

# MGT 215: Fundamentals of Financial Management

**Full Marks: 100**

**Pass Marks: 35**

**Lecture Hours: 150**

## Course Objective

This course Fundamentals of Financial Management aims to lay the foundation for understandings fundamental concepts and principles of financial management. This course has been structured as a compulsory course in finance. This course equips the students with fundamental tools and techniques of financial management to prepare them to resolve complex financial issues concerning corporate firms.

## Course Description

This course is a core course in finance and includes the basic area of financial management functions. This course consists of the introduction to financial management, understanding, and analysis of financial statements, time value of money, fundamentals of risk and return theory, bond valuation, stock valuation, cost of capital, capital structure and leverage, working capital management, and distributions to shareholders.

## Course Detail

### Unit 1: Introduction to Financial Management

**LH 7**

Nature of financial management; Finance within an organization; Functions of financial management; The financial goal: creating value for investors; Balancing shareholder interest and the interests of society.

### Unit 2: Financial Statement Analysis

**LH 15**

Financial statements: Balance sheet, profit or loss statement, cash flow statement, statement of change in shareholders' equity; Framework for analysis; Nature and need of financial ratio analysis; Types of financial ratios: liquidity ratios, asset management ratios, debt management ratios, profitability ratios, market value ratios; DuPont system of financial ratio analysis; Ratios in different industries; Uses and limitations of financial ratios; Common size and index analysis.

### Chapter 3: Time Value of Money

**LH 20**

Concept time value of money; Cash flow time line; Future values and present values of a single cash flow; Finding the interest rate and the number of years; Future value and present value of an ordinary annuity and annuity due; Finding annuity payments, periods and interest rates; Present value of perpetuities; Present value and future value of uneven cash flows; Semiannual and other compounding periods; Preparation of loan amortization schedule; Application of the concept of time value of money.

**Unit 4: Fundamentals of Risk and Return****LH 18**

Defining risk and return, expected rates of return, historical rates of return, standard deviation, coefficient of variation; Risk aversion and required returns; Return and risk in a portfolio context: The role of covariance and correlation; The capital asset pricing model (CAPM): the beta coefficient, the security market line (SML): The relationship between risk and rates of return.

**Unit 5: Financial Assets Valuation****LH 20**

Concept of financial assets; Key characteristics of bonds, common stocks and preferred stocks; Basic financial asset valuation models; Valuation of bonds: perpetual bonds, zero coupon bonds, coupon bonds with a finite maturity, bond valuation with semiannual interest; Discount bond and premium bond; Bond yields: current yield, capital gain yield, holding period return, yield to maturity, yield to call; Dividend discount model for stock valuation: zero-growth model, normal growth model, super-normal growth model, single period valuation, multi-period valuation; Valuation of preferred stock.

**Unit 6: Cost of Capital****LH 10**

Concept of cost of capital; Applications of cost of capital in financial decision making, Component cost of capital: cost of debt, cost of preferred stock, the cost of retained earnings, the cost of new common stocks; Weighted average cost of capital (WACC); Factors affecting the WACC.

**Unit 7: Capital Structure and Leverage****LH 10**

Concept of capital structure; Business risk and operating leverage; Financial risk and financial leverage; Total leverage; Break-even analysis: Operating break-even, cash break-even, financial break-even analysis.

**Unit 8: Basics of Capital Budgeting****LH 20**

Characteristic of capital budgeting decision; Capital budgeting decision process; Types of capital budgeting projects; Capital budgeting decision techniques: payback period, discounted payback period, net present value, profitability index, internal rate of return, modified internal rate of return; merits and limitations of each capital budgeting decision technique.

**Unit 9: Working Capital Management****LH 15**

Concepts of working capital; Types of working capital: Seasonal and permanent working capital, Factors affecting the size of working capital; Significance of working capital management; The cash conversion cycle; Significance of inventory management; Basic inventory costs; The economic order quantity model; Reorder point and safety stock; Quantity discount; Significance cash management, Cash budget; Purpose of receivables management; Elements of credit policy.

## **Unit 10: Distributions to Shareholders**

**LH 15**

Concept and types of dividends; Factors affecting dividend policy; Dividend payment procedures; Dividend policy in practice: Stability in dividends and residual dividend policy; Stock dividends, Stock splits, Reverse stock splits; Stock repurchases; Dividend payment practices in Nepal.

### **Text Book**

Brigham, E. F. & Houston, J. F. *Fundamentals of financial management*. Delhi: Cengage Learning.

### **References**

Gitman, L. J. *Principles of managerial finance*. Delhi: Pearson Education.

Van Horne, J. C., Wachowicz, J. R. & Bhaduri, S. N. *Fundamentals of financial management*. New Delhi: Prentice-Hall India Ltd.