other factors.  12. Develop an appropriate dividend policy for an organization. |

**Prerequisites**

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| BUSN 5010 Managerial Statistics or equivalent, BUSN 5030 Management Accounting or equivalent, BUSN 5040 Global Economics or equivalent |

**Co-requisites**

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| None |

**Texts/Materials/Activities**

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| Introduction to Financial Management  Time Value of Money  Financial Statement Analysis  Maturity Matching  Financial Planning and Growth  Capital Budgeting  Risk and Return and Stock Valuation  Bond Valuation and Interest Rates  Cost of Capital  Optimal Capital Structure  Dividends and Dividend Policy |

**Student Evaluation**

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| The evaluation consists of:  Quizzes (11) - 20%  Cases (3) - 25%  Mid-term (1) - 15%  Final exam (1) - 40%  Students must pass the final exam (50% or higher) to receive a passing grade for the course. 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.  Quizzes  Quizzes help ensure that students are thoroughly familiar with the readings in each module. They cover the readings only and NOT the Learning Problems tested on the Mid-term and Final Exams.  Students should thoroughly study the Readings to prepare for the quiz.  Quizzes are 15 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 go back and change their responses. Quizzes are "closed book," meaning course materials and other information sources cannot be referenced during the quiz.  Students must not receive assistance from classmates or other individuals while taking the quiz. If a student misses a quiz, they will not be able to take a re-test and will receive a grade of zero. Each quiz is delivered online through Moodle. Links to the quizzes are located in the Quizzes section of the Moodle site.  Case Studies  Case 1 Financial Statement Analysis  Case 2 Short-term Financial Planning  Case 3 Capital Budgeting and Cost of Capital  Cases are completed in groups of two students; groups of one or three or more students are not allowed.  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 preparation of 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 Exam  A 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 students will be provided with during 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 Exam  A 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 students can use during the exam. Any student who misses the final exam 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 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      + Proofs of present and future value formulas      + Predefined future value and present value functions in Excel 2. Financial Statement Analysis    * Ratio analysis      + - Liquidity        - Asset management        - Solvency  * Coverage * Leverage   + - * Profitability   + Relative to sales   + Relative to investment * Analysis of return on equity sales * Segmented reporting   + - * Market valuation * Vertical analysis with 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 * Financial reporting quality * Definition of earnings quality * Earnings quality dilemma * Inflating and smoothing earnings * Revenue recognition strategies * Cost recognition strategies * Classification strategies * Warning signs of earning management * Cash flow quality * Interpreting the cash-to-income ratio * Manipulating cash flows from operations, investing, and financing  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. Financial Planning and Growth  * Rationale for financial planning * Short-term financial planning * Long-term financial planning using the percentage-of-sales method * Sustainable growth rate (SGR)  1. Capital Budgeting    * 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, and 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 future 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 * 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  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   + Weighted marginal cost of capital   + Divisional cost of capital   + Adjusting for project risk * Calculating the components of CAPM   + Risk-free rate   + Market risk premium   + Historical market risk premium   + Forward-looking market risk premium  1. Optimal Capital Structure  * Definition of optimal capital structure * Business risk * Sales risk * Operating risk and cost structure * Degree of operating leverage * Financial risk * Tradeoff between business risk and financial risk * Degree of financial leverage * Degree of combined leverage * Determination of the optimal capital structure * Minimize WACC   + Industry average ratios   + Worst-case scenario * Other factors affecting capital structure * Liquidity of collateral * Loan restrictions * No track record * Maintain a specific bond rating * Control issues * Management’s attitude towards risk * Cultural differences * Tax structure * Bond and stock market conditions * Takeover defences * State-owned or regulated enterprises * Herd effect * Industry practice  1. Dividends and Dividend Policy  * Taxation of dividends and capital gains * Types of dividends * Cash dividends, including regular, extra, and special dividends * Dividend payment dates * Dividend reinvestment plans (DRIPs) and stock purchase plans (SPPs) * Liquidating dividends, stock splits, reverse stock splits and stock dividends * Rationale and mechanics of stock repurchases * Relevance of dividend policy   + Transaction costs   + Issuance costs   + Irrational investor behaviour   + Taxes   + Agency costs   + Asymmetric information   + Bird-in-hand argument   + Financial flexibility   + Business cycle and other factors influencing the dividend decision * Dividend theories * Clientele effect * Signalling theory * Residual dividend theory * Managed dividend theory * Dividend policy in practice |

**Course Schedule**

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| **Week** | **Module** | **Evaluation** |
| Wed, May 7 | Introduction to Financial Management | None |
| Fri, May 9 | Time Value of Money | Quiz 1 – Introduction to Financial Management  Fri, May 9 |
| Wed, May 14 | Financial Statement Analysis | Quiz 2 – Time Value of Money  Wed, May 14 |
| Fri, May 16 | Financial Statement Analysis | None |
| Wed, May 21 | Maturity Matching | Quiz 3 – Financial Statement Analysis  Wed, May 21 |
| Fri, May 23 | Financial Planning and Growth | Quiz 4 – Maturity Matching  Fri, May 23  Case 1 Due by Midnight  Sun, May 25 |
| Wed, May 28 | Capital Budgeting | Quiz 5 – Financial Planning and Growth  Wed, May 28 |
| Fri, May 30 | Capital Budgeting | Mid-term Exam |
| Wed, June 4 | Risk and Return and Stock Valuation | Quiz 6 – Capital Budgeting  Wed, June 4 |
| Fri, June 6 | Bond Valuation and Interest Rates | Quiz 7 – Risk and Return and Stock Valuation  Fri, June 6 |
| Wed, June 11 | Cost of Capital | Quiz 8 – Bond Valuation and Interest Rates  Wed, June 11  Case 2 Due by Midnight  Sun, June 15 |
| Fri, June 13 | Optimal Capital Structure | Quiz 9 – Cost of Capital  Fri, June 13  Case 3 Due by Midnight  Sun, Jun 15 |
| Wed, June 18 | Dividends and Dividend Policy | Quiz 10 – Optimal Capital Structure  Wed, June 18  Quiz 11 – Dividends and Dividend Policy  Thursday, June 19 |
| Fri, June 20 | None | Final Exam |

**Honour Code**

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| SOBE’s honour code states:  As a 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 university's enforcement mechanisms. 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 graduate courses, the letter grade system is:   |  |  |  |  | | --- | --- | --- | --- | | **Letter Grade** | **Numerical Grade** | **Grade Points** | **Letter Grade Definitions** | | A+  A  A- | 90-100  85-89  80-84 | 4.33  4.00  3.67 | Excellent. | | B+ | 77-79 | 3.33 | Very Good. | | B | 73-76 | 3.00 | Good. | | B- | 70-72 | 2.67 | Marginal Pass. A passing grade indicating marginal performance. Students not likely to succeed in subsequent courses in the subject. | | F | 0-69 | 0.00 | Unsatisfactory. Fail. Knowledge of principles and facts is fragmentary. | | DNC |  | 0.00 | Did not complete the course, less than 50% of course work completed, or mandatory course component(s) not completed. No official withdrawal. | |

**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 three classes during the semester will receive a Did Not Complete (“DNC”). * Students must arrive at class on time.  If they are late, the instructor may allow the student to enter the classroom or deny admission.  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 start of class will still be marked absent.  Students should set a goal of zero absences and use the absences allowed for emergencies only.  Exceptions are only made for students experiencing serious medical or family issues. |