**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD**

**(Department of Commerce)**

**INTRODUCTION TO BUSINESS FINANCE (8594)**

**CHECKLIST**

**SEMESTER: SPRING 2025**

This packet comprises the following material:

1. Course Outlines
2. Assignment No. 1 & 2
3. Assignment Forms (2 sets)

In this packet, if you find anything missing from the above-mentioned material, please contact us at the address given below:

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**ALLAMA IQBAL OPEN UNIVERSITY ISLAMABAD**

**(Department of Commerce)**

**WARNING**

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE IF FOUND AT ANY STAGE.**
2. **SUBMITTING ASSIGNMENT(S) BORROWED OR STOLEN FROM OTHER(S) AS ONE’S OWN WILL BE PENALIZED AS DEFINED IN “AIOU PLAGIARISM POLICY”.**

**Course: Introduction to Business Finance (8594) Semester: Spring 2025**

**Level: BS(A&F)/ADC**

## Please read the following instructions for writing your assignments. (AD, BS, B. Ed, MA/MSc, MEd) (ODL Mode).

1. All questions are compulsory and carry equal marks but within a question the marks are distributed according to its requirements.

2. Read the question carefully and then answer it according to the requirements of the questions.

3. Avoid irrelevant discussion/information and reproducing from books, study guide or allied material.

4. Handwritten scanned assignments are not acceptable.

5. Upload your typed (in Word or PDF format) assignments on or before the due date.

6. Your own analysis and synthesis will be appreciated.

7. Late assignments can’t be uploaded at LMS.

8. The students who attempt their assignments in Urdu/Arabic may upload a scanned copy of their handwritten assignments (in PDF format) on University LMS. The size of the file should not exceed 5MB.

**Total Marks: 100 Pass Marks: 50**

**ASSIGNMENT No. 1**

**(Units: 1–4)**

**Note: Attempt all questions.**

Q. 1 a. What are various types of business firms? Highlight the key differences between them.

b. Explain different types of financial markets and their roles in the economy.

Q. 2 What insights do the balance sheet and income statement offer, and why are these insights important for investors? **(20)**

Q. 3 a. If you invest Rs 30,000 every year for the next 15 years starting 1 year from 1st January 2025, you earn an interest rate of 8% annually. How much will you have at the end of 10 years?

b. What is the present value of the following cash flows at the interest rate of 9% per year?

1. Rs. 200,000 received 5 years from now.
2. Rs. 300,000 received 20 years from now.
3. Rs. 110,000 received every year, beginning one year from now and ending 12 years from now.

Q. 4 How can the value of a company be measured? A company has a total share capital of Rs 1000 million. It has issued 50 million shares. What is the book value per share of this company? Now you are told that the share of this company is selling at Rs 55 on the stock exchange. Which value is more realistic? Give the reason to support your answer. **(20)**

Q. 5 a. What are different types of marketable securities, and how do they differ from each other? **(10)**

b. What strategies can a firm implement to improve the efficiency of its cash management? **(10)**

**Total Marks: 100 Pass Marks: 50**

**ASSIGNMENT No. 2**

**(Units: 5–9)**

**Note: Attempt all questions.**

Q. 1 a.You are considering two investment options: Annual Bank Ltd.’s Deposit Account, which offers an 8% interest rate compounded annually, and Monthly Bank Ltd.’s savings account, which offers a 7.5% interest rate compounded monthly. Based purely on the Effective Annual Rate (EAR), which investment would you prefer and why? **(10)**

b. How does the valuation of pure discount bonds differ from the valuation of perpetual bonds? Explain with a suitable example.  **(10)**

Q. 2 Explain the various capital budgeting techniques used by companies to evaluate investment projects. Discuss the advantages and disadvantages of each method and provide real-world examples to illustrate when each technique would be most appropriate for decision-making. **(20)**

