INTRODUCTION

This course is an examination of the role of financial management, analysis, forecasting, mathematics, working capital management, cash and marketable securities management, accounts receivable, inventory management, and short-term financing.

GRADING

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PERFORMANCE EXPECTATIONS

Class members are expected to read the instructional materials and complete the activities for each learning plan prior to class in preparation for the classroom sessions each week. Be prepared to discuss the content in the instructional materials during class sessions. Time is limited and lack of preparation for class will reflect in your participation points.

PRE-CLASS ACTIVITIES

- Read the learning plan activities
- Read the instructional materials
- Read any web linked materials and complete related activities
- Complete any web searches

IN-CLASS ACTIVITIES

- Show evidence of preparation for in-class activities through attendance and use of learning plan terminology and concepts.
- Actively participate in all classroom activities (discussions, quizzes, exams, exercises, etc.)
- Make meaningful and substantive contributions to classroom activities.

POST-CLASS ACTIVITIES

Complete assignments as directed by the instructor.

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LEARNING PLAN 1: FINANCIAL MANAGEMENT FUNCTIONS

COMPETENCY

COMPARE AND CONTRAST THE ACCOUNTING FUNCTION WITH THE FINANCIAL MANAGEMENT FUNCTION IN AN ORGANIZATION.

Learning Objectives

a) Defend the goals of financial management.
b) Explain agency theory and ethical behavior as they relate to the goals of financial management.
c) Discuss the role of the financial markets.
d) Determine what accounting information is needed for a specific decision.
e) Identify income tax considerations.

OVERVIEW

The field of finance is closely related to economics and accounting. Accounting is said to be the language of finance because of the financial data that is produced and then used by financial experts. Over the years, the role of financial management has substantially increased in importance. The stresses of unpredictable economic turns, fluctuating interest rates, inflation and disinflation etc. have generated the need for top level managers possessing the necessary financial skills. The demand for financial management skills exists in many sectors of our society including corporate management, financial institutions, and consulting. Careers in banking, the stock market, corporate held positions, and financial planners are all possible with an earned degree in or emphasis in finance. It’s an exciting time to study and be involved with finance.
LEARNING ACTIVITIES

1. Name two publicly traded companies. What is their current common stock value? Are they traded on the Nasdaq, or New York Stock Exchange? In addition, are they also traded on any of the international stock markets?

2. Read Chapters 1 & 2.

3. Review the PowerPoint slides for Chapters 1 & 2.
   - Chapter 1
   - Chapter 2

   - Chapter 1 Interaction
   - Chapter 2 Interaction

5. Examine agency theory and ethical behavior as they relate to the goals of financial management. As a manager in a publicly traded organization, would you feel comfortable making tough business decisions that could impact the interests of the organization’s shareholders? Is it fair to say that conflicts can occur as a result of diversified ownership interests?

   *It is important that you do this activity to become competent with this learning plan’s content. Your final grade will reflect your involvement.*

   *If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.*

6. Discuss the role of the financial markets and why markets are important to the economic health of a country. Does the market itself make the organizations involved more valuable or is it the collective worth of the organizations involved that make the market valuable? You may choose to write your response down or reflect on it.

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   *If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.*
to submit anything.

7. **Graded Discussion 1.1: Smart Goals**

Get to know your classmates by describing a personal interest and identify and name one thing you would like to learn in this class.

Describe your educational goals. Make sure they are SMART goals, meaning: specific, measureable, action oriented, realistic and time specific, as you learned in Strategies for Success. View and listen to the SMART Goals presentation. You may also download the written transcript. Identify at least two people with whom you have something in common and post a response to each.

We encourage you to develop these initial contacts to enhance your learning.

Graded Discussion 1.1 Introduction is worth 30 points.

8. **Graded Discussion 1.2: Accounting Function and the Financial Management Function**

Discuss the difference between managerial accounting and financial accounting or financial management within an organization. What are the benefits of each, and who are the individuals that utilize the information gathered from each function?

This discussion is worth 25 points.

9. **LP 1 Summary**

Finance is a blend of economics, accounting, and business related disciplines. Financial managers must be knowledgeable with the language of accounting to carry out the financial affairs of the organization. An income statement measures the organization’s profitability over a specific period. The balance sheet reveals the financial position of the organization and is very much a historical reference not something that may always reflect the true value of the organization to date. Statement of cash flows reveals the cash flow data in relationship to operations. This information is used pay cash dividends, invest in new equipment, etc... Stockholder wealth maximization is the goal for all financial managers. As an agent for the organization there is more pressure on maximizing wealth when dealing with risk and return as well as the possible shortfalls of profit maximization being the ultimate goal of the organization.
10. **Graded LP1 Assignment**

Directions for Assigned Problems

Chapter 2 – Problems 1, 9, 24

These assigned problems are located in your *Foundations of Financial Management* textbook. Follow the instructions printed for each problem and submit this assignment to your instructor in a Microsoft Excel or Word document.

This assignment is worth 60 points and will be graded according to the following scoring guide.

**LP1 ASSIGNMENT SUGGESTED SCORING GUIDE**

*The total possible points are calculated by multiplying the highest number on the rating scale by the total number of criteria.*

**Rating Scale**

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**Criteria**

**Problem 1 Scoring Guide**

1. Earnings per share for the year 2009 were computed correctly.
2. Earnings per share for the year 2010 were computed correctly.

