

Cedar Crest College

Title: Principles of Finance

Catalog Number: BUA 250

Instructor: W. Michael Donovan, MBA, CMA
Office Hours: Monday, Wednesday 1:00pm – 2:15pm
Tuesday, 5:00pm – 6:00pm
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Course Meets: MW, 2:30 – 3:45

Credits: 3

Prerequisites: ACC 101, ACC 102, ECO 101, ECO 102, MAT 105.

Format: Lecture/Discussion

Fall 2008

Course Description

An examination of modern financial theory and how it guides corporate financial decision-making. Specific emphasis is placed on the financing and investment decisions that face corporate managers. Topics covered include financial forecasting, ratio analysis, leverage, working capital management, capital structure, time value of money, cost of capital and capital budgeting. Spreadsheet modeling is an important part of the course.

Course Objectives

Students should leave this course with an appreciation of the sources and usage of cash by a firm. What affects the value of assets? Why is value different over time? How should decisions be made when acquiring or using cash?

Outcomes / Assessment

Upon completion of the course, students are able to:

1. Describe the basic operation of a country's financial market and the role of financial institutions.
2. Analyze the financial structure of an organization using ratio analysis and other techniques.
3. Explain the structure of interest rates and the investment process.
4. Calculate the future and present value of cash flows.
5. Describe the characteristics of financial instruments and perform basic value computations.
6. Analyze investment projects.
7. Explain the meaning of cost of capital.
8. Prepare operating and capital budgets.
9. Explain the concept and impact of financial leverage.
10. Develop and describe a working capital plan.

Assessment is through the use of quizzes, exams, a capital-investment analysis, and class discussion.

Topical Outline of Instruction (Based on the course's text)

I. The Scope And Environment Of Financial Management.

1. An Introduction to Financial Management.
2. Understanding Financial Statements, Taxes, and Cash Flows.
3. Evaluating a Firm's Financial Performance.
4. Financial Forecasting, Planning, and Budgeting.

II. Valuation Of Financial Assets.

5. The Time Value of Money.
6. Risk and Rates of Return.
7. Valuation and Characteristics of Bonds.
8. Stock Valuation.

III. Investment In Long-Term Assets.

9. Capital-Budgeting Decision Criteria.
10. Cash Flows and Other Topics in Capital Budgeting.
11. Capital Budgeting and Risk Analysis.
12. Cost of Capital,
13. Managing for Shareholder Value.

IV. Capital Structure And Dividend Policy.

14. Raising Capital in the Financial Markets.
15. Analysis and Impact of Leverage.

16. Planning the Firms Financing Mix.
17. Dividend Policy and Internal Financing

V. Working-Capital Management And Special Topics In Finance.

18. Working-Capital Management and Short-Term Financing.
19. Cash and Marketable Securities Management.
20. Accounts Receivable and Inventory Management.

Course Requirements

Students must complete the following as minimal requirements:

- Successfully take and pass a mid-term
- Successfully take and pass a final exam
- Complete online chapter quizzes
- Compare the financial performance of two firms
- Prepare a capital budgeting illustration

Read the [New York Times](#), [Wall Street Journal](#) or other national/global newspaper/internet source frequently. Business Week is good. There are a host of possible sources. You might find [www.marketwatch.com](#) particularly interesting for following financial markets, and [www.studyfinance.com](#) useful for tutoring. Also make use of the textbook website at [http://wps.prenhall.com/bp_keown_finmgmt_10](#). The site is not as useful as those associated with other courses and texts, but still it can help.

Regularly attend and participate in class.

Student Evaluation and Grading

- 30% - Final exam
- 30% - Online quizzes
- 10% - Company analysis
- 10% - Capital budgeting project
- 20% - Class Participation, Attendance

100% - Total

The final is based on the text, homework, and class lectures. The final is cumulative.

For each chapter, you should complete suggestion problems. You do not have to hand in homework. However, **IT IS STRONGLY RECOMMENDED THAT STUDENTS ATTEMPT AS MANY PROBLEMS AS POSSIBLE**. Progress is measured by completion of weekly 20 question, multiple quizzes that are available online at ECompanion.

There will be two in class problems given as labs. One in week 4 and one in week 5. These are to test your understanding of two important concepts. They are not graded, but students must successfully complete these two types of problems before they leave the course.

Students will prepare an illustration of a capital budgeting analysis.

Students will analyze a case study that presents the financial performance of two firms.

Class discussion is evaluated in terms of relevance and contribution to a topic. Please try to develop comments based on lessons on the course and sound, rational thinking that extends our perspective. However, insightful, thought-provoking questions are encouraged and treated favorably in the evaluation. Significant effort is spent having students gain new perspective on the world in which they live. Thus, bringing in news from outside readings is useful.

There are no extra credit opportunities. Students should focus on the course requirements, and they will do fine.

