

Asbury College

Financial Decision Making

Student Guide

ACHIEVE

Degree Completion Program



knowledge elements
educational products

(KEEP)

200 Seaboard Lane
Franklin, Tennessee 37067
Telephone: 615.771.7706 Fax: 615.250.9415

Copyright 2008 by KEEP

BUS61B

All rights reserved.

No part of this work may be reproduced or transmitted
in any form or by any means, electronic or mechanical,
including photocopying, or by any information storage or retrieval system
without the prior written permission of
knowledge elements educational products
unless such copying is expressly permitted by federal copyright law.

Address inquiries to:

Copyright Permissions, KEEP, 200 Seaboard Lane, Franklin, TN 37067

TABLE OF CONTENTS

INTRODUCTION

Course Description	1
Learning Outcomes	1
Texts And Materials	2
Student Evaluation	3
Final Paper	4
Course Overview	6
Logistics Chart	7

ASSIGNMENTS

Student Assignments	8
---------------------------	---

COURSE DESCRIPTION

The financial principles and accepted practices which need to be mastered by all managers including banking, money, credit, financial instruments, investments, financial planning, internal and external auditing, profit, stocks, bonds and other financial forms will be examined.

LEARNING OUTCOMES

Upon completion of this course, the student should be able to:

1. Understand issues and strategies involved in the allocation of funds within an organization.
2. Understand common financial procedures, instruments and institutions.
3. Be aware of the environment in which financial decisions are made.
4. Formulate objectives and strategies, develop procedures and techniques, and make and implement decisions which have the effect of maximizing shareholder value.
5. Develop analytical and planning skills such as ratio analysis, funds flow and pro forma statements, risk analysis and rate of return.
6. Become more familiar with financial statements and their uses internally and externally in a business.

TEXTS AND MATERIALS

Text:

Gitman, Lawrence J. *Principles of Managerial Finance*. Brief plus MyFinanceLab Student Access Kit, Fourth Edition. Boston, MA: Addison-Wesley Publishing Co., a division of Pearson Education, Inc., 2006. ISBN 0-321-47892-4.

Course Pack (2008). *Financial Decision Making*. Franklin, TN: knowledge elements, inc. Reference Number BUS61B-01.

In addition to the text, this material should be purchased by the students from the Asbury College Bookstore and placed in the designated spot in the Student Guide:

"What Makes Great Boards Great" (2002) by Jeffrey A. Sonnenfeld. *Harvard Business Review*. **Choose either** HBR Reprint #R0209H (September 1, 2002, 7 pages) **or** HBR OnPoint Enhanced Edition Reprint #2365 (December 1, 2002, 10 pages). [Needed for Week Four]

STUDENT EVALUATION

Students in this accelerated course will be evaluated by the College's standard grading system. Refer to the Student Handbook or the College Catalog for further details. The criteria for determining your grade will be as follows:

1. (30%) Completion of assigned written exercises and reading (see Student Assignments pages for exact assignments).
2. (20%) Participation in class discussion and group activities. The criteria will be the quality and quantity of the contribution to the group.
3. (40%) Final Paper—Refer to the next page for information on how the Final Paper is to be prepared. The Final Paper will be due one week after the final class period delivered to the College, sent by e-mail, or postmarked on that date. Turning in the Final Paper late will result in a penalty on the grade for the Final Paper.
4. (10%) Quality of comments, insight and extent of learning as reflected in the student's journal. The student is required to write in the journal at the close of each class session and may add to it at other times such as after reading an assignment or completing an exercise. The journal is to be handed in with the Final Paper.

Attendance: Any class missed must be made up. The student is obligated to contact the instructor to make suitable arrangements in case of any absence or tardiness. Unexcused absences and absences not made up will adversely affect the student's grade.

Late Work Or Work Not Handed In: Any written exercise or the Final Paper handed in after 6 p.m. on the due date will result in a reduction of the grade for that item. Any item not turned in will result in an "F" for that item and a reduction in grade for the course.

FINAL PAPER

Each student must complete a Final Paper. Students may use any material in developing the Final Paper, but every word (unless expressly quoted with appropriate credits given) must be that of the student submitting the paper. Any use of material written by another person without credit given will be considered plagiarism which will result in at least an "F" for the Final Paper.

Students are encouraged to begin notes on how they will respond to the Final Paper as they progress through the course including making notations in their class notes or in their journals. The journal is intended to be a major help in producing the Final Paper. As a result, it is very important that the journal writing be taken seriously. In addition, the journal itself could influence your overall grade for the course.

The Final Paper is to be submitted in typewritten, double-spaced form on one side only of 8½" x 11" white paper. A cover sheet should clearly indicate the student's name, course name, instructor's name and the date submitted. The Final Paper will be due one week after the final class period.

Complete each of the following questions. Repeat the question prior to stating your response.

1. What is the role of the Financial Analyst in a large organization? What responsibility does it carry? Are there ethical implications?
2. At the end of the year, the Long Life Bulb Company announced that it had produced a gross profit of \$1,000,000. The company has also established that over the course of this year it has incurred \$345,000 in operating expenses and \$125,000 in interest expenses. The company is subject to a 30% tax rate and has declared \$57,000 total preferred stock dividends.
 - a. How much is the earnings available for common stockholders?
 - b. Compute the increased retained earnings for 2004 if the company were to declare a \$4.25 common stock dividend. The company has 15,000 shares of common stock outstanding.
3. Define the following terms:
 - a. Financial ratios
 - b. Financial leverage
 - c. Ratio analysis
 - d. Common stock equity
 - e. Breakeven analysis
 - f. EBIT-EPS approach to capital structure
4. Darling Paper Container, Inc. has purchased several machines at a total cost of \$300,000. The installation cost for this equipment was \$25,000. The firm plans to

depreciate the equipment using the MACRS 5-year normal recovery period. Prepare a depreciation schedule showing the depreciation expense for each year.

