

**FMGT 3510 & 4510 Finance I & II**

BRITISH COLUMBIA INSTITUTE OF
TECHNOLOGY

School of Business

Program: Financial Management

Option: Accounting

Hours/Week:	4	Total Hours:	48 & 72	Term/Level:	3 & 4
Lecture:	2	Total Weeks:	12 & 18	Credits:	4
Lab:	2				

Prerequisites

1st Year Business — BCIT

Course Record

Developed by: J. Terry Gordon / Financial Management Date: August, 1998
Instructor Name and Department (Signature)

Revised by: J. Terry Gordon / Financial Management Date: January 4, 2001
Instructor Name and Department (Signature) *Terry Gordon*

Approved by: *Alfred D. Collett* Date: 8/1/01
Associate Dean / Program Head (Signature)

Course Description

The purpose of the course is to give the student an understanding of the role finance plays in business.

Corporate finance is a tool that helps managers maximize the financial performance of a company for the long-term benefit of the shareholders. In this course students learn how firms can efficiently allocate their resources and how they can raise funds to pay for those resources on as favorable terms as possible.

Course Objectives

Upon successful completion of this course, the student will be able to:

Finance 1

- Understand the conceptual framework of corporate finance and the role of the financial manager in maximizing the value of the firm. Appreciate the role corporate finance plays in enabling a firm to survive in an environment of accelerating change and competition.
- Understand the role and basic structure of the Canadian financial system.
- Understand the nature of interest rates and the relationships between interest rates, inflation, risk and foreign exchange rates.
- Understand the impact that short-term financial management policy has on the value of a firm. Measure a firm's level of liquidity by determining its cash conversion cycle. Determine a firm's optimal mix of working capital, i.e. cash, receivables, inventory and short-term debt.
- Compute the time value of money and be able to apply these techniques to solve various financial problems.
- Determine the value and yields of corporate bonds and stock. Understand the relationship between market interest rates and bond prices. Understand how actual and expected rates of return are measured and their relevance to financial management.
- Understand how risk is measured and the relationship between risk and required rates of return. Determine required rates of return using the capital asset pricing model (CAPM). Understand the strengths and weakness of the CAPM and be aware of the alternatives to the CAPM. Determine expected portfolio returns given different levels of diversification.
- Calculate a firm's weighted average cost of capital.

Finance 2

- Analyze the desirability of an investment in capital assets under conditions of certainty and risk.
- Understand how a firm raises long-term capital. Determine the best way to finance a firm through a mixture of long-term debt and and/or equity.
- Understand how corporate taxes and various transaction costs impact on the capital structure of the firm.
- Set a dividend policy that will meet the twin goals of shareholder satisfaction and asset growth.
- Calculate the potential advantages and disadvantages of leasing versus buying capital assets.
- Calculate the effects of mergers and acquisitions on the value of shareholders' investments.
- Understand the basic mechanics of options as well as calculate their value. Understand the applicability of general option concepts to other aspects of financial management.
- Analyze the effect of issuing convertibles and warrants on shareholders' investments and on the issuing company.

- Analyze financial statements and the effects of cash flows on a firm's viability. Estimate a firm's need for external financing in the near future. Prepare pro-forma financial statements given certain assumptions regarding revenue and costs and their relationship to various balance sheet accounts.

Evaluation

	<u>Finance 1</u>
Mid-term	45%
Final examination	45%
Quizzes	<u>10%</u>
Total	<u>100%</u>

Instructor

J. Terry Gordon, B.A., Dip.T. C.A., C.B.V.

Office No.: SE6 322
Phone: 451-6774
E-mail: terry_gordon@bcit.ca
Instructor web page: www.faculty.org/fp/tgordon/
Course web site: www.finman.org
Office hours: Posted on office door and above-noted instructor web page

Text and Equipment

Required:

Canadian Financial Management, Third Edition, by Alfred Davis and George Pinches.
ISBN 0-673-99331-0, Addison-Wesley Publishers

Financial calculator (Sharp EL-733A is **highly recommended**)

Recommended:

Study guide to accompany the above text is **not compulsory BUT may be useful**.

