Subject details

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.

Method of delivery
There are two one-hour lectures, a single one hour tutorial and a single one hour workshop each week for this subject.

Study time
According to university rules, each credit point for a single session should have a value of roughly two hours per week, inclusive of class attendance. As this subject is a 6 credit point subject, each student should devote at least 12 hours per week. The allocated work, and subject load overall is geared to this presumption.
Lecture/tutorial times

**Lectures:**
- Wednesday: 11:30-12:30 in 40.HOPE
- 17:30-18:30 in 20.5 (Repeat)
- Thursday: 15:30-16:30 in 40.HOPE
- 17:30-18:30 in 20.5 (Repeat)

Major text


References can be obtained by contacting the University of Wollongong Library.

**Other useful texts:**


**WEB-CT**

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.
Contacts

Subject Coordinator

Mara Koplin
School of Accounting and Finance
Building No 40, Room No 317
Telephone 61 2 4221 3680
Facsimile 61 2 4221 4297
Email mara_koplin@uow.edu.au

Consultation times

These were unavailable at time of printing, so will be announced in the first lecture.

Teaching Team

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

Joel Grant
Room 40.301
☎ (02) 4221 3624
✉ jgrant@uow.edu.au

Student administration

Telephone 61 2 4221 3938
Facsimile 61 2 4221 4322
Email studenq@uow.edu.au
Student OnLine Services http://www.uow.edu.au/student/sols
Distance students studying within Australia should refer to the Off-Campus Library Services Student Guide contained in their subject package. Distance students studying outside Australia should contact their subject coordinator as arrangements for library services may be available within their own country.

**Purchasing of books (Unishop)**

<table>
<thead>
<tr>
<th>Service</th>
<th>Contact Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Telephone</td>
<td>61 2 4221 8050</td>
</tr>
<tr>
<td>Facsimile</td>
<td>61 2 4221 8055</td>
</tr>
<tr>
<td>Email</td>
<td><a href="mailto:unishop@uow.edu.au">unishop@uow.edu.au</a></td>
</tr>
</tbody>
</table>
Assessment Guidelines

General Criteria

Assessment:

Spreadsheet Assignment 15%

Tutorial Participation 5%

Quiz 1 15%

Quiz 2 15%

Final examination 50%

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>Percentage</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>
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>15%</td>
<td>21 April</td>
<td>3 weeks later</td>
</tr>
<tr>
<td>Tutorial Participation</td>
<td>5%</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Quiz 1</td>
<td>15%</td>
<td>During workshop week 5</td>
<td>2 weeks later</td>
</tr>
<tr>
<td>Quiz 2</td>
<td>15%</td>
<td>During workshop week 10</td>
<td>2 weeks later</td>
</tr>
<tr>
<td>Final Exam</td>
<td>50%</td>
<td>TBA</td>
<td></td>
</tr>
</tbody>
</table>

Special Consideration

University policy requires students who, through serious illness or other circumstances beyond their control, are unable to attend an examination or meet any of the other course requirements, to submit medical or other documented evidence as soon as possible after the event to support their request for special consideration.


Supplementary examinations

Students should note that supplementary examinations are not an automatic entitlement on the submission of a request for special consideration. In cases where the decision is made to allow a supplementary examination, students will usually be required to take the examination at a date to be determined by the School within three weeks of the end of the formal examination period. Students will be notified of the exam at least seven days beforehand. It is every student’s responsibility that the University has a correct record of your current address.

Full details of the University’s policy regarding special consideration are available on the web at [http://www.uow.edu.au/handbook/courserules/specialconsideration.html](http://www.uow.edu.au/handbook/courserules/specialconsideration.html) students should familiarise themselves with these policies.

Disability Policy

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 Adviser and/or
Non Discriminatory Language

As part of its Equal Opportunity/Affirmative Action initiatives, the University of Wollongong endorses a policy of non-discriminatory language practice and presentation in all academic and administrative activities of the University. The policy is available at http://staff.uow.edu.au/eeo/nondiscrimlanguage.html

Receipt of Assessment Tasks

It is your responsibility to ensure that you have a receipt signed by your lecturer/tutor, acknowledging submission of written work.
Assessment Tasks

**Task 1:** Spreadsheet Assignment

Due date: 21 April 2004: 17:30 into assignment box outside 40.317

Return date: 3 weeks after submission

Weighting: 15%

*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 40.317.