Grading Guidelines for Written Material

Any written material submitted for grading should contain all of the following elements:

Match the requested style requirements defined by the instructor.

- Have a clear, plausible thesis or focused point stated in the introduction.
- Evidence which is both necessary and sufficient to defend the focused point. Avoid wandering from the focused point.
- As required, in longer pieces, a conclusion which reinforces the thesis or focused point, gives its significance, and places it in a wider context.
- Correct spelling, grammar, and mechanics
- Factual accuracy.
- Thoughtful analysis (the use of relevant tools to examine material) and interpretation throughout.
- Originality; personal discovery of new ideas (concepts).

The following guidelines are used to assign each range of letter grades:

F The paper fails to meet minimum requirements.

D (D to D+) The material contains major errors of fact or major misunderstanding of key issues. It lacks a clear train of thought or expresses ideas incoherently. Mechanics (grammar, etc.) and structure are poor.

C (C- to C+) The material summarizes facts accurately but fails to state significance, or it has a

focused point (thesis) but fails to support it with adequate and appropriate evidence. Structure and mechanics are generally correct. (Definition of “significance.” The quality of being worthy of attention; importance: adolescent education was felt to be a social issue of some significance: The meaning to be found in words or events. Definition of “meaning.” To show, imply, convey – especially to help with understanding.

B (B- to B+) In addition to factual accuracy and correct mechanics and structure expected of “C” work, the material has a point of view and demonstrates an understanding of major concepts developed within the course. The focused point is well developed with adequate and appropriate specific examples. Examples are important!

A (A- to A) In addition to the expectations for “B” work, the material goes beyond the basic requirements of the question. It does not merely summarize what books and/or the instructor have said on the question, but demonstrates original thinking. It sets the problem in a broader context, sees the relationship among ideas, and is written clearly and convincingly. Getting an “A” Does not mean the bare minimum. There must be a demonstration of insight to the lessons of the course and the purpose of the assignment.

Grading guidelines for class discussion:

F – Exhibits virtually no involvement in discussions.

D (D to D+) Demonstrates infrequent involvement in discussion. Points that are made do not show understanding of material, adequate preparation, or a willingness to offer original thoughts. Instead, there are repetitious or superficial comments.

C (C- to C+) Demonstrates adequate preparation. Knows basic facts, but does not show evidence of interpretation or analysis. Offers information straight from readings without elaboration or analysis.

B (B- to B+) Good preparation by knowing facts well and thinking about implications. Offers interpretations and analysis of material. Contributes frequently and interestingly to the conversation. Responds to student points. Thinks through own points. Asks questions constructively. Helps to consider alternative points of view.

A (A- to A) Excellent preparation by analyzing material deeply and thoroughly. Relates cases and discussions to readings and other material. Offers analysis, synthesis, and evaluation of material. Brings pieces together to help forward learning in the class. Contributes often. Stays focused. Responds to comments of other students productively. Cooperative in debates.

Student Responsibilities

Attendance:

As indicated by college policy, attendance is required. However, adults do have busy lives. Therefore, a limited number of missed classes are tolerated as long as students make a reasonable

effort to alert the instructor at least 1 day before class. Reasons for missing class can include family, employment, religious, or other situations of similar importance. Required work can be passed in late or made-up if appropriate notification occurs. *if timely notification does not occur, then late work or make-ups will be allowed only at the discretion of the instructor. the opportunity is a privilege and is not to be abused.*

Policy on Collaboration:

I fully support the Cedar Crest College Honor Code and the Classroom Protocol code as stated in the Customs Book. Students should become familiar with the Honor Code. It is important for your own personal development.

Each student is responsible for maintaining strict standards of academic honesty. Anyone caught cheating will be dealt with severely. In order that every student understand what is (or is not) acceptable, the following guidelines are offered.

Discussions of assignments with other students and members of the teaching staff is both permitted and encouraged as a constructive educational practice. Students are expected to write their papers on their own, based on their individual level of progress with the material. Copying of another's work and representing it as one's own work is a serious academic offense, and will be treated as such.

Homework plays a dual role in your education. They are an essential part of the learning process in that they require the synthesis and extension of concepts. They also help both the student and the instructor evaluate one's progress in mastering the material. The requirement that completed homework be submitted for grading reflects the great importance the instructor attaches to these functions. Past experience indicates that generally the course material can not be adequately mastered without active involvement on your part. *Merely attending class and reading the text can create a false sense of understanding.* In turn, the instructor is denied knowledge of the student's difficulty and can not bring assistance to bear effectively.

Discussion of homework assignments with others who are also struggling with them can be highly beneficial and is encouraged. Most real-life problems are solved by group efforts, and it is important to learn how to solve problems cooperatively. The interaction with others working on the same problem often reveals different approaches to common difficulties. These benefits do not accrue when one interacts with someone who has already untangled the problem and simply demonstrates the solution.

