FIN221 BUSINESS FINANCE 1  6 CP

Pre-requisites: ACCY101, ACCY190, or ACCY100, or ACCY108 and ACCY109

AUTUMN  2005  Wollongong, Shoalhaven, Bega, Batemans Bay, Moss Vale

Lecturer and Subject Coordinator

Ms Mara Koplin  School of Accounting and Finance

Room:  40 322  Ph:  42213680  email:  mkoplin@uow.edu.au

Consultation:  Monday  Time:  11:30-13:00
               16:30-17:30
               Thursday  11:30-13:00
SECTION A: GENERAL INFORMATION

LECTURE TIMES

Monday  10:30-11:30 67.107
          17:30-18:30 20.5 (Repeat)
Thursday 10:30-11:30 67.107
          18:30-19:30 20.5 (Repeat)

TUTORIALS

Tuesday  8:30-9:30    19.G005
         9:30-10:30  40.127
         9:30-10:30  40.126
         10:30-11:30 40.127
         11:30-12:30 19.2103
         12:30-13:30 19.1067
         16:30-17:30 19.1084
         18:30-19:30 19.1066
Wednesday 9:30-10:30 19.G026
         10:30-11:30 67.102
         11:30-12:30 19.2103
         13:30-14:30 19.1067
         14:30-15:30 19.1067
         15:30-16:30 19.1098
         16:30-17:30 19.1098
         18:30-19:30 19.1083
         19:30-20:30 25.159
         20:30-21:30 30.113

Tutorial Attendance

Attendance at tutorials is a compulsory requirement (see Students Code of Conduct) of this subject.

A schedule of the questions to be prepared for the tutorials is attached. These questions must be attempted before the tutorial. Attempted solutions to tutorial problems are to be submitted to tutors as required. Your tutors will provide further details on what is required.

Tutorials begin in week 2 and finish in week 13.

Your preparation and participation in weekly tutorial discussions will be taken into account when awarding your final mark and when considering requests for special consideration. You must attend your assigned tutorial. I would encourage you to attend an alternate tutorial if you are (on rare occasions) unable to attend your own. However, your tutorial participation assessment will only include attendance at your assigned tutorial (except in the case of public holidays).
Students will be able to seek help from tutors during consultation times. Tutors will indicate their availability in the first tutorial and their consultation times will be posted on the school noticeboard.

**WORKSHOPS**

<table>
<thead>
<tr>
<th>Day</th>
<th>Time</th>
<th>Room</th>
</tr>
</thead>
<tbody>
<tr>
<td>Monday</td>
<td>18:30-19:30</td>
<td>67.102</td>
</tr>
<tr>
<td>Tuesday</td>
<td>8:30-9:30</td>
<td>67.102</td>
</tr>
<tr>
<td>Tuesday</td>
<td>14:30-15:30</td>
<td>67.102</td>
</tr>
<tr>
<td>Tuesday</td>
<td>14:30-15:30</td>
<td>19.G026</td>
</tr>
<tr>
<td>Tuesday</td>
<td>15:30-16:30</td>
<td>67.102</td>
</tr>
<tr>
<td>Tuesday</td>
<td>17:30-18:30</td>
<td>67.303</td>
</tr>
</tbody>
</table>

Workshops are intended to demonstrate the more practical aspects of the subject. Work will be undertaken during the workshop and does not need to be prepared in advance. Workshops are compulsory (see Students Code of Conduct).

Workshops commence in week 2 and finish in week 13. A schedule of the questions that will be done during the workshops is attached. It is not necessary to do these ahead of time.

The two quizzes will be held during the workshops in week 5 and week 10.

**Public Holidays**

If you have a tutorial or workshop that falls on a public holiday, consult the list of tutorial/workshop times and locations in this outline, on the School of Accounting and Finance Notice Board, third floor building 40 or on WebCT and select an alternative time to attend for that week.

**Access to Solutions**

Solutions for tutorial and workshop problems will be placed on WebCT the week before an assessment task (for example, solutions to week 1-4 tutorials will be released Friday morning of week 4). Students are advised to refer to the solutions provided.

