Business Finance 1 is a subject within the Bachelor of Commerce Degree offered by the University of Wollongong.

**Lectures:**
- Wednesday 14:30-15:30 in 67.107
- 17:30-18:30 in 35.G20 (Repeat)
- Thursday 14:30-15:30 in 67.107
- 17:30-18:30 in 35.G45 (Repeat)

**Subject Description**

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.

**Objectives:**

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.
**Teaching Team**
Subject coordinator Mara Koplin:
Room 40.317
☎ (02) 4221 3680
✉ mara_koplin@uow.edu.au
Fax (02) 4221 4297

**Tutors**
Mara Koplin
Craig Mellare
Room 40.311
☎ (02) 4221 5510
✉ cmellare@uow.edu.au

Joel Grant
Room 40.320
☎ (02) 4221 3624
✉ jg48@uow.edu.au

Ran Zhu
Room 19.1042
☎ (02) 4221 5359
✉ iamranzhu@yahoo.com.au

David Richardson
Room 19.1042
☎ (02) 4221 5359
✉ David@symeswarne.com.au

**Prescribed Text:**

**Other useful texts:**


**Subject Requirements and Assessment**

For the purposes of determining final grades for ACCY 221, student performance will be evaluated on a composite mark, determined as follows:

- **Major Assignment**: 20%
- **Quizzes (2 @ 15% each)**: 30%
- **Final Exam**: 45%
- **Tutorial Problems and Participation**: 5%

100%

NB. Marks may be scaled.

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

**Dates to Remember**

- **Major Assignment**: 30 April 2001
- **Quiz 1**: Week 5 (during workshop)
- **Quiz 2**: Week 10 (during workshop)

**WEB-CT**

There is a web site for this subject. It is open to enrolled students of this subject at [http://webct.uow.edu.au](http://webct.uow.edu.au) or you may go 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.

**Tutorial Attendance**

*Attendance at tutorials is a compulsory requirement 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 mark for tutorial work (see above). Marks are not given for attendance only. You must attend your*
assigned tutorial. I would encourage you to attend an alternate tutorial if you are 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 their doors.

**Workshops**

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.

Workshops commence in week 2 and finish in week 13. A schedule of some of the questions that will be done during the workshops is attached. Other questions will be nominated during the workshops. 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.

**PASS**

All students enrolled in Fin 221 are encouraged to attend the PASS (Peer Assisted Study Session) Program attached to this subject. PASS is an academic mentoring program with weekly meetings (weeks 2 - 13) led by senior students called Peer Leaders. Results to date show that students who participate in the program have a significantly better chance of passing the subject and of receiving a higher grade than those who do not. On-line enrolment will be available.

**Public Holidays**

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

**Access to Solutions**

Solutions of tutorial and workshop problems will be placed on WEB-CT and in the Commerce Resource and Student Information Centre in Building 40 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.
**Quizzes**

There will be 2 (two) quizzes for ACCY221. These will be held during the workshops. You must attend your assigned workshop. They will be of 50 minutes duration each.

<table>
<thead>
<tr>
<th>Quiz #</th>
<th>Covers chapters:</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>1, 2, 5, and 6</td>
</tr>
<tr>
<td>2</td>
<td>7, 8, 9, 10, 11, 12, 13, and 14</td>
</tr>
</tbody>
</table>

**Major Assignment**

**Due: 30 April 2002: 17:30** (in the box outside 40.317)

The major assignment is to be completed using a spreadsheet package (either in the faculty computer laboratory or using your own equipment). The written component must be word processed.

**Part 1**

Erallem Ltd is considering the following investment proposal, you are required to analyse the proposal and make a recommendation. The project is a uranium mine in South Australia. The initial set up costs to get the mine ready for production are estimated to be $4,000,000. These costs include $2,400,000 of depreciable equipment, which is allowed to be depreciated for tax purposes prime cost (straight line) over 5 years. Working capital requirements for the mine are estimated to be $1,500,000. Initial set up costs and working capital requirements are incurred in year 0. The mine is estimated to have a useful life of 8 years, after which the equipment may be sold for an estimated salvage value of $300,000. Site recovery (clean up) costs will be incurred, estimated to be $500,000 at the end of the mines useful life.