Q.3 Given below is the information on the capital structure of three companies on 31-12-2024.  **(20)**

|  |  |  |  |
| --- | --- | --- | --- |
| **All figures in thousands of Rs.** | **Company A** | **Company B** | **Company C** |
| Paid Up Ordinary Share Capital | 135,000 | 90,000 | 750,000 |
| Capital Reserves | 20,000 | 0 | 120,000 |
| Retained Earnings | 15,000 | 250,000 | 220,000 |
| 9% Preference Shares, | 0 | 20,000 | 300,000 |
| 11% Bonds, redeemable at par | 90,000 | 20,000 | 0 |
| Dividend on ordinary shares: % | 15% | 30% | 16% |
| Expected Growth in Equity: % | 10% | 5% | 4% |
| Earnings per ordinary share | 42,000 | 112,500 | 224,000 |
| Market Value of OrdinaryOrdinary Share | 15 | 45 | 12 |
| Effective Tax on Earnings | 32% | 33% | 35% |

Using the above data, calculate the following cost for each company.

(a) Cost of Equity.

(b) Cost of Debt.

(c) Weighted Average Cost of Capital.

Q.4 Future value of an annuity for each case in the accompanying table, answer the questions that follow. **(20)**

|  |  |  |  |
| --- | --- | --- | --- |
| Case | Amount of annuity | Interest rate | Deposit period |
| A | Rs. 3000 | 10% | 12 |
| B | 1000 | 15 | 6 |
| C | 35,000 | 20 | 5 |
| D | 12,000 | 10 | 8 |
| E | 8,000 | 14 | 30 |

Calculate the future value of the annuity assuming that it is

1. An ordinary annuity
2. An annuity is due.

Q. 5 a. What is meant by tax shield? Explain with an example. **(10)**

b. What is the difference between capital expenditure and revenue expenditure? Explain with the help of examples.  **(10)**

# DETAILED COURSE OUTLINES (8594)

**UNIT 1 INTRODUCTION TO FINANCE**

1. Meanings of Finance and Financial Management
2. Career opportunities in finance
3. Forms of business organization
4. Goals of the corporation
5. Agency relationships.

**UNIT 2 FINANCIAL STATEMENTS:**

1. Balance sheet
2. Income statement
3. Statement of cash flows (IAS 7)
4. Accounting income vs. cash flow; Personal taxes
5. Corporate taxes
6. Analysis of Financial Statements and their Use:
7. Ratio analysis
8. Du Pont system; Effects of improving ratios
9. Limitations of ratio analysis; Qualitative factors

**UNIT 3 FORECASTING TECHNIQUES**:

1. Forecasting sales
2. Projecting the assets needed to support sales
3. Projecting internally generated funds
4. Projecting outside funds needed
5. Deciding how to raise funds
6. Seeing the effects of a plan on ratios
7. Efficient Market Hypothesis and its Implication

**UNIT 4 TIME VALUE OF MONEY**

1. The Role of Time Value in Finance
2. Time Value w.r.t. Single Amounts (Future Value and Present Value) including Simple Interest Mechanism and Compound Interest Mechanism
3. Time Value w.r.t. Compact Stream of Cash Flows i.e. Annuities (Future Value and Present Value) including Ordinary/Simple Annuity, Annuity Due/Outstanding, and Perpetuity
4. Time Value w.r.t. Mixed Stream of Cash Flows (Future Value and Present Value)
5. Practical Implication of Time Value of Money covering Intra-year Compounding; Nominal Vs Effective Rate of Interest
6. Continuous Compounding
7. Funds Accumulation through Regular Deposits
8. Loan Amortization
9. Finding Interest / Growth Rates.

