

FN3440

Corporate Finance

[Onsite]

Course Description:

This course explores topics in the management of corporate assets. Focus is on the theory and practice of corporate finance, stock and bond valuation, the cost of capital, capitalization mix, internal and external financing, and investment opportunities for excess cash.

Prerequisite(s) and/or Corequisite(s):

Prerequisite: AC1420 Financial Accounting or equivalent

Credit hours: 4.5

Contact hours: 45 (45 Theory Hours)

Where Does This Course Belong?

This course is required for the School of Business bachelor's degree in Business Management.

Course Summary

Major Instructional Areas

1. Financial statements and cash flow analysis
2. Usefulness and tools of financial analysis
3. Valuation of stocks and bonds in the development of the cost of capital
4. Techniques used to assess capital projects and develop capital budgets
5. Managing the financing and capitalization of the firm

Detailed Topical Outline

1. The role of the financial manager
 - 1.1. The goal of the firm
 - 1.2. The five principles of finance
 - 1.2.1. Cash flow
 - 1.2.2. Time value of money
 - 1.2.3. Risk and reward
 - 1.2.4. Efficient markets
 - 1.2.5. Agency problems
 - 1.3. Ethics in financial management
 - 1.4. Legal forms of business
 - 1.4.1. Sole proprietorships
 - 1.4.2. Partnerships
 - 1.4.3. Corporations

2. Capital markets and rates of return
 - 2.1. Important financial markets
 - 2.1.1. Flow of funds
 - 2.1.2. Primary vs. secondary markets
 - 2.1.3. Security exchanges
 - 2.2. The investment banking function
 - 2.2.1. Public offerings
 - 2.2.2. Private placements
 - 2.3. Rates of return
 - 2.4. Determinants of interest rates
 - 2.4.1. Inflation
 - 2.4.2. Risk premiums
 - 2.5. The term structure of interest rates
 - 2.5.1. Historical rates of interest
 - 2.5.2. Theory of the term structure
3. The tools of financial analysis
 - 3.1. The income statement
 - 3.2. The balance sheet
 - 3.3. Measuring cash flows
 - 3.4. Corporate income taxes
 - 3.5. Using ratio analysis
 - 3.5.1. Liquidity
 - 3.5.2. Asset management

- 3.5.3. Financing the firm's assets
 - 3.5.4. Profitability
 - 3.6. Debt ratios and leverage
 - 3.7. Limitations of ratio analysis
- 4. The time value of money
 - 4.1. Compound interest and future value
 - 4.1.1. Using financial calculators and Excel
 - 4.1.2. Compounding periods and rates
 - 4.2. Present value and discounting
 - 4.3. Valuing annuities and uneven streams
 - 4.3.1. Present value and future value of annuities
 - 4.3.2. Valuing uneven cash flows
 - 4.4. Different compounding periods
- 5. Portfolio risk and return
 - 5.1. Defining and measuring risk and return
 - 5.1.1. Expected returns
 - 5.1.2. Defining and measuring risk
 - 5.2. Historical rates of return and risk
 - 5.2.1. Market rates of return and risk
 - 5.2.2. Individual asset rates of return and risk
 - 5.3. Portfolio risk and return
 - 5.4. The capital asset pricing model and beta
 - 5.5. Estimating the required rate of return

