ILLINOIS VALLEY COMMUNITY COLLEGE

COURSE OUTLINE

DIVISION: Natural Sciences and Business

COURSE: FIN 1200 Principles of Finance

Date: Fall 2022

Credit Hours: 3

Complete all that apply or mark "None" where appropriate:

Prerequisite(s): ACT 1010

Enrollment by assessment or other measure? ☐ Yes ☒ No
If yes, please describe:

Corequisite(s): None

Pre- or Corequiste(s): None

Consent of Instructor: ☐ Yes ☒ No

Delivery Method:

☒ **Lecture**	**3 Contact Hours**	**(1 contact = 1 credit hour)**
☐ **Seminar**	**0 Contact Hours**	**(1 contact = 1 credit hour)**
☐ **Lab**	**0 Contact Hours**	**(2-3 contact = 1 credit hour)**
☐ **Clinical**	**0 Contact Hours**	**(3 contact = 1 credit hour)**
☐ **Online**		
☐ **Blended**		
☐ **Virtual Class Meeting (VCM)**		

Offered: ☐ **Fall** ☒ **Spring** ☐ **Summer**

CATALOG DESCRIPTION and IAI NUMBER (if applicable):
An introductory finance course dealing with principles of financial management and control. Emphasis will be placed on the areas of financial analysis and return on investment, administration of assets, financial institutions, capital structure and cost of capital, short and long-term financing, and short, intermediate and long-term debt financing.

ACCREDITATION STATEMENTS AND COURSE NOTES:
None

COURSE TOPICS AND CONTENT REQUIREMENTS:
1. The Goals and Activities of Financial Management
2. Operating and Financial Leverage
3. Working Capital and the Financing Decision
4. Current Asset Management
5. Sources of Short-Term Financing
6. The Time Value of Money
7. Valuation and Rates of Return
8. Cost of Capital
9. The Capital Budgeting Decision
10. Risk and Capital Budgeting
11. Capital Markets
12. Investment Banking: Public and Private Placement
13. Long-Term Debt and Lease Financing
14. Common and Preferred Stock Financing
15. Dividend Policy and Retained Earnings

INSTRUCTIONAL METHODS:
1. Lecture
2. Class discussion
3. Exercises and problems
4. Quizzes
5. Excel assignments
6. Exams

EVALUATION OF STUDENT ACHIEVEMENT:
1. Read and understand text
2. Class participation
3. Complete all homework assignments
4. Quizzes
5. Excel assignments
6. Exams

INSTRUCTIONAL MATERIALS:
Textbooks
Foundations of Financial Management, Block, Hirt, Danielsen

Resources
Inclusive Access for Connect

LEARNING OUTCOMES AND GOALS:
Institutional Learning Outcomes
☐ 1) Communication – to communicate effectively;
☒ 2) Inquiry – to apply critical, logical, creative, aesthetic, or quantitative analytical reasoning to formulate a judgement or conclusion;

☐ 3) Social Consciousness – to understand what it means to be a socially conscious person, locally and globally;

☐ 4) Responsibility – to recognize how personal choices affect self and society.

Course Outcomes and Competencies

1. The Goals and Activities of Financial Management

1.1 The field of finance integrates concepts from economics, accounting, and a number of other areas
1.2 A firm can have many different types of organization
1.3 The relationship of risk to return is a central focus of finance
1.4 The primary goal of financial managers is to maximize the wealth of the shareholders
1.5 Financial managers attempt to achieve wealth maximization through daily activities such as credit and inventory management and through longer-term decisions related to raising funds
1.6 The financial turmoil that roiled the markets between 2001 and 2012 resulted in more regulatory oversight of the financial markets

2. Operating and Financial Leverage

2.1 Leverage represents the use of fixed cost items to magnify the firm's results
2.2 Break-even analysis allows the firm to determine the magnitude of operations necessary to avoid loss
2.3 Operating leverage indicates the extent to which fixed assets (plant and equipment) are utilized by the firm
2.4 Financial leverage shows how much debt the firm employs in its capital structure
2.5 Combined leverage takes into account both the use of fixed assets and debt
2.6 By increasing leverage, the firm increases its profit potential, but also its risk of failure

3. Working Capital and the Financing Decision

3.1 Working capital management involves financing and controlling the current assets of the firm
3.2 Management must distinguish between current assets that are easily converted to cash and those that are more permanent
3.3 The financing of an asset should be tied to how long the asset is likely to be on the balance sheet
3.4 Long-term financing is usually more expensive than short-term financing based on the theory of the term structure of interest rates
3.5 Risk, as well as profitability, determines the financing plan for current assets
3.6 Expected value analysis may sometimes be employed in working capital management

4. Current Asset Management

4.1 Current asset management is an extension of concepts discussed in the previous chapter and involves the management of cash, marketable securities, accounts receivable, and inventory
4.2 Cash management involves control over the receipt and payment of cash to minimize nonearning cash balances

4.3 The management of marketable securities involves selecting between various short-term investments
4.4 Accounts receivable management requires credit policy decisions aimed at maximizing profitability
4.5 Inventory management requires determining the level of inventory necessary to enhance sales and profitability
4.6 An overriding concept is that the less liquid an asset is, the higher the required return