**WebCT**

There is a web site for this subject. It is open to enrolled students of this subject through the university home page. You use your university username and password. On this site will be posted solutions, announcements, results, and at the lecturers’ discretion, lecture overheads.

http://edsnet.cedir.uow.edu.au/delivery/

**BRIEF OUTLINE**

Management needs to be informed in order to make effective decisions, this is as true for the finance function as for other areas of business activity. The aim of this course is to explore the alternatives available to managers as they seek to make corporate financial decisions to finance their business activities, as well as, to provide analytical tools to evaluate investments. The main focus throughout the course is on financial decision making. Major business finance decisions are considered in terms of investment risk and return.
STUDENT LEARNING OUTCOMES

Upon completion of this subject students will be able to:

- value projected cash flow streams such as loans, debentures, equity investments, and other contracts.
- model and solve short-term and long-term capital investment decision problems.
- identify and make allowance for the relationship exhibited by financial markets between risk and return.
- identify and measure the costs to the firm of different forms of debt and equity capital.
- evaluate the dividend and financial leverage policies of individual firms.
- build and operate financial models using computer spreadsheets.
- explain lucidly and succinctly selected concepts and tools of corporate finance.

ATTENDANCE REQUIREMENTS

In order to maximise learning outcomes, it is strongly recommended that students attend all lectures. Attendance at tutorials and workshops is compulsory.

PERFORMANCE LEVEL

To be eligible to pass this subject, students must achieve an overall mark of at least 50%, and at least 45% on the final examination.

REQUIRED TEXT(S)


This textbook is available online from the University Bookshop at http://unishop.uow.edu.au/textbooks/

RECOMMENDED BACKGROUND AND FURTHER READING


This is not an exhaustive list of references. Students should also use the library catalogue and databases to locate additional resources.

ADDITIONAL MATERIALS

There is an additional reading needed for week 12. This will be provided through the WebCT site.

Frino, A., E. Jarnecic, *Introduction to Futures and Options Markets in Australia*, chapter 1, Pearson/Prentice Hall 2005
# SECTION B: ASSESSMENT

## General Criteria

### Summary

<table>
<thead>
<tr>
<th>Task</th>
<th>Weighting</th>
<th>Due Date</th>
<th>Return date</th>
</tr>
</thead>
<tbody>
<tr>
<td>Spreadsheet Assignment</td>
<td>20%</td>
<td>28 April</td>
<td>3 weeks later, in tutorials</td>
</tr>
<tr>
<td>Quiz 1</td>
<td>15%</td>
<td>During workshop week 5</td>
<td>2 weeks later, on web</td>
</tr>
<tr>
<td>Quiz 2</td>
<td>15%</td>
<td>During workshop week 10</td>
<td>2 weeks later, on web</td>
</tr>
<tr>
<td>Final Exam</td>
<td>50%</td>
<td>TBA</td>
<td></td>
</tr>
</tbody>
</table>

NB. Marks may be scaled.

**NB.** To be awarded a Pass or higher grade in this subject, students must achieve at least 45% of the available marks in the final exam.

## Performance grades

<table>
<thead>
<tr>
<th>Grade</th>
<th>Description</th>
<th>Marks</th>
</tr>
</thead>
<tbody>
<tr>
<td>HD</td>
<td>High Distinction</td>
<td>85–100%</td>
</tr>
<tr>
<td>D</td>
<td>Distinction</td>
<td>75–84%</td>
</tr>
<tr>
<td>C</td>
<td>Credit</td>
<td>65–74%</td>
</tr>
<tr>
<td>P</td>
<td>Pass</td>
<td>50–64%</td>
</tr>
<tr>
<td>F</td>
<td>Fail (unsatisfactory completion)</td>
<td>0–49%</td>
</tr>
</tbody>
</table>
Assessment Tasks

Task 1: Quizzes

Quiz 1
Date: Assigned workshop of week 5
Weighting: 15%
Length: 50 minutes

Quiz 2
Date: Assigned workshop of week 10
Weighting: 15%
Length: 50 minutes

Quiz details: There will be 2 (two) quizzes for FIN221. These will be held during the workshops. You must attend your assigned workshop. Quizzes will be of 50 minutes duration each.

They will include subject matter covered in lectures and/or tutorials and/or workshops. You should study from your notes and tutorial work, supplementing this material with explanations and further example problems from the textbook. The objective is to test your understanding of the material rather than mere memory.