6. Bond valuation

6.1. Different kinds of bonds

6.2. Features of bonds

6.2.1. Par value, coupons, maturity

6.2.2. Call and conversion features

6.2.3. Bond ratings

6.3. Valuation of bonds

6.3.1. Determining value

6.3.2. Valuation basics

6.4. Determining bond yields

6.4.1. Yield to maturity

6.4.2. Current yield

6.5. Key relationships in bond valuation

7. Valuing equity

7.1. Defining common and preferred stock

7.1.1. Characteristics of preferred stock

7.1.2. Characteristics of common stock

7.2. Valuing preferred stock

7.3. Dividend discount models for valuing common stock

7.3.1. Constant growth model

7.3.2. Internal growth rates

7.4. The expected rate of return on stock

8. The cost of capital

- 8.1. Defining the cost of capital and its importance
- 8.2. The after-tax cost of debt
- 8.3. The cost of preferred equity
- 8.4. The cost of common equity
 - 8.4.1. Dividend discount models
 - 8.4.2. Using the CAPM
- 8.5. Determining capital structure weights
- 8.6. Calculating the weighted average cost of capital
- 8.7. Divisional costs of capital
9. Capital budgeting
 - 9.1. Capital budgeting decision criteria
 - 9.2. Payback methods
 - 9.3. Net present value method
 - 9.3.1. Using the NPV
 - 9.3.2. The profitability index
 - 9.4. Internal rate of return method
 - 9.5. Identifying the relevant project cash flows
 - 9.5.1. Guidelines for relevant cash flows
 - 9.5.2. Initial outlays
 - 9.5.3. Operating cash flows
 - 9.5.4. Terminal cash flows
 - 9.6. Calculating project free cash flows
10. Capital structure and firm value

- 10.1. Business and financial risk
 - 10.2. Break-even analysis
 - 10.3. Operating leverage
 - 10.4. Financial leverage
 - 10.5. Combined leverage
 - 10.6. The importance of capital structure
 - 10.7. The tools of capital structure management
 - 10.8. Important considerations in dividend policy
11. Working capital management
- 11.1. The risk-return tradeoff in working capital management
 - 11.2. The cash conversion cycle
 - 11.3. Short term sources of financing

Course Objectives

1. Analyze the logic behind the determination of interest rates and the required rates of return in the capital markets.
2. Compute a firm's debt ratio to ascertain how the firm is financing its assets.
3. Calculate the present and future value of an investment and an annuity.
4. Demonstrate how portfolio diversification can affect the expected return and the riskiness of investments.
5. Compute the present and future value of a bond under conditions of varying market interest rates.
6. Research and use the guidelines for capital budgeting to evaluate investment proposals. Measure a project's free cash flows.

7. Calculate the cost of debt capital, preferred stock, and common stock.
8. Determine the impact of the firm's financing mix on the valuation of the firm.
9. Illustrate the principles involved in managing a firm's investment in working capital.

Learning Materials and References

Required Resources

Textbook Package	New to this Course	Carried over from Previous Course(s)	Required for Subsequent Course(s)
Keown, A. J., Martin, J. D., & Petty, J. W. (2011). <i>Foundations of finance (7th ed.)</i> . Upper Saddle River, NJ: Prentice Hall.	■		
MyFinanceLab online (www.myfinancelab.com)	■		

Technology Requirements

Other Items	New to this Course	Carried over from Previous Course(s)	Required for Subsequent Course(s)
Excel 2007 (required)		■	■
Financial calculator (recommended)	■		

ITT Tech Virtual Library Readings (Required)

- Back on the junk. (2011, January 22). *Economist*, 398(8717), 86-88.

Virtual Library>Periodicals>EbscoHost Business Source Premier

- Katz, D. M. (2011, July/August). Easing the SQUEEZE. *CFO*, 27(6), 44-51.

Virtual Library>Periodicals>EbscoHost Business Source Premier

- Livingstone, J. L. (2009). Analyzing financial statements. In T. Grossman & J. L. Livingstone (eds.), *Portable MBA in Finance and Accounting (4th ed.)*. New York: John Wiley & Sons.

Virtual Library>Books>Books24x7

- Strom, S. (2011, June 14). To be good citizens, report says, companies should just focus on bottom line. *New York Times*, B6.

Virtual Library>Periodicals>LexisNexis Academic

- Weller, C. E. (2011). Fun with numbers: Disclosing risk to individual investors. *Journal of Pension Benefits*, 18(4), 53-65.

Virtual Library>Periodicals>EbscoHost Business Source Premier

Recommended Resources

Professional Associations

- The Financial Management Association: <http://www.fma.org>
- The CFA Institute: <http://www.cfainstitute.org>
- Financial Planning Association: <http://www.fpanet.org>
- Certified Financial Planner: <http://www.cfp.net>

ITT Tech Virtual Library/Books (Recommended)

- Adair, T. A. (2010). *Corporate finance demystified (2nd ed.)*. New York: The McGraw-Hill Companies.

Virtual Library>Books>ebrary

- Tennent, J. (2008). *Guide to financial management*. London: Profile Books/The Economist.

