

# Cedar Crest College

**Title:** Principles of Finance

**Catalog Number:** BUA 250

**Instructor:** W. Michael Donovan, MBA, CMA  
Office Hours: Monday, 4:00pm – 6:00pm  
Wednesday, 1:00pm – 2:00pm  
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**Course Meets:** Monday, Wednesday, 2:30 – 3:45

**Credits:** 3

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

**Format: Lecture/Discussion**

**Fall 2009**

## **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. Forecast financial statements.
4. Explain the structure of interest rates and the investment process.
5. Calculate the future and present value of cash flows.
6. Describe the characteristics of financial instruments and perform basic value computations.
7. Analyze investment projects.
8. Explain the meaning of cost of capital.
9. Prepare operating and capital budgets.
10. Explain the concept and impact of financial leverage.
11. 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 Firms Financial Performance.
4. Financial Forecasting, Planning, and Budgeting.

#### **II. Valuation Of Financial Assets.**

5. The Time Value of Money.
6. Discounted Cash Flow Valuation
7. Valuation and Characteristics of Bonds.
8. Stock Valuation.

#### **III. Investment In Long-Term Assets.**

9. Capital-Budgeting Decision Criteria.
10. Making Capital Investment Decisions.
11. Project Analysis and Evaluation.
12. Return and Risk
13. Cost of Capital,
14. Managing for Shareholder Value.

#### **IV. Capital Structure And Dividend Policy.**

15. Raising Capital in the Financial Markets.

16. Analysis and Impact of Leverage.
17. Planning the Firms Financing Mix.
18. Dividend Policy and Internal Financing

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

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

### Course Requirements

Students must complete the following as minimal requirements:

- 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 websites at [http://highered.mcgraw-hill.com/sites/0073382396/student\\_view0/index.html](http://highered.mcgraw-hill.com/sites/0073382396/student_view0/index.html) and [http://highered.mcgraw-hill.com/sites/007353062x/student\\_view0/chapter1/](http://highered.mcgraw-hill.com/sites/007353062x/student_view0/chapter1/). The latter is from the 11<sup>th</sup> edition and has more study material. Some links are restricted, but you might find the simulations useful.

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

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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:

Ross, S. A., Westerfield, R. W., Jordan, B. D. (2010) *Fundamentals of Corporate Finance, Standard Edition, 9<sup>th</sup> edition*. McGraw-Hill Irwin: Boston.

A financial calculator (capable of time value of money computations) is required. 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**

<b>Date</b>	<b>Reading</b>	<b>Homework</b>	<b>Assignment</b>
Monday, Aug 24, 2009 Introduction and Administration Introduction to Finance	Chapter 1		
Wednesday, Aug 26, 2009 Financial Statements	Chapter 2	Ch 2: 1-4	
Monday, Aug 31, 2009	Chapter 2	Ch 2: 8-13	
Wednesday, Sept 02, 2009	Chapter 2	Ch 2: 25-26	
Monday, Sept 07, 2009 No Class			

<b>Date</b>	<b>Reading</b>	<b>Homework</b>	<b>Assignment</b>
Wednesday, Sept 9, 2009	Chapter 3	Ch 3: 13-17	In class Free Cash Flow Problem
Monday, Sept 14, 2009	Chapter 3	Ch 3: 26-30 You should really try all.	Free Cash Flow Analysis Due
Wednesday, Sept 16, 2009 Financial planning and Growth	Chapter 4	Ch 4: 1-5	
Monday, Sept 21, 2009	Chapter 4	Ch 4: 6-33 Special attention on 9-10, 14, 18, 22, 25-27, 30	In Class Financial Planning Problem
Wednesday, Sept 23, 2009 Time Value of Money	Chapter 5 and 6	Ch 5: Do All.	
Monday, Sept 28, 2009 Discounted Cash Flow Valuation	Chapter 6	Ch 6: 1, 4, 5, 6, 10, 12, 13,	
Wednesday, Sept 30, 2009	Chapter 6	Ch 6: 16, 18-20, 22, 24, 27, 29-30,	
Monday, Oct 05, 2009	Chapter 6	Ch 6: 33-38, 41, 43, 45, 46, 50-51, 53, 57, 62, 67-68, 70-71, 75, 77-78	
Wednesday, Oct 07, 2009 Valuation of Bonds	Chapter 7	Ch 7: 2-5, 9, 11	
Monday, Oct 12, 2009 No Class			
Wednesday, Oct 14, 2009	Chapter 7	Ch 7: 15, 18-19, 22, 24, 31	
Monday, Oct 19, 2009	Chapter 8	Ch 8: 1-7, 10,	
Wednesday Oct 21, 2009 Valuation of Equity	Chapter 8	Ch 8: 11-15, 17, 20, 22	
Monday, Oct 26, 2009	Chapter 9	Ch 9: 1, 4, 5, 7-14	
Wednesday, Oct 28, 2009 Capital Budgeting	Chapter 9	Ch 9: 15, 17-18, 19, 23-25, 29, 31, 36	
Monday, Nov 02, 2009	Chapter 10	Ch 10: 1, 3, 6, 7, 9, 10	
Wednesday, Nov 04, 2009	Chapter 10	Ch 10: 13, 14, 17, 18, 20, 22, 25-28	
Monday, Nov 9, 2009	Chapter 10 and 11	Ch 11: 1-3, 5, 8-10,	
Wednesday Nov 11, 2009 Shareholder Value Risk and Return	Chapter 11 Chapter 12 (briefly)	Ch 11: 16, 19-24, 27, 28, 29	
Monday, Nov 16, 2009 Cost of Capital	Chapter 13 and 14	Ch 14: 1-4, 6-9, 12-13, 15	



<b>Date</b>	<b>Reading</b>	<b>Homework</b>	<b>Assignment</b>
Wednesday, Nov 18, 2008 Raising Capital	Chapter 14	Ch 14: 16-18, 20, 22, 23	
Monday, Nov 23, 2009 Financial Leverage and Structure	Chapter 15 (briefly) Chapter 16		In class Practice Capital Budgeting Problem
Wednesday, Nov 25 No Class, Thanksgiving			
Monday, Nov 30, 2009 Dividend Policy	Chapter 17		Capital Budgeting project due
Wednesday, Dec 02, 2009 Short Term Financing and Working Capital Management	Chapter 18	Ch 18: 1,5-6,10-11, 13-14	
Monday, Dec 07, 2009	Chapter 19 and 20		
Final			TBA