<table>
<thead>
<tr>
<th>Quiz #</th>
<th>Covers chapters:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1, 4, 5</td>
</tr>
<tr>
<td>2</td>
<td>6-11</td>
</tr>
</tbody>
</table>

Task 2: Major Assignment

Due date: 28 April 2005: by 6:20PM into assignment box outside 40.322
Return date: 3 weeks after submission
Weighting: 20%
Assignment details

This individual assignment is to be completed using a spreadsheet package (either in the faculty computer laboratory or using your own equipment) and placed in the assignment box outside 40.322 by 6:20PM on 28 April 2005.

Question 1

Required:

Delectronics Limited are considering the introduction of a new product that is expected to reach sales of $10 million in its first full year, and $13 million of sales in the second year. Because of intense competition and rapid product obsolescence, sales of the new product are expected to remain unchanged between the second and third years following introduction. Thereafter, annual sales are expected to decline to two-thirds of peak annual sales in the fourth year, and one-third of peak sales in the fifth year. No material levels of revenues or expenses associated with the new product are expected after five years of sales. Based on past experience, cost of sales for the new product was expected to be 60% of total annual sales revenue during each year of its life cycle. Selling, general, and administrative expenses are expected to be 23.5% of total annual sales. Taxes on profits generated by the new product will be paid at 30% the year after profits are earned.

To launch the new product, Delectronics Limited would have to incur immediate cash outlays of two types. First, it would have to invest $500,000 in specialized new production equipment. This capital investment would be fully depreciated prime cost (straight line) over 4 years. It is expected to be able to sell it for 10,000 at the end of the project. No further fixed capital expenditures will be required after the initial purchase of equipment.

Second, additional investment in net working capital to support sales would have to be made. Delectronics Limited generally require 27c of net working capital to support each dollar of sales. As a practical matter, this buildup would have to be made by the beginning of the sales year in question (or, equivalently, by the end of the previous year).

The new product will use production space that is currently not used, but leased out for $10,000 per year.

Finally, Delectronics Limited expects to incur tax-deductible introductory expenses of $200,000 in the first year of the new product’s sales. These costs would not be recurring over the product’s life cycle. Approximately $1 million has already been spent developing and test marketing the new product. These expenditures are also one-time expenses that will not be recurring during the new product’s life cycle.

Their required return (cost of capital) is 18.5%
Required

a) Calculate the NPV and IRR of the project.

b) Redo the spreadsheet with the following (independent) changes (for each change, a new spreadsheet must be printed out):
   i) Revenues are down 15%.
   ii) Cost of goods sold increase by 10%
   iii) Both revenues decrease by 15% and Cost of Goods sold increase by 10%
   iv) There is an additional charge to clean up at the end of the project of $250,000 that is tax deductible.
   v) Discuss these changes and their implications.

Question 2

Pound Industries is attempting to select the best of three mutually exclusive projects. Their required return is 13%. The initial investment and after-tax cash inflows associated with each project are shown in the following table:

<table>
<thead>
<tr>
<th>Cash Flows</th>
<th>Project A</th>
<th>Project B</th>
<th>Project C</th>
</tr>
</thead>
<tbody>
<tr>
<td>Initial investment</td>
<td>$60,000</td>
<td>$100,000</td>
<td>$110,000</td>
</tr>
<tr>
<td>Net cash inflows</td>
<td>20,000</td>
<td>31,500</td>
<td>32,500</td>
</tr>
</tbody>
</table>

Required:
1. Calculate the NPV and IRR for each project. Rank the projects using your results.
2. Calculate the NPV of each project using the following rates of return: 0%, 5%, 15%, 20%.
3. Using the graph function of your spreadsheet plot the data on a graph. Place the required return on the horizontal axis and the NPV on the vertical axis. From the graph:
   a) Which project would be accepted at each rate of return?
   b) How can the point at which each project's line cuts the horizontal axis be interpreted?
4. Why is there a difference in ranking of the projects between NPV and IRR?

Please Note:

Marks will be awarded for presentation as well as content.

