
FINANCIAL MANAGEMENT

Course Objectives:

To acquaint students with the techniques of financial management and their applications for business decision making. To familiarize students with MS Excel or spreadsheet applications of financial management and decision making.

Learning Outcomes:

1. Understand basic concepts of financial management and their application in investment, financing and dividend decisions.
2. Understand concepts of cost of capital, leverage analysis, capital structure and dividend theories and identify courses of action in financial environment that would result in maximization of wealth of an organization.
3. Understand management of working capital and estimate the same for an organization.

Detailed Syllabus:

Unit 1.1: Nature of Financial Management

(2L+6L+2L=10L)

- Finance and related disciplines; Scope of Financial Management; Profit Maximization, Wealth Maximization - Traditional and Modern Approach; Functions of finance – Finance Decision, Investment Decision, Dividend Decision; Objectives of Financial Management; Organisation of finance function.

Unit 1.2: Time Value of Money Risk & Return

- Present value, future value, and annuity (Theory with problem)

Unit 1.3: Risk & Return

- Historical return, expected return, absolute return, holding period return, annualized return, arithmetic & geometric return; Risk - Systematic & unsystematic risk – their sources and measures

Unit 2: Long -term investment decisions

(20L)

- Capital Budgeting - Principles and Techniques; Nature and meaning of capital budgeting; Estimation of relevant cash flows and terminal value; Evaluation techniques - Accounting Rate of Return, Net Present Value, Internal Rate of Return & MIRR, Net Terminal Value, Profitability Index Method. Capital Rationing (Theory & problems). Capital budgeting under risk & Uncertainty – Types & sources of risk, conventional techniques (payback period, risk adjusted discount rate, sensitivity analysis, certainty equivalent). Statistical techniques – Concept of probability, abandonment value, decision trees.

Unit 3.1: Concept and Measurement of Cost of Capital

(10L+2L+9L+4L=25L)

- Explicit and Implicit costs; Measurement of cost of capital; Cost of debt; Cost of perpetual debt; Cost of Equity Share; Cost of Preference Share; Cost of Retained Earning; Computation of over-all cost of capital based on Historical and Market weights. Concept of marginal cost of capital.

Unit 3.2: Leverage Analysis

- Operating and Financial Leverage; Combined leverage

Unit 3.3: Theories of Capital Structures

- Introduction: Concept and Determinants of capital structure, EBIT -EPS analysis, Approaches to Capital Structure Theories - Net Income approach, Net Operating Income approach, Modigliani-Miller (MM) approach, Traditional approach

Unit 3.4: Dividend Policy Decision

- Concept of dividend, types of dividends, factors affecting dividend policy,
- Various dividend policy models: Relevance of dividend- Walter's model, Gordon's model, Irrelevance of dividend: MM Hypothesis

Unit 4: Working Capital Management

(15L)

- Management of Cash - Preparation of Cash Budgets (Receipts and Payment Method only); Cash management technique [(Baumol's Model (theory and problem) and Miller Orr Model (theory only)]
- Receivables Management – Objectives; Credit Policy, Cash Discount, Debtors Outstanding and Ageing Analysis; Costs - Collection Cost, Capital Cost, Default Cost, Delinquency Cost,
- Inventory Management (Very Briefly) - ABC Analysis; Minimum Level; Maximum Level; Reorder Level; Safety Stock; EOQ, Determination of Working Capital

References:

1. Fundamentals of Financial Management, Bhabatosh Banerjee, PHI
2. Financial Policy and Management Accounting, Bhabatosh Banerjee, PHI
3. I.M. Pandey: Financial Management: Theory and Practices, Vikas Publishing House
4. M.Y. Khan & P.K. Jain: Financial Management Text Problem and Cases, Tata McGraw Hill PUBLISHING Co. Ltd.
5. R. P. Rustogi: Financial Management: Theory Concepts and Practices, Taxmann Publication.
6. R.A. Brealey, S.C. Myers, F. Allen & P. Mohanty: Principles of Corporate Finance, McGraw Hill Higher Education
7. J.V. Horne & J.M. Wachowicz: Fundamentals of Financial Management Prentice Hall
8. Mazumdar, Ali, Nisha, An Introduction to Financial Management, ABS Publishing House