

THOMPSON RIVERS UNIVERSITY



Course Outline

Department of Accounting and Finance
School of Business and Economics

BUSN 6020/1-3 Corporate Finance (3,0,0)

Calendar Description

Students acquire the knowledge and skills required to effectively manage a firm's operating and fixed assets, and to fund those assets with an optimal mix of short-term and long-term debt and equity financing. Topics include goals of the firm, corporate governance and executive compensation, time value of money, financial statement analysis, financial reporting quality, maturity matching of assets and liabilities, financial planning, capital budgeting, risk and return and stock valuation, bond valuation and interest rates, cost of capital, capital structure, and dividend policy.

Educational Objectives/Outcomes

After completing this course, students should be able to:

1. Incorporate the concept of time value of money in decision making.
2. Justify the importance of share price maximization as a financial goal and the role of progressive corporate governance and executive compensation practices.
3. Analyze an organization's performance utilizing appropriate financial statement analysis techniques.
4. Evaluate the quality of an organization's financial reporting and make the necessary adjustments to better reflect actual performance.
5. Assess the degree to which a company matches the maturity of its assets and liabilities and the problems that mismatching may create.
6. Develop a short-term financial plan for an organization, which complies with its lending requirements and attains its financial objectives.
7. Conduct a complex capital budgeting analysis of a new project or venture.
8. Evaluate risk and incorporate it in the calculation of a required rate of return.
9. Value the bonds and shares issued by organizations under varying circumstances.
10. Determine the appropriate cost of capital for different businesses and ventures.
11. Determine the optimal capital structure of a company based on an assessment of its operational leverage and other factors.
12. Develop an appropriate dividend policy for an organization.

Prerequisites

Meets the admission requirements to the MBA

Co-requisites

Texts/Materials

Textbooks

Ross, Westerfield, Jordan, Roberts, Fundamentals of Corporate Finance, 8th Canadian Edition, McGraw-Hill Ryerson, 2013.

Schilit, Howard, Financial Shenanigans – How to Detect Accounting Gimmicks & Fraud in Financial Reports, 3rd Edition, McGraw-Hill, 2010.

Other Resources

“Building High Performance Board,” Canadian Coalition for Good Governance, 2010.

“The Corporate Governance of Listed Companies: A Manual for Investors,” CFA Institute Centre for Market Integrity, 2009.

Good Governance Guidelines for Principled Executive Compensation,” Canadian Coalition for Good Governance, 2009.

Graham, Harvey, “The Theory and Practice of Corporate Finance: Evidence from the Field,” Journal of Financial Economics, 2001.

Brav, Graham, Harvey, Michaely, “Payout Policy in the 21st Century,” Journal of Finance Economics, 2005.

Student Evaluation

Campus

Discussions	10%
Case studies	30%
Mid-term(s)	20%
Final exam	40%

Online

Case studies (3)	45%
On-line discussions (6)	15%
Final exam	40%

Students must pass the final exam with 50% or higher to pass the course.

Course Topics

1. Time Value of Money
 - Present and future value of single payments, annuities, annuities due, and perpetuities
 - Incorporating growth in annuities and perpetuities
 - Compound interest and continuous compounding
 - Annual percentage rates and effective annual rates
 - Mathematics of loans
 - Discount
 - Interest only
 - Full and partial amortization
2. Financial Goals of the Firm
 - Finance discipline
 - Corporate finance versus investments
 - Finance function in the organization
 - Professional designations in finance
 - Goals of the firm
 - Share price maximization
 - Agency costs
 - Corporate governance
 - Executive compensation
3. Financial Statement Analysis
 - Sources of financial information
 - Financial statement analysis tools
 - Vertical analysis/common-sized financial statements
 - Horizontal (trend) analysis
 - Ratio analysis
 - Liquidity
 - Asset management
 - Long-term debt paying ability
 - Profitability include Dupont analysis
 - Market valuation
 - Cash flow statement analysis
 - Sources of comparison benchmarks
 - Limitations of financial statement analysis
4. Financial Reporting Quality
 - Incentives for earnings management and sources of management discipline
 - Earnings management techniques and “Red Flags” for earnings management
 - Assessing the effect of earnings management

5. Maturity Matching

- Rationale for matching the maturity of assets and liabilities
- Aggressive versus conservative maturity matching strategies
- Restrictive, flexible, and compromise maturity matching policies
- Mismatching the maturity of long-term assets and liabilities
- Research findings relating to maturity matching
- Sources of short-term and long-term financing
 - Trade credit and other payables
 - Operating loans
 - Term loans
 - Commercial mortgages
- Bank lending practices

6. Short-term Financial Planning

- Preparation of pro forma financial statements
- Compliance with bank lending conditions and financial objectives
- Recommendations to improve financial performance

7. Capital Budgeting

- Capital budgeting methods and their limitations
- Complex application of the net present value method
 - CCA, recaptures, and terminal losses
 - Initial and on-going changes in net working capital
 - Allowing for inflation
 - Year-end cash flow assumption
- Comparing projects with varying lives
- Capital rationing

8. Risk and Return and Stock Valuation

- Diversification
 - Diversifiable risk
 - Non-diversifiable risk
- Calculation of beta
- Calculating the required rate of return using CAPM
- Stock valuation using the dividend discount model
 - No growth
 - One-stage (constant growth)
 - Two-stage (non-constant growth)
- Common shares
 - Terminology
- Non-voting and restricted voting shares
 - Preferred shares
 - Terminology
 - Similarities between preferred shares and debt

9. Bond Valuation and Interest Rates

- Valuing straight and zero-coupon bonds
- Interest rate risk and reinvestment risk
- Bond terminology
- Risk-free rate and sources of risk premium
- Term structure of interest rates and the yield curve
- Theories explaining the shape of the yield curve
 - Liquidity
 - Segmentation
 - Expectations
- Interest rate forecasting using the yield curve

10. Cost of Capital

- Calculating the weighted average cost of capital
- Appropriate weights
 - Book value
 - Market value
 - Target capital structure
- Calculating the cost of equity
 - Dividend growth model
 - CAPM
 - Bond yield plus premium
 - Adjusting for varying levels of financial leverage
 - Difficulties with model components
 - Risk-free rate
 - Market-risk premium
 - Beta
 - Size premium
- Calculating the cost of debt
 - Implied rate
 - Similar bond ratings
 - Marginal rates
- Incorporating flotation costs
 - Adjust cost of capital
 - Initial cash flow
- Calculating the marginal cost of capital
 - New industries
 - Pure play approach
 - Accounting beta
 - Estimating beta using regression analysis
 - Divisional cost of capital
 - Adjusting for project risk using the subjective approach

11. Capital Structure

- Operational and financial leverage
- Business risk and its effect on the use of financial leverage
- Determination of the optimal capital structure
 - Industry average ratios
 - Worst-case scenario
 - Other factors
- Modigliani and Miller Propositions I and II
- Theories for determining optimal capital structure
 - Static theory
 - Signaling theory
 - Pecking order theory
- Other factors affecting capital structure
- Corporate finance in practice

12. Dividends and Dividend Policy

- Types of dividends and dividend payment
- Stock repurchases
- Relevance of dividend policy
- Dividend policy theories
 - Clientele effect
 - Signaling theory
 - Residual dividend theory
- Dividend policy in practice

Methods for Prior Learning Assessment and Recognition

Students can apply for PLAR in any course but it cannot be used to meet the program residency requirement.

Attendance Requirements – Include if different from TRU Policy

As per TRU policy.

Special Course Activities – Optional

Use of Technology – Optional