How Not To Do Well:

A lack of trying will contribute to poor performance and potentially a poor grade. Learning is about effort, diligence, and perseverance. Do not wait until the last minute. Ask questions. Demand understanding, but mutually contribute to its production.

Policy on Plagiarism

In the event of suspected plagiarism, I will let the student know of my concerns. Sometimes plagiarism is not intended. However, if a major component of any work is copied, the student risks receiving a failing grade without discussion. She may follow college policy to appeal the grade.

Text, Tools, and/or Supplies

The following are required texts, and can be obtained at the College Bookstore:

Keown, A.J., Martin, J.D., Petty, J. William, and Scott, Jr., D.F. (2005). *Financial Management, 10th ed.*. Prentice-Hall.

A financial calculator (capable of time value of money computations) is suggested. Students are expected to learn how to use the device using the calculator's manual.

Students should be prepared to use an electronic spreadsheet.

Students must have an email account, and regularly read a national or international newspaper/magazine.

You may also use ECollege email features.

Cedar Crest College Assistance for Disability Policy

Students with documented disabilities who may need academic accommodations should discuss these needs with their professors during the first two weeks of class. Students with disabilities who wish to request accommodations should contact the Advising Center (x3484 or 610-606-4609)

Detail

Date	Reading	Homework	Assignment
Monday, Aug 25, 2007 Introduction and Administration Introduction to finance	Chapter 1		
Wednesday, Aug 27, 2007 Financial Statements	Chapter 2	All problems are from Set "A." 1, 3, 5, 8. Consider the integrative problem	
Monday, Sept 01, 2007 No Class			
Wednesday, Sept 03, 2007	Chapter 2		
Monday, Sept 08, 2007 Financial Performance	Chapter 3	1, 2, 3, 4, 6, 8, 9	

Date	Reading	Homework	Assignment
Wednesday, Sept 10, 2007 Financial Forecasting	Chapter 3 and Begin Chapter 4		In class Free Cash Flow Problem
Monday, Sept 15, 2007	Chapter 4	1, 2, 3, 5, 6, 9, 13. Consider the integrative problem.	Free Cash Flow Analysis Due
Wednesday, Sept 17, 2007 Time Value of Money	Chapter 5	Do as many as you can.	
Monday, Sept 22, 2007	Chapter 5		
Wednesday, Sept 24, 2007 Risk and Rates of Return	Chapter 6	1, 2, 3, 4, 8, 12, 13, 15, 16. Consider the integrative problem.	
Monday, Sept 29, 2007	Chapter 6		
Wednesday, Oct 01, 2007	TEST	TEST	TEST
Monday, Oct 06, 2007 Valuation of Bonds	Chapter 7	Do as many as you can using Excel. Consider the integrative problem.	
Wednesday, Oct 08, 2007 Valuation of Equity	Chapters 7 and 8	Do as many as you can using Excel. Consider the integrative problem.	
Monday, Oct 13, 2007 No Class			
Wednesday, Oct 15, 2007	Chapter 8		
Monday, Oct 20, 2007	Chapters 8 and 9		
Wednesday Oct 22, 2007 Capital Budgeting	Chapter 9	Do as many as you can using Excel. Consider the integrative problem.	
Monday, Oct 27, 2007	Chapters 9 and 10	Chapter 10: 1, 2, 3, 5, 9, 12, 15, 16, 17, 18. Consider the integrative problem.	
Wednesday, Oct 29, 2007	Chapters 10 and 11	Chapter 11: 1, 3, 5, 6, 7 Consider the integrative problem.	
Monday, Nov 03, 2007 Cost of Capital	Chapters 11 and 12	Chapter 12: 1, 3, 4, 5 8, 12, 13, 14	In class Practice Capital Budgeting Problem
Wednesday, Nov 05, 2007 Shareholder Value	Chapters 12 and 13		Capital Budgeting project due
Monday, Nov 10, 2007	Chapters 13 and 14	Chapter 13: 1, 2, 3 Chapter 14: Look through the questions	
Wednesday Nov 12, 2007	TEST	TEST	TEST

Date	Reading	Homework	Assignment
Monday, Nov 17, 2007 Leverage	Chapter 15	Chapter 15: 2, 3, 4, 5, 11, 24, 27, 28 Consider the integrative problem.	
Wednesday, Nov 19, 2008	Chapters 15 and 16		
Monday, Nov 24, 2007 The Financing Mix	Chapter 16	1, 3, 4, 15 Consider the integrative problem. It is hard, but important to read through.	
Monday, Dec 1, 2007 Dividend Policy	Chapter 17	1, 2, 7, 9	
Wednesday, Dec 03, 2007 Working Capital and ST Financing	Chapter 18	1, 2, 3, 6, 7, 8, 10, 13, 15	
Monday, Dec 08, 2007 Cash, A/R and Inventory	Chapters 19 and 20		Semester Project Due
Final			TBA Notebooks due