

Generic Elective - BBA

GE 1: FUNDAMENTALS OF FINANCIAL MANAGEMENT

CREDIT DISTRIBUTION, ELIGIBILITY AND PRE-REQUISITES OF THE COURSE

Course title & Code	Credits	Credit distribution of the course			Eligibility criteria	Pre-requisite of the course (if any)
		Lecture	Tutorial	Practical/ Practice		
Fundamentals of Financial Management GE-1	4	3	1	0	Class XII	Basic knowledge of financial accounting, cost and management accounting and corporate accounting

Course Objectives:

- To provide an understanding of the essential elements of the financial environment in which the business firm operates.
- To acquaint students with the techniques of financial management and their applications for business decision making.

Learning Outcome:

Upon completion of the course a learner shall be competent to:

- Understand the concept of time value of money, process of capital budgeting, concepts of cost of capital and other aspects of financing, dividend and working capital decisions
- Understand the process of making investments, raising finance for investment in fixed and current assets and distribution of surplus from business operations.
- Apply the techniques of time value of money in real life situations, techniques of capital budgeting in investment decisions, process to calculate the cost of capital and share price based on dividends along with the estimation of working capital and its components.
- Evaluate the investment opportunities available, the various financing mix that can be used to derive the maximum value from the investment opportunities, the optimal dividend payout and monitor the current asset requirements.
- Analyse the evaluation outcomes to choose the best investment opportunity at the lowest cost of financing and adopt the optimal dividend pay-out along with the optimal level of liquidity through the working capital route to derive maximum wealth.

- Create a portfolio of investments at the best possible financing and dividend mix with the most appropriate working capital composition that will create maximum wealth under the given constraints.

Course Contents:

Unit 1

Nature of Financial Management: Finance and related disciplines; Scope of Financial Management; Functions of finance – Finance Decision, Investment Decision, Dividend Decision; Objectives of Financial Management; Organisation of finance function; Concept of Time Value of Money – present value, future value, annuity.

Unit 2

Strategic Investment Decisions: Capital Budgeting -; Nature and meaning of capital budgeting; Principles and Process; Estimation of relevant cash flows and terminal value; Evaluation techniques– Payback period, Accounting Rate of Return, Net Present Value, Internal Rate of Return, Net Terminal Value, Profitability Index Method.

Cost of Capital: Meaning and concept, Measurement of cost of capital – Cost of debt, Cost of Equity Share; Cost of Preference Share; Cost of Retained Earning; Computation of over-all cost of capital based on Historical and Market weights (WACC).

Unit 3

Strategic Financing Decisions - Capital Structure, Theories and Value of the firm – Net Income approach, Net Operating Income approach, Traditional approach, Modigliani Miller (MM) model. Leverage analysis and EBIT-EPS Analysis: Concept of leverage, Types of leverage: Operating leverage, Financial leverage, Combined leverage; EBIT-EPS Analysis. Guidelines for capital structure planning, Link between capital structure and capital budgeting. Dividend Decisions: Factors determining dividend policy, Theories of dividend- Gordon model, Walter model, MM Hypothesis. Dividend policies in practice.

Unit 4

Working Capital Management: Determination of Working Capital. Determining financing mix of working capital. Receivables Management – Objectives; Credit Policy, Cash Discount, Debtors Outstanding and Ageing Analysis; Costs – Collection Cost, Capital Cost, Default Cost, Delinquency Cost. Management of Cash (Theory only) – Need for Cash, Cash Management Techniques (Lock box, Concentration Banking). Inventory Management (Theory only) – ABC Analysis; Minimum Level; Maximum Level; Reorder Level; Safety Stock; EOQ (Basic Model).

Essential Readings:

1. Berk, J., & DeMarzo, P. (n.d.). Corporate Finance (5th ed.). Pearson - Prentice Hall.
2. Horne, J. C. V., & Wachowicz, J. M. (n.d.). Fundamentals of Financial Management (13th ed.). FT Prentice Hall, Pearson Education.
3. Pandey, I. M. (n.d.). Financial Management. Pearson.