Also attach print-outs showing the formulae used (in the cells) to prepare your spreadsheets (one formula dump per question only, ie one formula dump for Question 1, and not for the changes and one formula dump for Question 2). The spreadsheet is to do the calculations, not you. All spreadsheets have special functions that allow NPV's, IRR's and others to be calculated by the computer with minimal effort on your part.

Submission Requirements

Place of Submission: Assignment box outside 40.322.
Post: No posted assignments will be accepted.
Facsimile: No faxed assignments will be accepted.
Email: No emailed assignments will be accepted.
Assignment cover: Cover sheet required: there is one for FIN221 on the web. If you choose to use the School of Accounting and Finance or Faculty of Commerce cover sheet, clearly note which part of your name is your family name. The Faculty of Commerce cover sheet can be obtained from the website: http://www.uow.edu.au/commerce/pdf/assignmentcoversheet.pdf The FIN221 cover sheet is available on the WebCT site.

A duplicate is not required. You must ensure, however, that you have the capacity to provide a duplicate, should this be requested. Problems with computers, software, lost disks etc will not be accepted as excuses for late submissions.

Any assignment submitted after the due date will incur a penalty (2 marks out of the 20 marks allocated per day or part thereof) which may reduce the mark to zero, unless special exemption has been granted.

Exemptions must be applied for prior to the due date. Collection: During the tutorials, no more than 3 weeks following submission.

Task 3: Final Examination

Date: University examination period
Weighting: 50%
Length: 3 hours 15 minutes

Examination details

This will include subject matter covered in lectures and/or tutorials and/or workshops. You should study from your notes and tutorial work, supplementing this material with explanations and further example problems from the textbook. The objective is to test your understanding of the material rather than mere memory.

PLAGIARISM

Plagiarism means using the ideas of someone else without giving them proper credit. For example, that someone else may be an author, critic, journalist, artist, composer, lecturer, tutor or another student. Unintentional plagiarism can result if you don’t understand and use the acceptable scholarly methods of acknowledgement. Whether plagiarism is deliberate or unintentional, the University may impose penalties, which can be very severe. When it is desirable, or necessary, to use other people’s material, take care to include appropriate references and attribution. Plagiarism will not be tolerated and has led to expulsion from the University.

Students should visit the following University website and become familiar with the University’s policy on Plagiarism.

### SECTION C: RULES, CODES OF PRACTICE & POLICIES

#### C1 UNIVERSITY POLICIES

Information on the following University Policies can be found at the websites below:

<table>
<thead>
<tr>
<th>Policy</th>
<th>URL</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ethical objection by students to the use of animal and animal products in coursework subjects</td>
<td><a href="http://www.uow.edu.au/about/policy/ethicalobjectionanimals.html">http://www.uow.edu.au/about/policy/ethicalobjectionanimals.html</a></td>
</tr>
</tbody>
</table>

* see brief explanation of policy below.

#### C1.1 Non-discriminatory Language

The Faculty of Commerce supports the University’s policy on the use of non-discriminatory language. It is the responsibility of students to ensure that they understand and abide by this policy. The policy is available at:

http://staff.uow.edu.au/eeo/nondiscrimlanguage.html
C1.2 Special Consideration Policy
The Faculty of Commerce recognises that it has a responsibility to ensure equity and consistency across its subjects for all students. Sometimes, in exceptional circumstances, students need to apply for special consideration in order to complete all assessable work.

The University applies strict criteria to the granting of special consideration. Before applying for special consideration, students should carefully read the University's policy. The policy can be found at:


C1.3 Student Academic Grievance Policy
The Faculty of Commerce aims to provide a fair, equitable and productive learning environment for all its students. The Student Academic Grievance Policy seeks to support the achievement of this goal by providing a transparent and consistent process for resolving student academic grievances.

Any student who has a grievance over a result should obtain a Faculty of Commerce Appeal of Assessment Form from the Schools or the Sub-Dean's Unit. The student should firstly take the form to the marker/lecturer to discuss the matter, and if the student is still not satisfied, s/he should take the next step as outlined on the form.

Once the grievance has been considered by the Faculty, if the student still feels the situation has not been fully resolved, s/he may consult the Dean of Students. However, the Dean of Students can have no input into the academic judgement of the lecturer and can only review the grievance to ensure proper procedure has been followed.