Access to a daily or weekly financial newspaper (e.g. *National Post*, *Globe and Mail*, *The Economist*) will be useful as many of our discussions in the seminars will be focused on current events in the world of finance.

Internet access for research purposes and to access the course web site.

Course Policies and Procedures

- *Course Outline Changes:* This course outline is subject to change at the discretion of the instructor. If changes are required, they will be announced in class and/or a revised outline distributed.
- *Ethics:* Acts of cheating, plagiarism and dishonesty will not be tolerated. The degree of punitive action in such cases may range from a written warning to a failing mark for the course. Penalties may also be applied to students who knowingly contribute to an act of dishonesty, cheating and/or plagiarism. (Refer to BCIT policy 5250 at www.bcit.ca/~presoff/5250.htm)
- *Makeup Exams or Quizzes:* There will be no makeup exams or quizzes. You are expected to write all exam and quizzes on the scheduled dates. If you miss a test or quiz, you will receive zero marks. Exceptions may be made for documented medical reasons or other extenuating circumstances.
- *Course web site:* The instructor maintains a course web site, which is used for the dissemination of course news, lecture outlines and other resource material. Students are encouraged to download and print the applicable lecture outlines prior to each lecture and to check the site regularly (at least weekly) for news and announcements.

Self Study Problems

Suggested self-study problems for each chapter are set out below. This homework will not be collected or marked, but it is essential that you work through the problems in order to understand the material and perform well on the exams. Time permitting, we will take up some of these problems during the seminars. For your own sake, please resist the temptation to simply look at solutions without having worked through the problems yourself.

Quizzes

A number of short quizzes will be given over the term during the "split-lab" periods. I will "throw out" your worst quiz in determining your quiz mark for the term.

Course Schedule – FMGT 3510 (Finance 1)

Week of:	Lecture Topic	Pre-read	Self study problems	Quiz
Sept. 4	Course introduction. Chapter 1: Why financial management matters?	Chapters 1 & 2	None	
Sept. 11	Chapter 2: The Financial System, Interest Rates and Foreign Exchange	Chapter 21	1.1, 1.2, 2.2, 2.3	
Sept. 18	Chapter 21: Short-term Financial Management Policy	Chapter 22	2.5, 2.6, 2.7, 2.8, 2.9, 2.10	
Sept. 25	Chapter 22: Cash and Marketable Securities	Chapter 23	21.1, 21.2, 21.6, 21.7, 21.8	Chap. 1 & 2
Oct. 2	Chapter 23: (including Appendix 23A) Accounts Receivable and Inventory	Chapter 24	22.3, 22.4, 22.5, 22.9, 22.10, 22.12, 22.13	
Oct. 9	Clean up and exam review	Exam review	23.2, 23.6, 23.7, 23.8, 23.9, 23A.2, 23A.3	Chap. 21 & 22
Oct. 16	Mid-term exam (45%) Chapters 1, 2, 21, 22, 23	None	None	
Oct. 23	Chapter 24: Short-term Financing	Chapter 3	None	
Oct. 30	Chapter 3 (including Appendix 3A): Time Value of Money.	Chapter 4	24.3, 24.4, 24.6, 24.7a, 24.8, 24.10a, 24.13, 24.14	
Nov. 6	Chapter 4: Valuation of Bonds and Stocks.	Chapter 5	3.2, 3.4, 3.9, 3.11, 3.13, 3.15, 3.17, 3.18, 3.26	Chap 24
Nov. 13	Chapter 5: Risk and Return.	Chapter 6	4.1, 4.2, 4.5, 4.8, 4.9, 4.10, 4.14, 4.11, 4.16, 4.17	
Nov. 20	Chapter 6: The Opportunity Cost of Capital.	Exam review	5.3, 5.4, 5.6, 5.7, 5.10, 5.11, 5.13, 5.15, 5.16, 5.19, 5.20, 5.22, 5.23	Chap. 4
Nov. 27	Clean up and exam review	Exam review	6.1, 6.2, 6.3, 6.4, 6.6, 6.8, 6.9, 6.11, 6.12, 6.13, 6.14, 6.15	Chap. 5
Dec. 4	FINAL EXAM (45%) on Chapters 24, 3, 4, 5 and 6			