It is estimated that the amount of uranium to be recovered for the 8 years will be 330,000kgs/year. At the moment uranium sells for $10.50/kg, with the price expected to remain stable for the life of the mine. Operating expenses are estimated to be $1,500,000 per year. The estimated cost of capital (required return) is 11.2% and the tax rate is 30% (paid in the year of income).

**Required:**

a) Using any spreadsheet package, estimate the net cash flows and calculate the NPV and the IRR of the project.

b) The mines’ output is highly uncertain. It could be as much as 40% higher or lower than forecast. Recalculate with the maximum changes.

c) Redo the spreadsheet under the assumption that the price of uranium could decrease by 15% from that originally estimated, and
operating costs are 20% higher (return output to the original estimate). How does this change your answers?

d) Emallem is worried about cost overruns and delays due to required zoning changes and environmental approvals. They have seen cases of 25% cost overruns and delays of up to 12 months. What effect would this have on the projects acceptability?

e) Discuss all the results so far, and make a recommendation.

Part 2
Erallem Ltd has an alternative use for the land. They could open an eco tourist resort. This would require an initial investment of $1,000,000. This includes assets which may be depreciated for tax purposes prime cost over 10 years of $660,000. Revenues will come from three areas, accommodation, food, and retail sales of environmentally friendly items. These are estimated to be as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>1</th>
<th>2</th>
<th>3</th>
<th>4</th>
<th>5</th>
<th>6</th>
<th>7</th>
<th>8</th>
</tr>
</thead>
<tbody>
<tr>
<td>Accommodation('000)</td>
<td>300</td>
<td>600</td>
<td>900</td>
<td>900</td>
<td>900</td>
<td>750</td>
<td>600</td>
<td></td>
</tr>
<tr>
<td>Food ('000)</td>
<td>255</td>
<td>525</td>
<td>750</td>
<td>750</td>
<td>750</td>
<td>750</td>
<td>675</td>
<td>510</td>
</tr>
<tr>
<td>Retail sales ('000)</td>
<td>150</td>
<td>300</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>450</td>
<td>375</td>
<td>300</td>
</tr>
</tbody>
</table>

Accommodation costs will average 75% of accommodation revenues, food costs will average 85% of food revenues and retail sales costs are expected to average 50% of their revenues.

After 8 years, the project will need major refurbishment, so a decision will be made then as to whether to continue or not. If they don’t continue, they expect to be able to recoup from salvageable items $100,000, this is from the depreciable assets.

Net Working capital requirements are estimated to be 5% of accommodation revenues, 10% of food costs, and 7% of retail sales revenues. The working capital will need to be in place the year before the revenues are received.

The tax rate is 30% (paid in the year of income) and the required return is 10.5%.

Required:

a) Using any spreadsheet package, estimate the net cash flows and calculate the NPV and the IRR of the project.

b) The tourism industry is very variable, with the threat of terrorism, war, and airline failures all possible. Suppose all revenues are 30% less than forecast. Recalculate with this change.

c) Redo the spreadsheet under the assumption that domestic travel increases due to the above factors, and revenues are 25% above those forecast. How does this change your answers?

d) Suppose costs are 10% higher than expected. Redo the spreadsheet, keeping revenues at the original levels. How does the result of this impact on your decision?

e) Discuss all the results so far, and make a recommendation.
Part 3
1. Calculate the NPV of each project using the following rates of return: 0%, 10%, 15%, 20%, 25%, 30%.
2. Using the graph function of your spreadsheet plot the NPV data from both projects 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?
3. Why is there a difference in ranking of the projects between NPV and IRR?
4. When NPV and IRR give conflicting rankings, which method should be followed? Why?
5. How would risk impact on your decision?

Required for parts 1, 2, and 3:
Attach print-outs showing the formulae used (in the cells) to prepare your spreadsheets for the initial data for parts A, B, and C. (Do not do formula dumps for the recalculation.) 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. The must be done by the spreadsheet, not hand drawn.

Part 4
With the presumed goal implicit in financial modelling of shareholder wealth maximization, ethical considerations may be compromised. Discuss this statement in light of your analysis of the above projects. Use academic research to support your arguments.

