THOMPSON RIVERS UNIVERSITY

Course Outline

Accounting and Finance
School of Business & Economics

FNCE 3120 - **3.00** - Academic

Finance

Rationale

Annual update of standard course outlines in SOBE

Updated course description and requisites

Calendar Description

Students develop a basic understanding of business finance, which deals with how organizations effectively manage their operating and fixed assets and fund them with an optimal mix of debt and equity financing. Topics include the role of the financial manager; goals of the firm; financial statement analysis; time value of money; risk and return including Beta and the Capital Asset Pricing Model; common and preferred share valuation; interest rates and bond valuation; capital budgeting; cost of capital; and optimal capital structure.

Credits/Hours

Course Has Variable Hours: No
Credits: 3.00
Lecture Hours: 3.00
Seminar Hours: 0
Lab Hours: 0
Other Hours: 0
Clarify:
Total Hours: 3.00
Delivery Methods: (Face to Face)
Impact on Courses/Programs/Departments: No change
Repeat Types: A - Once for credit (default)
Grading Methods: (S - Academic, Career Tech, UPrep)

Educational Objectives/Outcomes

1. Explain the importance of share price maximization and the influence of agency costs.
2. Examine the performance of an organization using different financial statement analysis techniques.

3. Solve business problems that incorporate the time value of money.
4. Demonstrate how risk is incorporated into the calculation of an asset's required rate of return.
5. Value the stocks and bonds issued by companies to finance their operations.
6. Explain the shape of the yield curve, risk-free rate and sources of risk premium.
7. Appraise the financial viability of new projects using capital budgeting techniques.
8. Calculate the appropriate cost of capital for a business in different situations.
9. Analyze the optimal capital structure for a company based on an assessment of its operational leverage and otherfactors.

Prerequisites

ACCT 2210-Financial Accounting or
equivalent with a minimum C-
CMNS 1290-Introduction to Professional Writing or
equivalent with a minimum C-
MATH 1070-Mathematics for Business and Economics or
equivalent with a minimum C-
ECON 2320-Economic and Business Statistics 1 or
equivalent with a minimum C-

Co-Requisites

Recommended Requisites

Exclusion Requisites

FNCE 2120-Financial Management
FNCE 2121-Financial Management

BBUS 3120-Finance Management

BBUS 3121-Financial Management

Texts/Materials

Textbooks

1. **Required** Brealey, Myers, Marcus, Maynes, and Mitra. *Fundamentals of Corporate Finance*, 5th Canadian ed. McGraw Hill, 2011

Student Evaluation

The Course grade is based on the following course evaluations.

Tests/quizzes 20-30%
Case studies/research projects/assignments 30%
Final exam 40-50%
Students must pass the final exam to pass the course.
All students will attend the lectures for FNCE 2120 but the instructor will provide FNCE 3120 students will additional readings, additional or more complex assignments, and more challenging exams to increase the rigor of the course to the 3rd year level.

Course Topics

1. Introduction to Financial Management
    - Organization of the corporate finance function
    - Professional designations in finance
    - Goals of the firm - share price maximization
    - Agency costs
    - Financial markets and institutions

2. Financial Statement Analysis
    - Common-sized financial statements (vertical analysis)
    - Common-base-year financial statements (horizontal or trend analysis)
    - Ratio analysis
        - Liquidity
        - Asset management
        - Solvency
            - Leverage
            - Coverage
        - Profitability
            - In relation to sales
            - In relation to investment
        - DuPont analysis
        - Market valuation
    - Cash flow statement analysis
    - Benchmarking financial ratios
    - Limitations of financial statement analysis

3. Time Value of Money
    - Simple interest, compound interest and continuous compounding
    - Real, nominal and effective rates
    - Present and future values
        - Single cash flows, annuities and annuities due
        - Perpetuities with and without growth
    - Types of loans
        - Discount loans
        - Interest only
        - Amortization

4. Risk and Return: Beta and Capital Asset Pricing Model (CAPM)
    - Individual risk – standard deviation
    - Diversification - systematic versus non-systematic risk
    - CAPM and the Security Markets Line (SML)
    - Calculating the required rate of return using the CAPM and SML
    - Arbitrage Pricing Theory

5. Common and Preferred Share Valuation

- Common and preferred shares features
  - Shareholder rights
  - Dividends
  - Classes of stock
  - Comparison of preferred shares versus debt
- Dividend growth model
  - No growth
  - One and two-stage growth
  - Components of the required rate of return
    - Dividend yield
    - Capital gains yield
- Market multiples
  - Price/Book Value, Price/Earnings, Price/Sales, Price/CFO, Price/FCFE

6. Interest Rates and Bond Valuation
   - Basic bond terminology
   - Bond valuation using yield-to-maturity
   - Types of bonds
   - Bond indenture
     - Term
     - Security
     - Seniority
     - Repayment
     - Call provisions
     - Protective covenants
   - Bond ratings
   - Bond markets, reporting and quotations
   - Real and nominal interest rates and the Fischer Effect
   - Risk-free rate and sources of risk premium
     - Inflation
     - Interest rate risk
     - Reinvestment risk
     - Credit risk
     - Additional sources of risk premium
   - Term structure of interest rates versus the yield curve
   - Theories explaining the shape of the yield curve
     - Liquidity
     - Segmentation
     - Expectations
   - Forecasting interest rates using the yield curve

7. Capital Budgeting
   - Capital budgeting methods and their limitations
     - Payback
     - Discounted payback
     - Average accounting rate of return
     - Internal rate of return
     - Profitability index
     - Net present value

- Complex net present value analysis
  - Standalone and replacement projects
  - Initial costs and residual values
  - Changes in net working capital
  - Tax shield from Capital Cost Allowance (CCA)
  - Estimating incremental/relevent cash inflows and outflows Sunk costs, opportunity costs, side effects and financing costs

8. Cost of Capital

- Required rate of return and the cost of capital
- Calculating the Weighted Average Cost of Capital
  - Cost of common and preferred shares
    - CAPM
    - Dividend growth model
  - Cost of debt
    - Yield-to-maturity method
    - Debt-rating approach
    - Treasury-spread approach
  - Appropriate weights
    - Book value
    - Market value
    - Target capital structure
- Calculating the Weighted Marginal Cost of Capital
  - Pure play approach
  - Divisional costs of capital
  - Adjusting for project risk
- Incorporating flotation costs
- Trade-off between the cost and risk of debt and equity financing

9. Optimal Capital Structure

- Advantages of financial leverage
- Types of business risk
  - Sales risk
  - Operating risk and cost structure
- Trade-off between business risk and financial risk
- Measures of business risk and financial risk
  - Degree of operating leverage
  - Degree of financial leverage
  - Degree of total leverage
- Determination of optimal capital structure
  - Industry average ratios
  - Worst-case scenario
  - Other factors affecting capital structure

Methods for Prior Learning Assessment and Recognition

As per TRU Policy

Last Action Taken

Implement by Submission Preview Subcommittee Chair Joanne (Retired) Moores

Current Date: 28-Oct-20