**Question 1**

**Required:**

You are examining the viability of a capital investment in which your firm is interested. The project will require an initial investment of $1,500,000 and the projected revenues are $1,200,000 in the first year, with a 7.5% increase in each of the next 2 years and then slowing to 5% growth for the last 2 years. The projected cost of goods sold is 40% of revenues and the tax rate is 30%. The initial investment is primarily in plant and equipment and can be depreciated straight-line (prime cost) over four years. It is estimated that the plant and equipment could then be sold for $450,000. An investment in net working capital will be required. The amount is estimated to be 10% of sales, and will need to be in place at the start of each year. The project makes use of other resources that your firm already owns:

Two employees of the firm, each with a salary of $60,000 next year (due to increase by 5% per year) and who are currently employed by another division, will be transferred to this project. The other division has no alternative use for them, but they are covered by a union contract that will prevent them from being fired for three years (during which they would be paid their salary).

The project will use excess capacity in the current packaging plant. While this excess capacity has no alternative use now, it is estimated that the firm will have to invest $750,000 in a new
The project will use a van currently owned by the firm. Although the van is not currently being used, it can be rented out for $3,000 a year for five years. The book value of the van is $10,000, and it is being depreciated straight-line (with five years remaining for depreciation).

The discount rate (required return) to be used for this project is 11.5%.

a) Calculate the NPV and IRR of the project.

b) Redo the spreadsheet with the following (independent) changes:
   - Revenues are down 10%.
   - Cost of goods sold increase to 45%
   - Both revenues decrease by 10% and Cost of Goods sold increase to 45%
   - Discuss these changes and their implications.

Question 2

Williams Roofing Materials Ltd is considering two mutually exclusive projects, each with an initial investment of $150,000. The company has set a required return of 9%. The cash inflows associated with the two projects are as follows:

<table>
<thead>
<tr>
<th>Year</th>
<th>Project S</th>
<th>Project T</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$45,000</td>
<td>$75,000</td>
</tr>
<tr>
<td>2</td>
<td>45,000</td>
<td>60,000</td>
</tr>
<tr>
<td>3</td>
<td>45,000</td>
<td>30,000</td>
</tr>
<tr>
<td>4</td>
<td>45,000</td>
<td>30,000</td>
</tr>
<tr>
<td>5</td>
<td>45,000</td>
<td>30,000</td>
</tr>
<tr>
<td>6</td>
<td>45,000</td>
<td>30,000</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
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). 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.

**Task 2: Tutorial Participation**

**Due date:** Each tutorial

**Return date:** The final tutorial mark will be released the week after tutorials have finished

**Weighting:** 5%

**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 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 (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 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 (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 on the School of Accounting and Finance Notice Board, third floor building 40 (and on webct) 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 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.
**Task 3:** Quiz 1

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

**Task 4:** 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. They will be of 50 minutes duration each.

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.

<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, 16 and 17</td>
</tr>
</tbody>
</table>

**Task 5:** 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.
Submission Requirements

Submission of Spreadsheet assignment

Place of Submission: Assignment box outside 40.317.

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 cover sheet, clearly note which part of your name is your family name.

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 (1.5 marks out of the 15 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.

Acknowledgment/Plagiarism

Plagiarism is not acceptable and may result in the imposition of severe penalties. The University provides clear guidelines on its attitude towards plagiarism and how to avoid unintentional plagiarism in the Postgraduate University Calendar, located on the web at http://www.uow.edu.au/handbook/courserules/plagiarism.html

Students are advised to read these carefully. If any doubts remain as to what constitutes plagiarism, students should discuss the matter with the subject co-
The acknowledgment method to be used should follow the Harvard style.

**Due Date**

The due date is the last date for the University to receive an assignment.

**Extensions**

Extensions may be granted if circumstances beyond the control of the student interfere with their ability to complete the task on time. These will only be granted by the subject co-ordinator and must be applied for before the due date.

**Please Note:** Extensions will not be granted after the due date.

**Late submission**

There will be a 1.5 mark penalty (out of the 15 marks available) for each day or part thereof the assignment is late.