5. In a meeting with their financial advisor, Mr. and Mrs. Smith concluded that they would need \$40,000 per year during the retirement years in order to live comfortably. They will retire ten years from now and expect a 20-year retirement period. How much should Mr. and Mrs. Smith deposit now in an account paying 9 percent to reach financial happiness during retirement?
6. A firm has had the indicated earnings per share over the last three years.

<u>Year</u>	<u>EPS</u>
2004	\$3.00
2003	\$2.00
2002	\$1.00

- a. If the firm's dividend policy was based on a constant payout ratio of 50 percent, determine the annual dividend for each year.
- b. If the firm's dividend policy was based on a fixed dollar payout policy of 50 cents per share plus an extra dividend equal to 75 percent of earnings per share above \$1.00, determine the annual dividend for each year.

COURSE OVERVIEW

The purpose of this modular course is to provide you with an introduction to financial principles and practices that become the basis for managerial decisions. The textbook, *Principles of Managerial Finance*, was selected because it has features suited for mature, working students who must spend a considerable amount of time studying outside the class.

One of the key features of the Gitman text is the number of relevant cases included. Understanding finance isn't easy and even students who may work with financial information on a daily basis may not really grasp the underlying principles. We hope that after working with the practical applications you will develop a new appreciation of financial principles and understand how they apply to your work.

You will find that there is a great deal of homework. In fact, approximately two hours each day is required to do the work. A daily, systematic approach to the assignments will be much better than putting the work off until a day or two before class. The material, although presented clearly and in its most basic form, is still complex and a single reading will not be sufficient in most cases.

The course presumes that you have access to a computer with a spreadsheet program. Knowing how to use a program like Lotus 1-2-3 or Microsoft Excel is essential in business today. Although it is possible to complete the course without this resource, you will be well served if you learn the basics of using the computer as soon as possible.

LOGISTICS CHART

Hour	Week 1	Week 2	Week 3	Week 4	Week 5
1	Overview of Course Managerial Finance Function and Goal Financial Institutions, Markets and Taxes	The Time Value of Money Single Amounts	Debt and Equity Capital Stock Valuation	The Cost of Capital Leverage	Review to Date Working Capital and Current Assets Management
2	Financial Statements and Analysis, Part 1 Break	Annuities Risk and Return	(continued) Capital Budgeting Break	(continued) What Makes Great Boards Great	(continued) The Role of the Federal Reserve Board Break
3	Financial Statement Analysis, Part 2 Cash Flow Financial Planning	Break Interest Rates and Required Returns Corporate Bonds	The Amazing Mr. Buffett Capital Cash Flows	Break Capital Structure Dividend Fundamentals	Current Liabilities Management
4	Cash and Profit Planning Journal Entry	(continued) Bond Valuation Journal Entry	Capital Budgeting Techniques Journal Entry	(continued) Factors Affecting Dividend Policy Journal Entry	Course Wrap-Up Journal Entry Course Evaluation

STUDENT ASSIGNMENTS

Week One

1. Read the Course Overview in the Student Guide.
2. Read Gitman, Chapters 1-3, and prepare written responses to the following problems at the end of the assigned chapters:

Chapter 2: P2-7, P2-9 and the Case (pp. 86-88).

Chapter 3: P3-2, P3-5, P3-9 and P3-13.

(Be sure to do the regular problems and not the self-test problems.)

3. Complete the Web exercises on pages 38 and 134.

Week Two

Read Gitman, Chapters 4-6, and prepare written responses to the following problems at the end of the assigned chapters:

Chapter 4: P4-2, P4-6, P4-10, P4-21, P4-22, P4-26 and P4-51.

Chapter 5: Read and be prepared to discuss risk measurements.

Chapter 6: P6-7, P6-9, P6-10, P6-15 and the Web exercise (p. 273).

Week Three

1. Read Gitman, Chapters 7-9, and prepare written responses to the following problems at the end of the assigned chapters:

Chapter 7: P7-3, P7-4, P7-5, P7-12, P7-13 and P7-17.

Chapter 8: the Case (pp. 349-350).

Chapter 9: P9-13, P9-14, P9-21 and P9-26.

2. Read "The Oracle of Everything" in the Course Pack and write a brief, biographical paragraph about Warren Buffett.

Week Four

1. Read Gitman, Chapters 10-12, and prepare written responses to the following problems at the end of the assigned chapters:

Chapter 10: P10-1, P10-4, P10-13 and P10-14.

Chapter 11: P11-12, P11-15 and P11-18.

Chapter 12: P12-1, P12-5, P12-7 and P12-12.

2. Read "What Makes Great Boards Great" (Harvard Business Review) in the Student Guide and prepare a written response to the following study question:

Explain the five essentials for building an effective board according to the author.

3. If permitted, bring a copy of your firm's credit policies and standards to class for discussion. Bring enough copies for everyone to have one of their own or send this to the Program Office earlier in the week so copies can be made.

Week Five

1. Read Gitman, Chapters 13 and 14, and prepare written responses to the following problems at the end of the assigned chapters:

Chapter 13: P13-2, P13-6, P13-8, P13-10 and P13-14.

Chapter 14: P14-3, P14-8, P14-13 and P14-16.

2. Read "The Future of the Fed" in the Course Pack and prepare a written response to the following study question:

What is the role of the Federal Reserve Board chair in monetary policy?