5. Sources of Short-Term Financing

5.1 Trade credit from suppliers is normally the most available form of short-term financing
5.2 Bank loans are usually short term and should be paid off from funds from the normal operations of the firm
5.3 Commercial paper represents a short-term, unsecured promissory note issued by the firm
5.4 By using accounts receivable and inventory as collateral for a loan, the firm may be able to borrow larger amounts
5.5 Hedging may be used to offset the risk of interest rates rising

6. The Time Value of Money

6.1 Money has a time value associated with it, and therefore a dollar received today is worth more than a dollar received in the future
6.2 The future value is based on the number of periods over which the funds are to be compounded at a given interest rate
6.3 The present value is based on the current value of funds to be received
6.4 Not only can future value and present value be computed, but other factors such as yield (rate of return) can be determined as well
6.5 Compounding or discounting may take place on a less than annual basis such as semiannually or monthly

7. Valuation and Rates of Return

7.1 The valuation of a financial asset is based on the present value of future cash flows
7.2 The required rate of return in valuing an asset is based on the risk involved
7.3 Bond valuation is based on the process of determining the present value of interest payments plus the present value of the principal payment at maturity
7.4 Preferred stock valuation is based on the dividend paid and the market required return
7.5 Stock valuation is based on determining the present value of the future benefits of equity ownership

8. Cost of Capital

8.1 The cost of capital represents the weighted average cost of the source of financing to the firm
8.2 The cost of capital is normally the discount rate to use in analyzing an investment
8.3 The cost of capital is based on the valuation techniques from the previous chapter and is applied to bonds, preferred stock, and common stock

8.4 A firm attempts to find a minimum cost of capital through varying the mix of its sources of financing
8.5 The cost of capital may eventually increase as larger amounts of financing are utilized

9. The Capital Budgeting Decision

9.1 A capital budgeting decision represents a long-term investment decision
9.2 Cash flow rather than earnings is used in the capital budgeting decision
9.3 The payback method considers the importance of liquidity, but fails to consider the time value of money
9.4 The net present value and internal rate of return are generally the preferred methods of capital budgeting analysis
9.5 The discount or cutoff rate is normally the cost of capital

10. Risk and Capital Budgeting

10.1 The concept of risk is based on uncertainty about future outcomes. It requires the computation of quantitative measures as well as qualitative considerations
10.2 Most investors are risk-averse, which means they dislike uncertainty
10.3 Because investors dislike uncertainty, they will require higher rates of return from risky projects
10.4 Simulation models and decision trees can be used to help assess the risk of an investment
10.5 Not only must the risk of an individual project be considered, but also how the project affects the total risk of the firm

11. Capital Markets

11.1 The capital markets, both domestic and foreign, are made up of securities that have a life of one year or longer (often much longer)
11.2 The primary participants raising funds in domestic capital markets are the U.S. Treasury; other agencies of the federal, state, and local governments; and corporations
11.3 The United States is a three-sector economy in which households; corporations, and governmental units allocate funds among themselves
11.4 Security markets consist of physical and electronic markets
11.5 Security markets are considered to be efficient when prices adjust rapidly to new information
11.6 Security legislation is intended to protect investors against fraud, manipulation, and illegal insider trading

12. Investment Banking: Public and Private Placement

12.1 Investment bankers are intermediaries between corporations in need of funds and the investing public. They also provide important advice
12.2 Investment bankers, rather than corporations, normally take the risk of successfully distributing corporate securities and for this there are costs involved
12.3 Distribution of new securities may involve dilution in earnings per share
12.4 Corporations turn to investment bankers when making the critical decision about whether to go public or stay private
12.5 Leveraged buyouts rely heavily on debt in the restructuring of a corporation

13. Long-Term Debt and Lease Financing

13.1 Analyzing long-term debt requires consideration of the collateral pledged, method of repayment, and other key factors
13.2 Bond yields are important to bond analysis and are influenced by how bonds are rated by major bond rating agencies
13.3 An important corporate decision s whether to call in and reissue debt when interest rates decline
13.4 Long-term lease obligations have many characteristics similar to debt and are recognized as a form of indirect debt by the accounting profession
13.5 When a firm fails to meet its financial obligations, it may be subject to bankruptcy

14. Common and Preferred Stock Financing

14.1 Common stockholders are the owners of the corporation and therefore have a claim to undistributed income, the right to elect the board of directors, and other privileges
14.2 Cumulative voting provides minority stockholders with the potential for some representation on the board of directors
14.3 A rights offering gives current stockholders a first option to purchase new shares
14.4 Poison pills and other similar provisions may make it difficult for outsiders to take over a corporation against management's wishes
14.5 Preferred stock is an intermediate type of security that falls somewhere between debt and common stock

15. Dividend Policy and Retained Earnings

15.1 The board of directors and corporate management must decide what to do with the firm's annual earnings: pay them out in dividends or retain them for reinvestment in future projects
15.2 Dividends may have a positive or negative information content for shareholders. Dividend policy can also provide information about where the firm is on its life cycle curve
15.3 Many other factors also influence dividend policy, such as legal rules, the cash position of the firm, and the tax position of shareholders
15.4 Stock dividends and stock splits provide common stockholders with new shares, but their value must be carefully assessed
15.5 Some firms decide to repurchase their shares in the market rather than increase dividends