

# UNIVERSITY OF KARACHI

## INTRODUCTION TO BUSINESS FINANCE

BBA – 1V (Hons.)

**Course Title:INTRODUCTION TO BUSINESS FINANCE**

**Course Number :BA (H) – 412**

**Credit Hours : 03**

### Objective

Business Finance course encompasses the entire business activity in practical life. Introduction to Business Finance is a basic course which is introduced assuming that the students do not have any prior knowledge of business finance. The course has been developed to provide basic knowledge about the principles, concepts, and terminologies which are applicable to the current business practices. This course will help students develop knowledge and understanding of finance and its methods for analyzing the benefits of various sources of finance. Further it will be possible for students to learn capital investment opportunities and application of financial technologies for business planning and control.

### Course Contents INTRODUCTION TO FINANCE

#### 1. An overview of Finance

- 1.1 Scope of Finance and its Career Opportunities
- 1.2 Alternative form of Business Organization
- 1.3 Finance in the organizational structure of the firm
- 1.4 Managerial Actions to Maximize Shareholders Wealth
- 1.5 Functions of a Finance Manager

#### 2. The Financial Environment: Markets, Institutions, and Interest Rates

- 2.1 The Financial Market
- 2.2 Financial Institutions
- 2.3 The Stock Market
- 2.4 The cost of Money
- 2.5 Interest Rate Level
- 2.6 The Determinants of Market Interest Rates

## **FUNDAMENTAL CONCEPTS OF FINANCE**

### **3. Time Value of Money**

- 3.1 Future Value Concept
- 3.2 Present Value Concept
- 3.3 Future Value of an annuity
- 3.4 Present Value of an annuity

### **4. Risk and Return**

- 4.1 Investment Return
- 4.2 The Trade-Off between Risk and Return
- 4.3 Risk in Portfolio Context

## **THE ANALYSIS OF FINANCIAL STATEMENT**

### **5. Analysis of Financial Statements**

- 5.1 Ratio Analysis
- 5.2 Liquidity Ratio
- 5.3 Assets Management Ratios
- 5.4 Debt Management Ratios
- 5.5 Profitability Ratios
- 5.6 Market Value Ratio
- 5.7 Trend Analysis
- 5.8 Uses and Limitations of Ratio Analysis

### **6. The Impact of Operating and Financial Decisions on the Firm**

- 6.1 Operating Leverage
- 6.3 Financial Leverage
- 6.4 Combined or Total Leverage

### **7. The Framework of Financial Planning**

- 7.1 Short-Term Financial Planning
- 7.2 Long-Term Financial Planning

## **INVESTING IN LONG-TERM ASSETS**

### **8. The Cost of Capital**

- 8.1 Basic Definition
- 8.2 Cost of Debt
- 8.3 Cost of Preferred Stock
- 8.4 Cost of Retained Earning

## **9. The Basic Concept of Capital Budgeting**

- 9.1 Importance of Capital Budgeting
- 9.2 Generating Ideas for Capital Budgeting
- 9.3 Project Classification
- 9.4 Capital Budgeting Decision Rules
- 9.5 Comparison of NPV and IRR Methods

## **WORKING CAPITAL MANAGEMENT**

### **10. Working Capital Management**

- 10.1 The importance of Working Capital
- 10.2 Short-term Financial Decisions and Value Maximization
- 10.3 Why Current Assets and Current Liabilities are Required
- 10.4 Deciding on an Appropriate Working Capital Policy

### **11. Cash and Near-Cash Item Management**

- 11.1 The Efficient Collection and Disbursement of Operating Cash
- 11.2 The Optimal Level of Operating Cash Balance
- 11.3 Investment Excess Cash in Marketable Securities
- 11.4 Evaluating Cash Management Strategies

### **12. Accounts Receivable and Inventory**

- 12.1 Managing Accounts Receivable
- 12.2 Managing Inventory
- 12.3 Monitoring of Accounts Receivable, Aging and Collection Schedules

### **13. Cash and Near-Cash Item Management**

- 13.1 General Consideration in Current Liabilities Management
- 13.2 Sources of Short-term Credit

## **Recommended Books**

1. Houston and Brigham, Financial Management, Theory and Practice, (Tenth International Edition), Harcourt Brace College Publishers. 2004.
2. Rao Ramesh K. S., Fundamentals of Financial Management, (Latest International Edition) Maxwell Macmillan. 1989.