

COLLEGE OF MICRONESIA – FSM
P.O. Box 159, Pohnpei FM 96941
COURSE OUTLINE COVER PAGE

PRINCIPLES OF FINANCE

BU 250

Course Title

**Department and
Number**

COURSE DESCRIPTION

The course will provide the student an in-depth understanding of financial aspects of business such as financial statement analysis, risk and rates of return, time value of money, valuation of bonds and stocks, financial forecasting, working capital policy, credit management, inventory management, short-term financing, and projecting cash flow.

Course Prepared by: Division of Business Administration **State** COM-FSM National Campus

	Hours per Week		No. of Week		Total Hours		Semester Credits	
Lecture	3	x	16	x	48/16	=	3	
Laboratory		x		x		=		
Workshop		x		x		=		
Total Semester Credits								<u>3</u>

Purpose of Course:

Degree Requirement	<input checked="" type="checkbox"/>
Degree Elective	<input type="checkbox"/>
Certificate – 3 rd Yr	<input type="checkbox"/>
Other	<input type="checkbox"/>

Prerequisite Course(s): AC220 – Accounting II plus BU/MS 110 or MS 150

Signature, Chairperson, Curriculum Committee

Date Approved by Committee

Signature, President, COM-FSM

Date Approved by President

A: GENERAL COURSE OBJECTIVES

The course will provide the student an in-depth understanding of financial aspects of business. By the end of the course, the student is expected to:

- i) Comprehend the role of financial management in the overall operations of the firm.
- ii) Demonstrate competency in analyzing the financial statements of a firm.
- iii) Demonstrate competency in solving problems related to finance in areas such as risk and return, time value of money, bond and stock valuation, forecasting, cash flow projection and other financial areas.

B: SPECIFIC OBJECTIVES

By the end of the course, the student will be able to:

1. Explain the importance of finance in all major disciplines and its usefulness to individuals in their roles as consumers, investors, employees, employers, and citizens.
2. Differentiate between financial and accounting perspectives on the financial balance sheet.
3. Explain the goal of the corporation - shareholder wealth maximization.
4. Explain corporate finance concepts including fixed and residual claims, bonds and stocks, markets, agency problems, and information asymmetry.
5. Explain how product markets, financial markets, and the government create both opportunities and limitations for corporations.
6. Enumerate the characteristics of financial markets.
7. Differentiate between primary and secondary markets and between money and capital markets.
8. Explain the importance of cash flow and describe why net income is not an accurate measure of cash flow.
9. Name and apply several methods to estimate a firm's historical and future cash flows.
10. Solve for the present value or the future value of single cash flows using simple, compound, or continuously compounded interest.
11. Solve for either the number of periods or the interest rate for a single cash flow problem where all other variables are known.
12. Solve multiple cash flow problems by recursively applying the single cash flow technique.
13. Compute annuities, annuities due and perpetuities.
14. Solve for the expected return of a project AND for the price or expected return of a coupon bond and of a share of preferred or common stock.
15. Explain how capital markets, especially stock markets, function.
16. Explain how the risk of diversified portfolios, through the portfolio effect, is reduced to market risk only and describe how in competitive markets, only market risk is reflected in securities prices.
17. Explain the application of beta.
18. Explain the security market line and apply the capital asset pricing model in security pricing.
19. Define the basics of the corporate investment decision.

20. Explain how markets create investment opportunities, what firms must do to capitalize on those opportunities and how investing fits in with corporate strategy.
21. Enumerate various investments that contain options that analysts should consider in project evaluation.
22. Estimate the weights used in the weighted average cost of capital (WACC), based on market values.
23. Estimate the after-tax cost of debt.
24. Estimate the cost of preferred stock.
25. Estimate the cost of equity using three methods: the capital asset pricing model (CAPM) approach, the discounted cash flow approach, and the debt-equity risk premium approach, and adjust these estimates for the costs of raising capital from outside sources.
26. Compute the WACC.
27. Explain the risk-adjusted, discount rate (RADR) and when it should be used instead of the WACC.
28. Estimate an RADR using the pure-play technique.

C: COURSE CONTENT

- Financial Model of the Corporation
- Markets, Value, and the Firm
- Estimating Cash Flows
- Time Value of Money
- Time Value Applications: Security Valuation and Expected Returns
- Risk and Return in the Capital Markets
- Capital Budgeting: Investing to Create Value
- Cost of Capital

D: TEXTBOOK

Foundations of Corporate Finance, 2nd edition, by Hickman, Hunter, and Byrd. South-Western Publishing: Ohio, 2002. ([Chapters 1-8](#))

E: REQUIRED COURSE MATERIALS

Business calculator

F: METHODS OF INSTRUCTION

Lectures (including guest speakers from the local financial community), class discussions, projects, and various individual and group assignments.

G: EVALUATION:

Assessment will be in the form of projects, quizzes, homework, individual and group assignments, and exams given throughout the semester. Grades will be assigned based on the following percentage of total points received from projects, quizzes, homework practice sets, and exams.

90 - 100% = A; 80 - 89% = B; 79 - 79% = C; 60 - 69% = D; 59% and under = F

H: CREDIT BY EXAMINATION AVAILABLE FOR THE COURSE

None

I: ATTENDANCE POLICY

The College attendance policy shall be applied.

J: ACADEMIC HONESTY POLICY

The College academic honesty policy shall be applied.