

## MC 403: 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:

- Understand basic concepts of financial management and their application in investment, financing and dividend decisions.
- 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.
- Understand management of working capital and estimate the same for an organization.

### Course Contents:

#### Unit I

(3 Weeks)

Nature of Financial Management: 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; Organization of finance function; Concept of Time Value of Money, present value, future value, and annuity; Risk & Return: Historical return, expected return, absolute return, holding period return, annualized return, arithmetic & geometric return; Risk - Systematic & unsystematic risk – their sources and measures.

#### References:

Financial Management: Text Problem and Cases, M.Y. Khan & P.K. Jain, 8<sup>th</sup> ed., Tata McGraw Hill Publishing Co. Ltd. (Chapter 1 and 2 )

Financial Management: Theory, Concepts and Problems, 4<sup>th</sup> revised edition Dr. R. S. Rustagi, Taxmann. (Chapter 1)

Fundamentals of Financial Management: with Excel application supplement, Surender

## **FINANCIAL MANAGEMENT**

Singh and Rajeev Kaur, Mayur Paperbacks. 6<sup>th</sup> revised edition (Chapter 1, 2 and 3)

### **Unit II** **(3 Weeks)**

Long -term investment decisions: 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.

Concept and Measurement of Cost of Capital: 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.

#### **References:**

Financial Management: Text Problem and Cases, M.Y. Khan & P.K. Jain, 8<sup>th</sup> ed., Tata McGraw Hill Publishing Co. Ltd. (Chapter 9, 10 and 11)

Financial Management: Theory, Concepts and Problems, 4<sup>th</sup> revised edition Dr. R. S. Rustagi, Taxmann. (Chapter 6, 7, 8 and 10)

Fundamentals of Financial Management: with Excel application supplement, Surender Singh and Rajeev Kaur, Mayur Paperbacks. 6<sup>th</sup> revised edition (Chapter 5 and 7)

### **Unit III** **(3 Weeks)**

Capital Structures: Approaches to Capital Structure Theories - Net Income approach, Net Operating Income approach, Modigliani-Miller (MM) approach, Traditional approach, Capital Structure and Financial Distress, Trade-Off Theory.

Dividend Policy Decision: Dividend and Capital; the irrelevance of dividends - General, MM hypothesis; Relevance of dividends: Walter's model, Gordon's model; Leverage Analysis: Operating and Financial Leverage; EBIT -EPS analysis; combined leverage.

#### **References:**

Financial Management: Text Problem and Cases, M.Y. Khan & P.K. Jain, 8<sup>th</sup> ed., Tata McGraw Hill Publishing Co. Ltd. (Chapter 18, 19, 29 and 30)

## **FINANCIAL MANAGEMENT**

Financial Management: Theory, Concepts and Problems, 4<sup>th</sup> revised edition Dr. R. S. Rustagi, Taxmann. (Chapter 11, 12, 14 and 15)

Fundamentals of Financial Management: with Excel application supplement, Surender Singh and Rajeev Kaur, Mayur Paperbacks. 6<sup>th</sup> revised edition (Chapter 9, 15 and 8)

### **Unit IV**

**(3 Weeks)**

Working Capital Management: Management of Cash - Preparation of Cash Budgets(Receipts and Payment Method only); Cash management technique: Concentration banking and Lock box system; 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:**

Financial Management: Text Problem and Cases, M.Y. Khan & P.K. Jain, 8<sup>th</sup> ed., Tata McGraw Hill Publishing Co. Ltd. (Chapter 13, 14, 15 and 16 )

Financial Management: Theory, Concepts and Problems, 4<sup>th</sup> revised edition Dr. R. S. Rustagi, Taxmann. (Chapter 17, 18, 19, 20 and 21)

Fundamentals of Financial Management: with Excel application supplement, Surender Singh and Rajeev Kaur, Mayur Paperbacks. 6<sup>th</sup> revised edition (Chapter 11, 12, 13 and 14)

### **Textbooks:**

1. Financial Management: Text Problem and Cases, M.Y. Khan & P.K. Jain, 8<sup>th</sup> ed., Tata McGraw Hill Publishing Co. Ltd.
2. Financial Management: Theory, Concepts and Problems with excel applications and case studies, 6<sup>th</sup> revised edition Dr. R. S. Rustagi, Taxmann.
3. Fundamentals of Financial Management: with Excel application supplement, Surender Singh and Rajeev Kaur, Mayur Paperbacks.

## FINANCIAL MANAGEMENT

### **Additional Readings:**

1. Fundamentals of Financial Management, J.V. Horne & J.M. Wachowicz, 13<sup>th</sup> ed. Prentice Hall
2. Fundamentals of Financial Management, I.M. Pandey, Theory and Practices, 11<sup>th</sup> ed., Vikas Publishing House

### **Teaching Learning Process:**

Lecture, solving of numerical problems, discussion, PowerPoint presentations. MS Excel or spreadsheet applications of financial management and decision making may also be demonstrated to students.

### **Assessment Methods:**

- Internal Assessment: 25 marks
- Written Theory Exam: 75 marks

### **Keywords:**

Financial management, capital budgeting, capital structure, cost of capital, leverage, dividend, working capital.