**UNIT 5 FINANCIAL ASSETS / SECURITIES, AND THEIR VALUATION**

1. Meaning and Understanding of Financial Assets
2. Primary Features of Financial Assets; Basic Model (Formula) / Mechanics of Valuing a Financial Asset / Security; Fundamentals of Interest Rate including Interest Rate,
3. Required Rate (of Return),
4. Inflation,
5. Real Vs Nominal Rate of Interest (Return)
6. Term Structure of Interest Rates including Yield Curve and its Dimensions, and Yield to Maturity (YTM)
7. Risk and Risk Premium; M
8. major Types of Risk w.r.t. Debt-specific Risk Premium Components (Issuer- & Issuer-related); Default, Maturity,
9. Contractual Provision

**UNIT 6 EQUITY& CORPORATE BONDS VALUATION**.

1. Nature, Definition, Features and Components,
2. Cost of Bonds to the Issuer,
3. Valuation of a Bond (Pricing of a Bond) – Model and Sensitivity Analysis (Price Changes);
4. Common Types of Bonds, and their respective Features.
5. Stocks, and Equity; Nature, Definition,
6. Features and Components.
7. Debt Vs Equity; Common Stock Vs Preferred Stock.
8. Preferred Stock Valuation; Authorized / Registered Capital.
9. Issued, Subscribed and Paid-up Capital; Classification of Preferred Stock; Concept, and Process of IPO w.r.t. Pakistan
10. Efficient Market Hypothesis, and Market Efficiency; Basic Model for Common Stock Valuation; Major Types of Valuation Models for Common Stock including Zero-growth Model, Constant-growth Model, Variable-growth Model
11. Other Approached of Valuation for Common Stock including Book Value, Liquidation Value, Price/Earnings Multiples

**UNIT 7 CAPITAL INVESTMENT & ITS VALUATION,**

1. Capital: Sources of Capital and Cost of Capital, and Determination of the Cost of Capital,
2. Optimal Mix of Capital Sources
3. Meanings, and Nature of Investment (Relevant Assets),
4. Meanings of Capital Budgeting,
5. Fundamentals of Capital Budgeting including Motives for capital expenditure, Process of capital budgeting
6. Basic Terminology covering Independent Projects versus Mutually Exclusive Projects,
7. Unlimited Funds versus Capital Rating, Accept-Reject versus Capital Rationing, Accept-Reject versus Ranking Approaches
8. Overview of Capital Budgeting Techniques: (1) Payback Period 1st Technique, Decision Criteria, Pros and Cons of Payback Analysis; (2) Net Present Value (NPV) 2nd Technique, NPV and Profitability Index, NPV and Economic Value Added; (3) Internal Rate of Return (IRR) 3rd Technique, Calculating the IRR through Interpolation
9. Comparing NPV and IRR Techniques:
   1. Net Present Value Profiles, and (2) Conflicting Rankings including Reinvestment Assumptions, Timing of the cash flow, and Magnitude of the Initial Investment.

**UNIT 8 CAPITAL BUDGETING CASH FLOWS**

1. Capital Budgeting Process: An Overview Overview and Understanding
2. Relevant Cash Flows:
3. Major Cash Flow Components
4. Expansion VS Replacement Decisions
5. Sunk Costs and Opportunity Costs
6. Finding the Initial Investment:
7. Installed Cost of New Asset
8. After-tax Proceeds from the Sale of Old Assets
9. Change in Net Working Capital
10. Calculating the Initial Investment
11. Finding the Operating Cash Flows
12. After-tax Meanings and Use
13. Estimating Project “After Tax Incremental Operating Cash Flows”
14. Finding the Terminal Cash Flows
15. Proceeds from Sale of Assets
16. Taxes on Sale of Assets
17. Change in Net Working Capital

**UNIT 9 PROJECT EVALUATION & SELECTION: ALTERNATIVE METHODS**

1. Project Monitoring: Progress Reviews & Post-Completion Audits
2. The Problem of Project Risk
3. Total Project Risk
4. Contribution to Total Firm Risk: Firm Portfolio Approach
5. Managerial Options

**RECOMMENDED TEXTS:**

1. Principles of Managerial Finance by Lawrence J. Gitman Latest Edition
2. Fundamentals of Finance by Van Horne Latest Edition
3. Melicher, W.R & Norton, A.E, (Latest Edition), Finance, John Wiley and Sons, Inc.