**Disclaimer**

The School attempts to ensure that the information herein is up to date at the time of production, however we reserve the right to amend without notice in response to changing circumstances.
## 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>23 February</td>
<td>Introduction</td>
<td>Chpt 1, 2</td>
</tr>
<tr>
<td>2</td>
<td>1 March</td>
<td>Time Value of Money</td>
<td>Chpt 5</td>
</tr>
<tr>
<td>3</td>
<td>8 March</td>
<td>Valuation</td>
<td>Chpt 6</td>
</tr>
<tr>
<td>4</td>
<td>15 March</td>
<td>Capital Budgeting</td>
<td>Chpt 7, 8</td>
</tr>
<tr>
<td>5</td>
<td>22 March</td>
<td>Capital Budgeting continued</td>
<td>Quiz 1</td>
</tr>
<tr>
<td>6</td>
<td>29 March</td>
<td>Risk and Return</td>
<td>Chpt 10, 11</td>
</tr>
<tr>
<td>7</td>
<td>5 April</td>
<td>Debt and Equity</td>
<td>Chpt 16, 17</td>
</tr>
<tr>
<td></td>
<td>Break</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8</td>
<td>19 April</td>
<td>Cost of Capital</td>
<td>Chpt 18</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Spreadsheet Assignment Due</td>
<td></td>
</tr>
<tr>
<td>9</td>
<td>26 April (Anzac day holiday)</td>
<td>Dividend Decisions Capital Structure</td>
<td>Chpt 19, 20</td>
</tr>
<tr>
<td>10</td>
<td>3 May</td>
<td>Derivatives and Risk Management</td>
<td>Quiz 2</td>
</tr>
<tr>
<td>11</td>
<td>10 May</td>
<td>Working Capital Management</td>
<td>Chpt 12</td>
</tr>
<tr>
<td>12</td>
<td>17 May</td>
<td>Working Capital Management, continued</td>
<td>Chpt 13, 14</td>
</tr>
<tr>
<td>13</td>
<td>24 May</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: #2, 3, 4</td>
</tr>
<tr>
<td></td>
<td>chpt 2: #7, 15, 22</td>
<td></td>
</tr>
<tr>
<td>3</td>
<td>chpt 5: #10, 16, 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, 17, 18, 21, 28, 30</td>
<td>Chpt 6: #1, 2, 13, 20</td>
</tr>
<tr>
<td>5</td>
<td>chpt 7: #3, 8, 17, 18</td>
<td>Quiz 1</td>
</tr>
<tr>
<td></td>
<td>chpt 8: #5, 6, 7, 9</td>
<td></td>
</tr>
<tr>
<td>6</td>
<td>Chpt 8: #17, 20</td>
<td>Chpt 8: #12</td>
</tr>
<tr>
<td></td>
<td>Chpt 9: #13, 17, 18, 19</td>
<td>Chpt 9: #3</td>
</tr>
<tr>
<td></td>
<td>(hint: doing some of these questions on a spreadsheet will be valuable practice and save time in calculations)</td>
<td></td>
</tr>
<tr>
<td>7</td>
<td>chpt 10: #6, 16, 18</td>
<td>Chpt 10: #1, 2, 13</td>
</tr>
<tr>
<td></td>
<td>chpt 11: #8, 10, 13, 14, 15, 19</td>
<td>Chpt 11: #5</td>
</tr>
<tr>
<td>8</td>
<td>chpt 16: #6, 8, 16, 17</td>
<td>Chpt 16: #9</td>
</tr>
<tr>
<td></td>
<td>chpt 17: #4, 7, 13, 14</td>
<td>Chpt 17: #2, 12</td>
</tr>
<tr>
<td>9</td>
<td>chpt 18: #5, 7, 9, 11, 12, 14, 17, 18</td>
<td>Chpt 18: #1, 2, 3, 6</td>
</tr>
<tr>
<td>10</td>
<td>chpt 19: #2, 9, 11, 17</td>
<td>Quiz 2</td>
</tr>
<tr>
<td></td>
<td>chpt 20: #2, 6, 14, 15</td>
<td></td>
</tr>
<tr>
<td>11</td>
<td>Chpt 21: #1, 4, 6</td>
<td>Chpt 21: #7</td>
</tr>
<tr>
<td></td>
<td>Reading: Concepts Review and Critical Thinking Questions (pgs 669-671) #3, 6, 10, 13</td>
<td>Reading:Q&amp;P #1</td>
</tr>
<tr>
<td></td>
<td>Questions and Problems (pgs 671-672 #4, 5</td>
<td></td>
</tr>
<tr>
<td>12</td>
<td>chpt 12: #3, 5, 7, 15</td>
<td>Chpt 12: #14</td>
</tr>
<tr>
<td></td>
<td>chpt 13: #1, 4, 6, 8</td>
<td>Chpt 13: #3</td>
</tr>
<tr>
<td>13</td>
<td>chpt 13: #7</td>
<td>Chpt 13: #9</td>
</tr>
</tbody>
</table>