Required:
   a) Length: 1000 words
   b) This part is to be typed, double spaced, on one side of the paper only, using a computer word processing package.
   c) The pages should be numbered consecutively.
   d) A synopsis of no more than 150 words is to preface the essay.
   e) There must be a margin of about 40mm to allow for written comments.
   f) Include a list of references in academic form. All sourced material, including direct quotations, should be appropriately acknowledged. For referencing format see The Accounting Review.

Required for all parts:
Marks will be awarded for presentation as well as content.
An assignment cover sheet as provided on the webct site must be attached.
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.

The major assignment will be penalised for failure to meet any requirements.

Any major assignment submitted after the due date will incur a penalty (one mark per day) which may reduce the mark to zero, unless special exemption has been granted.

Exemptions must be applied for prior to the due date.

Students not submitting the major assignment by the last day of classes, in the absence of accepted documented reasons, will fail the subject.

The major assignment will be returned in tutorials within 3 weeks of submission date.

Submission by Facsimile
Note the University policy covering submission of assignments by fax in the Undergraduate Calendar. Generally assignments will NOT be accepted or marked if submitted by fax.

Exam and Quizzes
These will include subject matter covered in lectures and/or tutorials and/or workshops. You should study from your notes and tutorial/workshop 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.

SUBJECT REQUIREMENTS, ILLNESS AND MISADVENTURE

Section 10 of the Bachelor Degree regulations covers subject requirements and assessment. Note in particular 10(7) which says:

Should performance in a subject be affected by illness or other cause beyond the control of a candidate, the circumstances should be reported to the Vice-Principal (Administration) in writing, supported by evidence, normally no later than seven days following the illness or other cause. The circumstances shall be referred to the Head and may be taken into account when assessment of the candidate in that subject is made.
Students who are in the unfortunate position referred to in the above paragraph should note the following:

(i) The formal letter requesting special consideration must be submitted to the University administration and not to the Department.

(ii) As a matter of courtesy and to facilitate prompt action, the relevant staff member should be advised and you should ensure that she/he is supplied with an up-to-date address and, where possible, a contact telephone number.

(iv) Students do not have a right to a supplementary examination and should refer to the Departmental policy.

**Disability**

If a student with a disability requires reasonable accommodation in this subject, they are strongly advised to discuss the issues early in the session with one of the following people: the Disability Liaison Officer, Faculty Disability Advisor and/or the subject co-ordinator.

**Acknowledgment Practice/Plagiarism and Code of Practice – Students**

Plagiarism is the use of another person's work, or idea, as if it is your own.

The other person may be an author, critic, lecturer, or another student. When it is desirable, or necessary to use other people's materials, take care to include appropriate references and attribution – do not pretend the ideas are your own. Be sure not to plagiarise unintentionally. Plagiarism has led to expulsion from the university.

The University provides clear guidelines on its attitude towards plagiarism and how to avoid unintentional plagiarism in the Undergraduate University Calendar: [http://www.uow.edu.au/student/calendar/rules/plagiarism.html](http://www.uow.edu.au/student/calendar/rules/plagiarism.html). Students are advised to read these carefully. If any doubts remain as to what constitutes plagiarism, students should discuss the matter with their tutor or the subject coordinator.
# Subject Schedule