Virtual Library>Books>ebrary

Websites

- American Finance Association: See videos on “History of Finance.” <http://www.afajof.org>
- BizStats: A free online source for small business statistics. <http://www.bizstats.com>
- MSN Money: An online source for information on personal finance and investing. <http://moneycentral.msn.com>
- U.S. Securities and Exchange Commission: An online source for information on the U.S. Securities and Exchange Commission. <http://www.sec.gov>
- Investor Words: A financial glossary that provides definitions of key terms currently used in financial contexts. <http://www.investorwords.com>
- Yahoo! Finance: An online source for information on business finance, the stock market, quotes, and news. <http://finance.yahoo.com>

NOTE: All links are subject to change without prior notice.

Information Search

Use the following keywords to search for additional online resources that may be used for supporting your work on the course assignments:

- Efficient market hypothesis
- Agency problem
- Ratio analysis
- Time value of money
- Yield curve
- Capital asset pricing model
- Cost of capital
- Capital budgeting
- Net present value
- Working capital management

Course Plan

Suggested Learning Approach

In this course, you will be studying individually and within a group of your peers. As you work on the course deliverables, you are encouraged to share ideas with your peers and instructor, work collaboratively on projects and team assignments, raise critical questions, and provide constructive feedback.

Use the following advice to receive maximum learning benefits from your participation in this course:

DO	DON'T
<ul style="list-style-type: none">▪ Do take a proactive learning approach.▪ Do share your thoughts on critical issues and potential problem solutions.▪ Do plan your course work in advance.▪ Do explore a variety of learning resources in addition to the textbook.▪ Do offer relevant examples from your experience.▪ Do make an effort to understand different points of view.▪ Do connect concepts explored in this course to real-life professional situations and your own experiences.	<ul style="list-style-type: none">▪ Don't assume there is only one correct answer to a question.▪ Don't be afraid to share your perspective on the issues analyzed in the course.▪ Don't be negative about the points of view that are different from yours.▪ Don't underestimate the impact of collaboration on your learning.▪ Don't limit your course experience to reading the textbook.▪ Don't postpone your work on the course



deliverables - work on small assignment components every day.

Course Outline

<p><i>Unit 1: The Role of the Financial Manager</i></p>		<p><i>Out-of-class work:</i> 7 hours</p>	
<p>Upon completion of this unit, students are expected to:</p> <ul style="list-style-type: none"> • Identify the goal of the firm. • Outline the five basic principles of finance. • Describe the importance of ethical financial management in today's economy. 			
<p>GRADED ACTIVITIES / DELIVERABLES</p>			
READING ASSIGNMENT			Grade Allocation
	Grading Category	Activity/Deliverable Title	(% of all graded work)
<ul style="list-style-type: none"> ▪ Keown, Martin, & Petty, Chapter 1, pp. 2-16 ▪ Hand Out: Strom, S. (2011, June 14). To be good citizens, report says, companies should just focus on bottom line. <i>New York Times</i>, B6. 	Assignment	Unit 1 Assignment 1: Mini Case Assignment	4%

<p><i>Unit 2: Capital Markets and Rates of Return</i></p>	<p><i>Out-of-class work:</i></p>
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7 hours

Upon completion of this unit, students are expected to:

- Describe the important roles played by financial institutions in the financing of U.S. business.
- Describe the basic relationship between risk and return.
- Explain the fundamentals of interest rate determination.
- Use the theories of the term structure of interest rates to explain the yield curve.

READING ASSIGNMENT	GRADED ACTIVITIES / DELIVERABLES		
	Grading Category	Activity/Deliverable Title	Grade Allocation (% of all graded work)
Keown, Martin, & Petty, Chapter 2, pp. 18-44	Problem Sets	Unit 2 Problem Set 1: MyFinanceLab Assignment	3%
	Quizzes	Unit 2 Quiz 1	2%

Unit 3: The Tools of Financial Analysis

Out-of-class work:

11 hours

Upon completion of this unit, students are expected to:

- Use the income statement and balance sheet to evaluate the financial profile of the firm.
- Measure a company's cash flows.
- Describe the calculation of corporate income taxes.
- Utilize ratio analysis to assess the performance of a firm from five perspectives.