Course Schedule - FMGT 4510 (Finance 2)

Week of	Lecture Topic	Pre-read	Seminar problems	Quiz/Project
January 1	Chapter 7: Capital Budgeting Techniques	Chapters 7 & 8	None	
January 8	Chapter 8: Application of Capital Budgeting Techniques	Chapter 9	CR 7.7, Prob 7.1, 7.4, 7.11, 7.15, 7.16, 7.17	
January 15	Chapter 9: Risk and Capital Budgeting	Chapter 10	8.1, 8.3, 8.6, 8.9, 8.11, 8.13, 8.17	
January 22	Chapter 10: Raising Long-term Funds	Chapter 11, 11A	9.2, 9.3, 9.5, 9.6, 9.8, 9.9, 9.10	Quiz: Chapters 7 & 8
January 29	Chapter 11: Liability Management	Chapter 12, 12A	10.1, 10.3, 10.4, 10.6, 10.8, 10.10, 10.11, 10.12	
February 5	Chapter 12: Taxes and Capital Structure	Chapter 13	11.1, 11.4, 11.6, 11.10, 11.11, 11A1, 11A2	Quiz: Chapters 9 & 10
February 12	Chapter 13: The Dynamics of the Capital Structure Decision	Chapter 14	12.2, 12.4, 12.6, 12.7, 12.8, 12.10, 12.12, 12.14, 12A.1, 12A.2	
February 19	Chapter 14: Dividend Policy	Chapter 15	13.2, 13.3, 13.4, 1.3.5	Quiz: Chapters 11 & 12
February 26	Clean-up and exam review	Exam review	14.2, 14.9, 14.11, 14.13, 14.14	
March 5	Mid-term Exam (45%) Chapters: 7, 8, 9, 10, 11, 12, 13, 14	None	None	
March 12	Spring Break	None	None	
March 19	Chapter 15: Leasing	Chapter 16	None	
March 26	Chapter 16: Mergers and Corporate Restructuring	Chapter 17	15.1, 15.3, 15.4, 15.6, 15.7, 15.8	
April 2	Chapter 17: International Financial Management	Chapter 18	16.1, 16.2, 16.5, 16.7, 16.11, 16.12	Quiz: Chapter 15
April 9	Chapter 18: Options	Chapter 20	17.7, 17.8, 17.10, 17.11	

Week of	Lecture Topic	Pre-read	Seminar problems	Quiz/Project
April 16	Chapter 20: Warrants and Convertibles	Chapter 25	18.1, 18.2, 18.7, 18.9, 18.11,	Quiz: Chapter 16 & 17
April 23	Chapter 25: Financial Statement Analysis	Chapter 26	20.1, 20.3, 20.7, 20.9, 20.10	
April 30	Chapter 26: Financial Planning and Forecasting	Exam review	25.1, 25.7, 25.8, 25.10	Quiz: Chapter 18 & 20
May 7	Clean-up and exam review	Exam review	26.8, 26.9, 26.10,	
May 14	Clean-up and exam review	Exam review	None	
May 21	Final Exam (45%) Chapter 15, 16, 17, 18, 20, 25, 26	None	None	

Note: This course outline is subject to change at the discretion of the instructor.

Evaluation scheme for Finance 2

Mid-term exam	45%
Final exam	45%
Quizzes (best 5 of 6)	<u>10%</u>
	<u>100%</u>