<table>
<thead>
<tr>
<th>Week</th>
<th>Date</th>
<th>Topic</th>
<th>Reading (Ross et al.)</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>3 March</td>
<td>Introduction</td>
<td>Chpt 1, 2</td>
</tr>
<tr>
<td>2</td>
<td>10 March</td>
<td>Time Value of Money</td>
<td>Chpt 5</td>
</tr>
<tr>
<td>3</td>
<td>17 March</td>
<td>Valuation</td>
<td>Chpt 6</td>
</tr>
<tr>
<td>4</td>
<td>24 March</td>
<td>Capital Budgeting</td>
<td>Chpt 7, 8</td>
</tr>
<tr>
<td>5</td>
<td>31 March</td>
<td>Capital Budgeting continued</td>
<td>Chpt 9</td>
</tr>
<tr>
<td>6</td>
<td>7 April</td>
<td>Risk and Return</td>
<td>Chpt 10, 11</td>
</tr>
<tr>
<td>7</td>
<td>14 April</td>
<td>Working Capital Management</td>
<td>Chpt 12</td>
</tr>
<tr>
<td></td>
<td></td>
<td><strong>Easter Break</strong></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>28 April</td>
<td>Working Capital Management,</td>
<td>Chpt 13, 14</td>
</tr>
<tr>
<td></td>
<td></td>
<td>continued</td>
<td><strong>Major Assignment Due</strong></td>
</tr>
<tr>
<td>9</td>
<td>5 May</td>
<td>Debt and Equity</td>
<td>Chpt 16, 17</td>
</tr>
<tr>
<td>10</td>
<td>12 May</td>
<td>Cost of Capital</td>
<td>Chpt 18</td>
</tr>
<tr>
<td>11</td>
<td>19 May</td>
<td>Dividend Decisions</td>
<td>Chpt 19, 20</td>
</tr>
<tr>
<td></td>
<td></td>
<td>and Capital Structure</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>26 May</td>
<td>Derivatives and Risk Management</td>
<td>Chpt 21 &amp; Reading</td>
</tr>
<tr>
<td></td>
<td></td>
<td>provided</td>
<td></td>
</tr>
<tr>
<td>13</td>
<td>2 June</td>
<td>Revision</td>
<td></td>
</tr>
</tbody>
</table>
### Tutorial and Workshop Schedule

These questions may be varied by announcement.

<table>
<thead>
<tr>
<th>Week</th>
<th>Tutorial Questions</th>
<th>Workshop Questions</th>
</tr>
</thead>
<tbody>
<tr>
<td>2</td>
<td>chpt 1: #1,3</td>
<td>Chpt 2: #1, 5</td>
</tr>
<tr>
<td></td>
<td>chpt 2: #7,15,16</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>chpt 5: #10, 22, 26, 27, 28, 40, 47</td>
<td>Chpt 5: #7, 11, 15</td>
</tr>
<tr>
<td>4</td>
<td>chpt 6: # 6, 7, 10, 18, 21, 28, 30</td>
<td>Chpt 6: #1, 2, 13, 20</td>
</tr>
<tr>
<td>5</td>
<td>chpt 7: # 8, 16, 18, chpt 8: # 5, 6, 7, 9,</td>
<td>Quiz 1</td>
</tr>
<tr>
<td>6</td>
<td>Chpt 8: #14, 17 Chpt 9: #13, 19 (hint: doing some of these questions on a spreadsheet will be valuable practice and save time in calculations)</td>
<td>Chpt 8: #12 Chpt 9: #3</td>
</tr>
<tr>
<td>7</td>
<td>chpt 10: #6, 16, 18 chpt 11: #8, 10, 13, 14, 15, 19</td>
<td>Chpt 10: #1, 2 Chpt 11: #5, 20</td>
</tr>
<tr>
<td>8</td>
<td>chpt 12: #3, 5, 7, 15 chpt 13: #1, 6, 8</td>
<td>Chpt 12: #14 Chpt 13: #3</td>
</tr>
<tr>
<td>9</td>
<td>chpt 14: #3, 4, 5, 8, 18, 20</td>
<td>Chpt 13: #9 Chpt 14: #17</td>
</tr>
<tr>
<td>10</td>
<td>chpt 16: #6, 8, 14, 15 chpt 17: #4, 7, 12, 13</td>
<td>Quiz 2</td>
</tr>
<tr>
<td>11</td>
<td>chpt 18: #5, 7, 9, 12, 14, 17, 18</td>
<td>Chpt 18: #1, 2, 3</td>
</tr>
<tr>
<td>12</td>
<td>chpt 19: #2, 9, 17 chpt 20: #6, 14, 15</td>
<td>Chpt 19: #11 Chpt 20: #2</td>
</tr>
<tr>
<td>13</td>
<td>Chpt 21: # 1, 4, 6 Reading: Concepts Review and Critical Thinking Questions (pgs 669-671) # 3, 6, 8, 10, 13 Questions and Problems (pgs 671-672) 4, 5</td>
<td>Chpt 21: #7 Reading:Q&amp;P #1</td>
</tr>
</tbody>
</table>