<ul style="list-style-type: none"> • Compute a firm’s debt ratio to ascertain how the firm is financing its assets. • Discuss the limitations of ratio analysis. 			
READING ASSIGNMENT	GRADED ACTIVITIES / DELIVERABLES		
	Grading Category	Activity/Deliverable Title	Grade Allocation (% of all graded work)
<ul style="list-style-type: none"> ▪ Keown, Martin, & Petty, Chapter 3, pp. 46-74; Chapter 4, pp. 84-116 ▪ Livingstone, J. L. (2009). Chapter 2: Analyzing financial statements. In T. Grossman & J. L. Livingstone (eds.), <i>The Portable MBA in Finance and Accounting (4th ed.)</i>. ITT Tech Virtual Library>Books>Books24x7 	Problem Sets	Unit 3 Problem Set 1: MyFinanceLab Assignment	3%
	Quizzes	Unit 3 Quiz 2	2%

Unit 4: The Time Value of Money*Out-of-class work:**11 hours*

Upon completion of this unit, students are expected to:

- Calculate the future value of a sum using compounding.
- Calculate the present value of a future cash flow using discounting.
- Apply time value of money principles to annuities.
- Calculate the values of cash flows using different compounding periods.

READING ASSIGNMENT	GRADED ACTIVITIES / DELIVERABLES		
	Grading Category	Activity/Deliverable Title	Grade Allocation (% of all graded work)
Keown, Martin, & Petty, Chapter 5, pp. 118-147	Quizzes	Unit 4 Quiz 3	2%
	Problem Sets	Unit 4 Problem Set 1: MyFinanceLab Assignment	3%

Unit 5: Portfolio Risk and Return*Out-of-class work:**9 hours*

Upon completion of this unit, students are expected to:

- Calculate measures of risk and return for single assets.
- Outline the historical record of risk and return in financial markets.
- Explain how portfolio diversification affects riskiness and expected returns.

<ul style="list-style-type: none"> Explain the relationship between an investor's required rate of return and risk of an investment. 			
READING ASSIGNMENT	GRADED ACTIVITIES / DELIVERABLES		
	Grading Category	Activity/Deliverable Title	Grade Allocation (% of all graded work)
<ul style="list-style-type: none"> Keown, Martin, & Petty, Chapter 6, pp. 156-180 Weller, C. E. (2011). Fun with numbers: Disclosing risk to individual investors. <i>Journal of Pension Benefits</i>, 18(4), 53-65. <p>ITT Tech Virtual Library>Periodicals>EbscoHost Business Source Premier</p>	Quizzes	Unit 5 Quiz 4	2%
	Problem Sets	Unit 5 Problem Set 1: MyFinanceLab Assignment	3%

Unit 6: Bond Valuation**Out-of-class
work:***7 hours*

Upon completion of this unit, students are expected to:

- Describe the features of bonds.
- Explain the factors that determine the value of a bond.
- Calculate the value of bonds with different characteristics.
- Estimate a bondholder's expected rate of return.

READING ASSIGNMENT	GRADED ACTIVITIES / DELIVERABLES		
	Grading Category	Activity/Deliverable Title	Grade Allocation (% of all graded work)
<ul style="list-style-type: none"> ▪ Keown, Martin, & Petty, Chapter 7, pp. 188-207 	Problem Sets	Unit 6 Problem Set 1: MyFinanceLab Assignment	3%
<ul style="list-style-type: none"> ▪ Back on the junk. (2011, January 22). <i>Economist</i>, 398(8717), 86-88. <p>ITT Tech Virtual Library>Periodicals>EbscoHost Business Source Premier</p>	Midterm Exam	Midterm Exam	15%

Unit 7: Valuing Equity**Out-of-class work:***9 hours*

Upon completion of this unit, students are expected to:

<ul style="list-style-type: none"> • Define preferred and common stock. • Compute the value of preferred stock. • Use simple valuation models to value common stock. • Determine the expected rate of return on equity securities. 			
READING ASSIGNMENT	GRADED ACTIVITIES / DELIVERABLES		
	Grading Category	Activity/Deliverable Title	Grade Allocation (% of all graded work)
Keown, Martin, & Petty, Chapter 8, pp. 212-233	Quizzes	Unit 7 Quiz 5	2%
	Problem Sets	Unit 7 Problem Set 1: MyFinanceLab Assignment	3%
	Project	Unit 7 Project Part 1: Company Ratio Analysis (PORTFOLIO)	6%

Unit 8: The Cost of Capital***Out-of-class work:****9 hours*

Upon completion of this unit, students are expected to:

- Explain the importance of the cost of capital.
- Determine the cost of capital for debt, preferred and common equity.
- Describe the use of capital structure weights.
- Calculate the firm's weighted average cost of capital.