For more information, please consult the policy in full at


C2 FACULTY AND SCHOOL POLICIES

REFERENCING

WHY DO YOU NEED TO REFERENCE?
At University, it is necessary to acknowledge the sources of information and ideas that you have incorporated in your assignments. Failure to do this thoroughly may result in accusations of plagiarism: this is the academic equivalent of stealing (because by not acknowledging someone else's work, you are presenting it as your own). Plagiarism is taken very seriously by the University and may result in expulsion from the University.

Referencing is not only about acknowledging other people's work: accurate referencing and lists of references are beneficial when researching a topic as they allow the reader to follow up information and read further into the area. In a sense, references provide readers with clues to help them explore different avenues of a topic. This aspect of referencing will become more valuable to you as you progress in your studies.

There is a correct procedure that must be followed when referencing and using footnotes. Not complying with these set techniques and format will most likely result in loss of marks.

When writing an essay, it is easiest to reference as you go, making sure you are writing down all relevant information. This will save hours trying to find the source again in the library.
THE HARVARD SYSTEM OF REFERENCING

The Faculty of Commerce uses the Harvard system of referencing. This system makes use of short references within the body of the text. It is supplemented by a detailed list of references at the end of the text, which provides all the information necessary to find the source material. In-text references include the author and year of publication, and where necessary the page number(s).

It is the responsibility of students to ensure that they are familiar with the Harvard system of referencing and that they use it accurately in all written work submitted.

Students should consult the following University Library website for a detailed explanation and examples of the Harvard system of referencing.


CITATION OF ELECTRONIC SOURCES

It is necessary for students to reference all sources used in their written work, including file transfer protocol sites, worldwide web sites, telnet sites, synchronous communications (MOOs, MUDs, IRC, etc.) Gopher sites, and email, Listserv and Newsgroup citations.

It is the responsibility of students to ensure that they are familiar with the accepted Faculty of Commerce practice for referencing electronic material and that they use it accurately in all written work submitted.

Students should consult the following University Library website for a detailed explanation and examples of how to reference electronic material.


OCCUPATIONAL HEALTH AND SAFETY WHERE RELEVANT, INCLUDING SAFETY IN LABORATORIES AND ON FIELD TRIPS

C3 SUPPORT SERVICES AND FACILITIES

LEARNING RESOURCE CENTRE

Learning Development offers a range of free services to all enrolled students who wish to improve their academic or English language skills. There are a range of workshops available including; essay writing and editing; reading for assignments; grammar; presentation skills; pronunciation and exam preparation.

For information on language and academic skills workshops, or to make appointments for consultations, please visit the Learning Resource Centre (LRC), Building 19, Ground Floor, Room G102, or Phone 02 4221 3977. For further information visit the website:


FACULTY LIBRARIANS

Each faculty has a Faculty Librarian who is available to help with research related enquiries. Research Help Desk staff are also available in the Library to assist with research needs.

The Faculty Librarians for Commerce can be contacted as follows:
DISABILITY LIAISON OFFICER

The Disability Liaison Officer (DLO) can provide advice on how particular disabilities affect university study and information on resources available at the University for assisting students with disabilities. Students commencing courses are advised to contact the Disability Liaison Officer prior to the beginning of their first session of study.

For further information on services offered, consult the Disability Services website or contact the office.

web address: http://www.uow.edu.au/student/services/ds/

telephone: 42 213445
fax: 42 215667

FACULTY DISABILITY ADVISERS

Faculty Disability Advisers are academic staff who provide assistance and support to students with disabilities within their Faculty and act as an intermediary between the student and the Faculty’s academic and general staff. They provide support, educational advice and referral to appropriate staff on issues related to teaching and learning within the Faculty and the University. Students are advised to communicate specific information about the ways in which their disability affects learning to the Faculty Disability Adviser as soon as possible after enrolment.

The Faculty of Commerce Disability Adviser is Mr. Ron Perrin. Mr Perrin can be contacted as follows:

Office location: Building 40, room 224
email address: ron_perrin@uow.edu.au
telephone: 42 214118

WOOLYUNGAH INDIGENOUS CENTRE

The Woolyungah Indigenous Centre (WIC) provides academic and personal support for Aboriginal & Torres Strait Islander and other indigenous students. The Centre also runs an Indigenous Specific Orientation Program for students who gain entry to the University through the alternative admissions program.

