

CORE COURSE III – FINANCIAL MANAGEMENT

Credit Allotted: 5

Max. Marks: 75

Objective : To make the students understand the concept and problems of Financial Management.

Unit I

Introduction to Financial Management : Objectives, Functions, Scope, Evolution, Interface of Financial Management with other Areas, Environment of Corporate Finance.

Time value of Money : Future Value of Single Cash Flow, Multiple Cash flow, Annuity, Sinking Fund Factor. Present value of single cash flow, Multiple cash flow, Annuity, Annuity Dues, Perpetuities. Comparison of Rates.

Unit II

Leverage : Operating Leverage, Financial Leverage, Total Leverage.

Sources of Long-term Finance : Equity, Preference Capital, Debentures, Term Loans and Deferred Credit, Government Subsidies, Sales Tax Deferments and Exemptions, Leasing and Hire purchase.

Cost of Capital : Cost of debentures, Term Loans, Equity and Retained Earnings, Weighted Average cost of capital, systems of weighting.

Unit III - Capital Structure

Introduction, Factors Affecting Capital structure, Features of an optimal capital structure, capital structure theories : Traditional Approach, MM Approach.

Dividend Policy : Traditional Approach, Walter Model, Gordon Model, MM Position, Rational Expectations Model.

Unit IV

Corporate Valuation : Discounted Cash flow Approach, Adjusted book Value Approach, Approaches to Facilitate Value Based Management: Marakon Approach, Alcar Approach, McKinsey Approach, Agency Consideration and Minimising agency Costs.

Unit V

Divisional performance Measurement and Control : Organizational Segmentation by Responsibility, Measures of Performance, Problems of

Transfer pricing, Innovative Budgetary Control Systems, Management Reporting Systems.

EVA and Divisional Performance Measurement : EVA and MVA, EVA and NPV, EVA and Executive Compensation, EVA, TQM and Shareholders Wealth, Improving EVA.

(Theory – 30 Marks Problem - 45 Marks)

Reference:

1. Prasanna Chandra, Financial Management: Theory and Practice, 5th Ed., Tata McGraw Hill, 2001.
2. Ross, Westerfield, Jaffe, Corporate Finance, 5th Ed., McGraw Hill, 1999.
3. Brigham, Gapenski, Ehrhardt, Financial Management: Theory and Practice, 9th Ed., Dryden Press, 1999.
4. Pandey, I.M., Financial Management, Vikas Publishing House.
5. Vishwanath, S.R. Corporate Finance : Theory and Practice, Response Books, 2000.
6. R. Ramachadran & R. Srinivasan - Financial Management