

UNDERGRADUATE PROGRAMME IN BACHELOR OF MANAGEMENT STUDIES

PAPER No. 8 CORPORATE FINANCE

Learning Objective: To acquaint students with the techniques of corporate finance and their applications for business decision making.

Course Contents:

Unit I

Lectures: 7

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. Organisation of finance function. Emerging roles of Finance Managers in India. Concept of Time Value of Money. Future value of a single amount and an annuity; Present value of a single amount, an annuity and a perpetuity.

Unit II

Lectures: 14

Long-term investment decision: Capital Budgeting - Nature and meaning of capital budgeting; Cash flows and Accounting profits; Evaluation techniques - Accounting Rate of Return, Pay Back, Net Present Value, Internal Rate of Return, Terminal Value, Profitably Index Method. Understanding computation of depreciation based on the concept of block of assets.

Unit III

Lectures: 8

Concept and Measurement of Cost of Capital: Explicit and Implicit costs; Measurement of specific costs - Cost of debt, Cost of perpetual debt, Cost of redeemable debt; Cost of Preference Share; Cost of Equity Capital – Dividend valuation model; Cost of Retained Earnings. Computation of over-all cost of capital based on book value weights and market value weights.

Unit IV

Lectures: 14

Financing Decision: Leverage Analysis - Operating, Financial, and Combined Leverage, Earning Before Interest and Tax (EBIT) – Earning Per Share (EPS) analysis, Indifference point. Capital structures theories - Net income approach; Net operating income approach; Modigliani-Miller (MM) approach; Traditional approach. Dividend Decision. Relevance and irrelevance of dividends. Residual theory of dividends; Modigliani and Miller hypothesis; Walter's model; Gordon's model.

Unit V

Lectures: 13

Short-term investment decision: Concepts and Definition of working capital; Determining Financing Mix; Permanent and temporary working capital; Determinants of working capital; Computation of Working Capital. Management of Cash – Motives of holding cash; Objectives of cash management; Factors determining cash needs; Preparation of Cash Budget based on Receipts and Payments method. Management of Receivables – Objectives; Collection cost, Capital cost, Default cost, Delinquency cost; Credit policies; Credit terms; Collection policies; Debtors outstanding and ageing analysis.

Text Books:

1. Khan, M.Y., & Jain, P.K. (2011). *Financial Management – Text, Problems, and Cases* (6th ed.). New Delhi: Tata McGraw Hill Education Private Limited.
2. Chandra, Prasanna (2008). *Financial Management – Theory and Practice* (7th ed.). New Delhi: Tata McGraw Hill Publishing Company Limited.

References:

1. Pandey, I.M. (2010). *Financial Management* (10th ed.). New Delhi: Vikas Publishing House Pvt. Ltd.
2. Brealey, Richard, A., & Myers, Stewart, C. (2011). *Principles of Corporate Finance* (10th ed.). New Delhi: Tata McGraw Hill Publishing Company Limited.