

**UNITED STATES INTERNATIONAL UNIVERSITY**

**SEMESTER:**

**FIN 3010 : PRINCIPLES OF FINANCE**

**COURSE SYLLABUS**

**DAY/TIME :**

**LECTURER :**

**CREDITS: 3 UNITS**

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**COURSE DESCRIPTION**

The application of financial principles to problems involving identification of both the needs and sources of funds, the timing, acquisition, allocation and control of usage of funds by organizations with emphasis on business enterprises.

Prerequisite: ACCT 2010.

**COURSE OBJECTIVE**

The primary objective of this course is to introduce the student to the fundamental principles of finance so as to provide a sound foundation for further studies in the area of finance. In addition the course provides the non-finance student with a basic understanding of the fundamentals of finance and its important role in the success of business organizations.

**LEARNING OBJECTIVE**

At the end of this course the student should:

- Have an understanding of the important role played by finance management of organizations;
- Be able to evaluate and assess the sources of funds, the allocation of funds and exercising control of use of funds within an organization;
- Be able to value financial assets;
- Have an understanding of the relationship between risk and return in decision-making;
- Be able to apply the basic capital budgeting techniques in investment appraisal process;
- Have an understanding of the importance of effective and efficient management of working capital – management of cash, accounts receivable and inventory – to the survival of a business firm; and
- Be able to apply the techniques of forecasting, planning and control in business management.

**COURSE CONTENT**

**WEEK 1**

**1. Nature and Scope of Finance**

- The meaning and functions of finance.
- Functions of Finance Manager
- Objectives of business firm. (Emphasis on position of finance function)
- Agency relationship.
- Types of agency problems (emphasis on shareholder management relationship)
- Resolution of Agency Problem.
- Mechanisms for resolving Agency Problem.

**WEEK 2**

**2. Sources of Funds for Business Organizations**

- Categorization of sources of funds.
- Sources of short-term funds.
- Sources of medium term funds.
- Sources of long-term funds.
- Markets for funds – Money Markets, Securities Markets, The Third Market, Foreign Currency markets.

### **WEEK 3**

#### **3. Valuation of Bonds and Stocks**

- Meaning of Bonds and Stocks.
- Types of Bonds and Stocks.
- Valuation problem and Bond Valuation model.
- Preferred Stock Valuation.
- Common Stock Valuation.

### **WEEK 4 - 5**

#### **4. Risk Measurement**

- Meaning of Risk and Return.
- Risk and Return Trade-off.
- Risk and Return and Theory of choice.
- Risk and Return Measurement.
- Portfolio Theory.
- Components of Risk.
- Capital Asset Pricing Model (CAPM) (Introduction)
- Arbitrage Pricing Model (APM) (introduction)

### **WEEK 6 - 7**

#### **5. Capital Budgeting**

- Meaning and purpose of Capital Budgeting
- Importance of Capital Budgeting.
- Steps in Capital Budgeting process.
- Traditional (conventional) Budgeting Techniques – PBT, AARR, DPBT
- Discounted Cash Flow (DCF) Budgeting Techniques - NPV, IRR, PI
- Benefits and Limitations of Budgeting Techniques.

### **WEEK 8 : MID SEMESTER EXAMINATION**

### **WEEK 9**

#### **6. Working Capital Management**

- Meaning of Working Capital
- Components of Working Capital (Balance Sheet Presentation)
- Solvency Vs Profitability.
- Working Capital Requirements: Efficiency Ratios
- Multiple Discimant Analysis.

### **Week 10**

#### **7. The Management of Cash**

- Motives for holding cash.
- Cash ratios
- Determining Cash Balance.
- Factors Affecting Cash Balance.
- Handling Cash Deficits/Surpluses.
- Cash Management Models : Square Root Formula, (Baumol Model), Stochastic Model and Orr Model.

### **WEEK 11**

#### **8. Management of Accounts Receivable**

- Nature of Credit
- Objectives of Dynamic Credit management
- Credit policy : The 4Cs of Credit
- Credit information and credit investigation.
- Collection of Accounts Receivable.

- Cost Benefit Axis of credit.
- Effectiveness of Credit Management

## **WEEK 12**

### **9. Management of Inventory**

- Inventory and the Reasons for Holding Inventory.
- The Inventory Dilemma : Inventory Under and Over Investment.
- ABC Analysis or CIE.
- Stock Levels.
- The Inventory Maximum and maximum systems.
- Inventory costs – Relevant costs, ordering costs, carrying/holding costs, stock-out costs.
- Economic Order Quantity and Economic Lt Size (Special Case: The Baumol Model).
- Inventory Re-ordering and Quantity Discounts, Safety Stocks.
- Inventory Taking and Inventory Valuation Methods.

## **WEEK 13**

### **10. Forecasting, Planning and Control**

- Financial forecasting.
- Financial planning.
- Financial control.

## **WEEK 14 : FINAL EXAMINATION**

### **TEACHING METHODOLOGY**

A mixture of lectures and class discussions will be used. Students are advised to read the relevant text materials before these are discussed in class to enhance their participation in class discussions.

### **COURSE TEXT**

Weston, J.F.et al *Essentials of Managerial Finance*. 11th Ed ( Fort Worth: Dryden Press, 1996)

### **READINGS**

Pandey, I.M. *Financial Management* 5th Ed ( New Delhi, India: Vikas Publishing House, PVT Ltd., 1990).

## **COURSE EVALUATION**

The student will be evaluated on the basis of the following:-

Participation	10%
Quizzes and Assignments	30%
Mid-Quarter Examination	30%
Final Comprehensive Examination	<u>30%</u>
<b>Total</b>	<b><u>100%</u></b>

## **GRADING**

90	-	100	A
87	-	89	A-
84	-	86	B+
80	-	83	B
77	-	79	B-
74	-	76	C+
70	-	73	C
67	-	69	C-
64	-	66	D+
62	-	63	D
60	-	61	D-
Below	59	F	