READING ASSIGNMENT	GRADED ACTIVITIES / DELIVERABLES		
	Grading Category	Activity/Deliverable Title	Grade Allocation (% of all graded work)
Keown, Martin, & Petty, Chapter 9, pp. 234-263	Quizzes	Unit 8 Quiz 6	2%
	Problem Sets	Unit 8 Problem Set 1: MyFinanceLab Assignment	3%
	Project	Unit 8 Project Part 2: Company Beta Calculation (PORTFOLIO)	4%

Unit 9: Capital Budgeting***Out-of-class work:****11 hours*

Upon completion of this unit, students are expected to:

- Calculate the NPV and IRR of a project.
- Explain the strengths and weaknesses of different capital budgeting

<p>decision criteria.</p> <ul style="list-style-type: none"> • Identify the cash flows of projects. • Calculate a project's free cash flows. 			
GRADED ACTIVITIES / DELIVERABLES			
READING ASSIGNMENT			Grade Allocation
	Grading Category	Activity/Deliverable Title	(% of all graded work)
Keown, Martin, & Petty, Chapter 10, pp. 264-294; Chapter 11, pp. 302-315	Quizzes	Unit 9 Quiz 7	2%
	Problem Sets	Unit 9 Problem Set 1: MyFinanceLab Assignment	3%

Unit 10: Capital Structure and Firm Value*Out-of-class work:**7 hours*

Upon completion of this unit, students are expected to:

- Distinguish between business risk and financial risk.
- Use the technique of break-even analysis.
- Analyze the effects of different types of leverage.
- Describe the factors that influence the optimal capital structure.
- Explain the important considerations that influence a firm's dividend policy.

READING ASSIGNMENT	GRADED ACTIVITIES / DELIVERABLES		
	Grading Category	Activity/Deliverable Title	Grade Allocation (% of all graded work)
Keown, Martin, & Petty, Chapter 12, pp. 336-371; Chapter 13, pp. 372-379	Quizzes	Unit 10 Quiz 8	2%
	Problem Sets	Unit 10 Problem Set 1: MyFinanceLab Assignment	3%
	Project	Unit 10 Project Part 3: Equity Valuation (PORTFOLIO)	4%

Unit 11: Working Capital Management*Out-of-class work:**11 hours*

Upon completion of this unit, students are expected to:

- Describe the trade-offs involved in working capital management.
- Calculate the cash conversion cycle.
- Outline the sources of short-term financing.
- Explain methods of managing current assets to improve financial performance.

READING ASSIGNMENT	GRADED ACTIVITIES / DELIVERABLES		
	Grading Category	Activity/Deliverable Title	Grade Allocation (% of all graded work)
<ul style="list-style-type: none"> ▪ Keown, Martin, & Petty, Chapter 15, pp. 412-429; Chapter 16, pp. 436-454 ▪ Katz, D. M. (2011, July/August). Easing the SQUEEZE. <i>CFO</i>, 27(6), 44-51. <p>ITT Tech Virtual Library> Periodicals> EbscoHost Business Source Premier</p>	Project	Unit 11 Project Part 4: Cost of Capital (PORTFOLIO)	4%
	Final Exam	Final Exam	20%

Note: Your instructor may add a few learning activities that will change the grade allocation for each assignment in a category. The overall category percentages will not change.

Evaluation and Grading

Evaluation Criteria

The graded assignments will be evaluated using the following weighted categories:

Category	Weight
Assignments	4%
Problem Sets	27%
Project	18%
Quizzes	16%
Midterm Exam	15%
Final Exam	20%
TOTAL	100%

Grade Conversion

The final grades will be calculated from the percentages earned in the course, as follows:

Grade	Percentage	Credit
A	90-100%	4.0
B+	85-89%	3.5
B	80-84%	3.0
C+	75-79%	2.5
C	70-74%	2.0
D+	65-69%	1.5
D	60-64%	1.0
F	<60%	0.0

Academic Integrity

All students must comply with the policies that regulate all forms of academic dishonesty, or academic misconduct, including plagiarism, self-plagiarism, fabrication, deception, cheating, and sabotage. For more information on the academic honesty policies, refer to the Student Handbook and the Course Catalog.

