

## **Managerial Finance**

*Course Title: Managerial Finance*

*Course No: FIN 508*

*Nature of the Course: Core*

*Duration of the Course: 50 Lecture hours*

*Duration of the Class: 60 minutes*

*Full Marks: 50*

*Pass Marks: 20*

### **Course Objectives**

The course aims to provide the students with an understanding of the principles of financial management together with knowledge of the analytical techniques for developing skills in their application required for making financial decisions.

### **Course Description**

This course provide an overview of managerial finance with a special emphasis on nature of finance, financial analysis, cost of capital and financial structure, capital budgeting, working capital management, dividend policy, and bankruptcy, and financial distress.

### **Course Contents**

#### **Unit 1: Nature of Finance LH 4**

Nature of managerial finance; Career in finance; The goals of corporation: Stock price maximization and social welfare, Management action to maximize shareholders' wealth, Business ethics and social responsibility; Agency relationship: Stockholders vs -Managers, Stockholders vs Creditors; Managerial accountability to shareholders in public limited companies in Nepal.

#### **Unit 2: Analysis of Financial Statement LH 6**

Nature and need of financial analysis; Types of ratios; Trend analysis, common side and percentage change analysis; Du-Pont system of financial analysis-. Comparative ratios and 'Benchmarking'; Uses and limitation of ratio analysis; qualitative factors in financial performance evaluation; Application of financial ratios in public limited companies in Nepal.

#### **Unit 3: Cost of Capital and Financial Structure LH 10**

Cost of capita! and its significance; Component cost of capital; Weighted average cost of capital; Capital structure and cost of capital; Factors affecting the weighted average cost of capital; Adjusting cost of capita! for risk-, Estimating project risk and risk adjusted cost of capital; Divisional Cost of capital Cost of capital for a project or a division; Marginal cost of capital; Breaks in marginal cost of capital schedule; Combining the MCC and investment opportunity schedule; Measuring cost of capital ' in public limited companies in Nepal. Financial leverage; Financial leverage and risk; Financial leverage and equity risk; Financial leverage and ROE; Leverage and operating leverage; Investment and leverage; Factors affecting financial structure.

#### **Unit 4: Capital Budgeting LH 10**

Importance; Generating ideas for capital project; Project classification; Estimating cash flows; Capital budgeting decision rules- PB, DPB, NPV, IRR, MIRR and PI; The basic replacement decision; Expansion projects; Comparison of NPV and IRR methods; - Modified internal rate of return; Profitability index; Special application of cash flow evaluation- Projects with different lives; Adjusting for inflation; The optimal capital budget; Business practice and implication in Nepal.

#### **Unit 5: Working Capital Management, LH 6**

Working capital terminology; Alternate current assets investment and financing policies; Risk and return trade off; Cash conversion cycle; The concept of zero working capital; Cash Management: Concepts and techniques, Cash conversion cycle; Inventory management: Inventory costs and Inventory control systems; Receivable management: Accumulation of receivable: Monitoring receivable position, Setting the elements of credit policy, Other factors influencing credit policy.

#### **Unit 6: Dividend Policy LH 6**

Nature of dividend policy decision; Dividend vs capital gains-, Dividend policy issues- Factors influencing dividend policy, Stock dividend-, Stock splits; Stock repurchase; Dividend payment procedure and establishing dividend policy practice in public limited companies in Nepal.

#### **Unit 7: Financial Distress LH 8**

Financial distress and its consequences; Issues facing a firm in financial distress, Settlements without going through formal bankruptcy, predicting bankruptcy: Altman model Reorganization in bankruptcy-, Liquidation in bankruptcy; causes for bankruptcy; growing emphasis on merger and acquisition movement in Nepal,

#### **Basic References**

Brigham, E.F. and Ehrhardt, M.C. (2007). **Financial Management: Theory and Practice**. New Jersey: Thomson South-Western. Brigham, E.F. and Ehrhardt, M.C. (2008). **Financial Management: Text and Cases**. New Jersey: Thomson South- Western,

Home, V. and James C. (2007). **Financial Management and Policy**. New Delhi: Prentice Hall of India.

#### **Supplementary Readings**

Keown, A.J., Martin, J.D., Petty, J.W. and Scott, D.F. Jr. (2007). **Financial Management: Principles and Applications**. New Delhi: Prentice Hall of India.

*Levy, H. and Marshall, S. (1989). Principles of Financial Management New Jersey: Prentice Hall Inc.*

Moyer, R.C., McGuigan, J.R. and William, J.K. (2003). **Contemporary Financial Management**. New Jersey: Thomson, South-Western.

Pandey, I.M. (2004). **Financial Management**. New Delhi: Vikash Publishing House Pvt. Ltd.

- Paudel, R.B., Baral, K.J., and others. (2008). **Corporate Financial Management**. Kathmandu: Asmita Publication.
- Pradhan, R.S. (1992). **Financial Management Practices in Nepal**. New Delhi: Vikash Publishing House Pvt. Ltd.
- Pradhan, S. (2004). **Basics of Financial Management**. Kathmandu: Educational Enterprises.*
- Shrestha, M.K. (1980). **Financial Management** Kathmandu: Curriculum Development Center, Tribhuvan University.
- Shrestha, M.K. (2005). *Readings in Financial Management*. Kathmandu: Buddha Academic Enterprise.
- Weston, J.F., Chung, K.S. and Hong, S.E. (1998). **Mergers, Restructuring and Corporate Control**. New Delhi: Prentice Hall of India Pvt. Ltd.*
- Weston, J.F. and Thomas E.C. (1992). *Managerial Finance*. New York: The Dryden Press.