For further information on services offered, consult the Aboriginal Education Centre website or contact the office.

Centre location: Building 30 Telephone 42 213563
web address: http://www.uow.edu.au/aec/ Fax: 42 214244
# SUBJECT SCHEDULE

The lecturer reserves the right to vary the questions by announcement in the lecture.

RQ: Review Questions found throughout the chapter  P: Problems – at end of chapter

<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Topic</th>
<th>Reading (Gitman et al.)</th>
<th>Tutorial Questions</th>
<th>Workshop Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>21/2</td>
<td>Introduction</td>
<td>Chpt 1</td>
<td></td>
<td></td>
</tr>
<tr>
<td>2</td>
<td>28/2</td>
<td>Time Value of Money</td>
<td>Chpt 4</td>
<td>Ch 1: RQ:10, 11, 13, 16, 19, 25  P: 3, 4, 6</td>
<td>Ch 1:P: 2, 5</td>
</tr>
<tr>
<td>3</td>
<td>7/3</td>
<td>Risk and Return</td>
<td>Chpt 5</td>
<td>Ch 4: P: 7, 9, 13, 16, 23, 26, 47, 50, 57</td>
<td>Ch 4: P: 10, 24</td>
</tr>
<tr>
<td>4</td>
<td>14/3</td>
<td>Interest Rates and Bond Valuation</td>
<td>Chpt 6</td>
<td>Ch 5: RQ: 9, 11, 12  P: 13, 18, 25, 27</td>
<td>Ch 5: P: 10, 24</td>
</tr>
<tr>
<td>5</td>
<td>21/3</td>
<td>Share Valuation</td>
<td>Chpt 7</td>
<td>Ch 6: RQ: 3, 4  P: 5, 11, 17, 18, 19, 22, Quiz 1</td>
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<tr>
<td></td>
<td></td>
<td><strong>Mid Session Break</strong></td>
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<tr>
<td>6</td>
<td>4/4</td>
<td>Capital Budgeting</td>
<td>Chpt 8, 9</td>
<td>Ch 7: RQ: 1, 11  P: 6, 8, 10, 14, 15</td>
<td>Ch 7: P: 2, 4, 5</td>
</tr>
<tr>
<td>7</td>
<td>11/4</td>
<td>Capital Budgeting Continued</td>
<td>Chpt 9,10</td>
<td>Ch 8: P: 1, 2, 6, 15, 18, 26</td>
<td>Ch 8: P: 3, 8, 10</td>
</tr>
<tr>
<td>8</td>
<td>18/4</td>
<td>Cost of Capital</td>
<td>Chpt 11</td>
<td>Ch 9: P 2, 21  Ch 10: P:1, 7, 9, 11, 15</td>
<td>Ch 10: P:2, 4, 13</td>
</tr>
<tr>
<td>9</td>
<td>25/4</td>
<td>Dividend Decisions Anzac Day Holiday Assignment Due</td>
<td>Chpt 12</td>
<td>Ch 11: RQ: 3  P: 1, 8, 14, 15, 17, Case</td>
<td>Ch 11: P: 2, 5, 7</td>
</tr>
<tr>
<td>10</td>
<td>2/5</td>
<td>Leverage and Capital Structure</td>
<td>Chpt 13</td>
<td>Ch 12: RQ: 6  P: 2, 3, 7, 14, 18</td>
<td>Quiz 2</td>
</tr>
<tr>
<td>12</td>
<td>16/5</td>
<td>Derivatives and Risk Management</td>
<td>Chapter 16 &amp; Reading provided</td>
<td>Ch 14: P: 2, 6, 10, 11, 13, Case</td>
<td>Ch 14: P: 5, 8</td>
</tr>
<tr>
<td>13</td>
<td>23/5</td>
<td>Revision</td>
<td></td>
<td>Ch 16: RQ: 6, 9  P: 8, 13  Reading Q: 1, 2, 3, 10, 17</td>
<td>Ch 16: P: 12, 14</td>
</tr>
</tbody>
</table>