**Problem 9 Scoring Guide**

1. An income statement for Virginia Slim Wear including the computation of earnings per share was prepared correctly.

**Problem 24 Scoring Guide**

1. Book value (net worth) per share was computed correctly.
2. The current price of the stock was calculated correctly.
3. The ratio of market value per share to book value per share was calculated correctly.
LEARNING PLAN 2: FINANCIAL STATEMENTS ANALYZED

COMPETENCY

ANALYZE FINANCIAL STATEMENTS

Learning Objectives

a) Compute financial ratios.

b) Perform trend analysis.

c) Analyze financial ratio and trend analysis information.

d) Determine what type of financial analysis should be used for a specific situation.

OVERVIEW

Financial ratios are used to evaluate the success of any organization. Net income, sales, current assets, current liabilities, industry norms and prior trends are all used to assist the financial manager in the decision making process. It is important to understand what is being measured to construct a ratio as well as to know the significance of the outcome.
**LEARNING ACTIVITIES**

_____1. Do you think inflation plays a part when conducting financial analysis? Should inflation be considered when performing ratio analysis? Do you think that during our current economic downturn that there are organizations that are undervalued and possibly overvalued because of inflation?

_____2. Read Chapter 3.

_____3. Review the PowerPoint slides for Chapter 3.

   [Chapter 3](#)


   [Chapter 3 Interaction](#)

_____5. Conduct an internet search looking at Apple, Inc. Is there any trend analysis out there comparing Apple to other hand-held device companies? If so, how is Apple performing compared to their competition?

   *It is important that you do this activity to become competent with this learning plan’s content. Your final grade will reflect your involvement.*

   *If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.*

_____6. Identify the thirteen significant ratios in your text and associate them with one of the following four categories: profitability, asset utilization, liquidity, and debt utilization. Understand why it is important that these ratios are classified in this grouping structure.

   *It is important that you do this activity to become competent with this learning plan’s content. Your final grade will reflect your involvement.*

   *If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.*

_____7. **Graded Discussion 2.1: Analyze Financial Statements**

   Why analyze financial statements? As an organization, how do financial statements contribute to the decision making process? As an individual investor, how are financial
statements helpful when making investment decisions? If you wanted to invest $1,000 in a soft drink company, and you narrowed your choice down between Coke and Pepsi, where would you look to find each company’s respective financial statements? Based on the most current company information, which company would you choose and why?

This discussion is worth 25 points.

_____8. LP2 Summary

Financial ratios are used to weigh and evaluate the operating performance of an organization. Financial ratios are also used to evaluate one organization’s performance against another like organization’s performance. Ratios are divided into four primary categories: profitability, asset utilization, liquidity, and debt utilization. Profitability ratios measure the organization’s ability to earn a return on sales, assets, and stockholder’s equity. Asset utilization ratios demonstrate the time which an organization turns over its accounts receivable, inventory, and long-term assets. Liquidity ratios measure an organization’s ability to pay short-term obligations as they come due. Debt utilization ratios reveal the overall debt position of the organization as it relates to the organization’s asset base and earning power. It is wise to look at the results over the course of a business cycle and even conducting a trend analysis over a number of years as sales and profitability may change, inflation or disinflation can occur, chance of extraordinary gains or losses can occur as well as other additional factors which can all impact an organization’s performance.

_____9. Graded LP2 Assignment

Directions for Assigned Problems

Chapter 3 – Problems 2, 8, 22

These assigned problems are located in your Foundations of Financial Management textbook. Follow the instructions printed for each problem and submit this assignment to your instructor in a Microsoft Excel or Word document.

This assignment is worth 80 points and will be graded according to the following scoring guide.
**LP2 ASSIGNMENT SUGGESTED SCORING GUIDE**

The total possible points are calculated by multiplying the highest number on the rating scale by the total number of criteria.

**Rating Scale**

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**Criteria**

**Problem 2 Scoring Guide**
1. Net income was calculated correctly.
2. Return on assets was calculated correctly.

**Problem 8 Scoring Guide**
1. The firm’s return on assets was prepared correctly.
2. Return on stockholders’ equity was calculated correctly.
3. The firm’s profit margin (return on sales) was calculated correctly.

**Problem 22 Scoring Guide**
1. Current ratio was calculated correctly.
2. Quick ratio was calculated correctly.
3. Debt-to-total-assets ratio was calculated correctly.
4. Asset turnover was calculated correctly.
5. Average collection period was calculated correctly.
LEARNING PLAN 3: FINANCIAL FORECASTING

COMPETENCY

CONSTRUCT FINANCIAL FORECASTS FOR AN ORGANIZATION

Learning Objectives

a) Project sales.
b) Construct pro-forma financial statements.
c) Construct cash budgets.

OVERVIEW

Financial forecasting is necessary to the strategic growth of an organization. Financial statements for forecasting include the following: pro forma income statement, the cash budget, and the pro forma balance sheet. Taking a systems approach is necessary when constructing pro forma statements. A pro forma income statement based on sales projections and the production plan is constructed first. This information is then translated into a cash budget and then finally all previous developed material is placed in the pro forma balance sheet. These methods of forecasting enable an organization to determine the necessary funds needed in advance to continue operations.
LEARNING ACTIVITIES

1. As a retailer like Best Buy forecasts sales for the annual holiday shopping season, do you think it’s important to the organization that they meet or exceed their forecasted sales? Why? Also, as an investor in Best Buy, how would it impact you if their forecasted sales were or weren’t met?

2. Read Chapter 4.

3. Review the PowerPoint slides for Chapter 4.

   Chapter 4


   Chapter 4 Interactive

5. Review the definition of a cash budget in the textbook. What are the basic benefits as well as purpose of developing a cash budget?

   It is important that you do this activity to become competent with this learning plan’s content. Your final grade will reflect your involvement.

   If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.

6. Over the past two decades the marketing profession has come up with several techniques for analyzing and projecting future sales for organizations. As a financial analyst, it is extremely important to utilize the resources found within the marketing department to help supply the essential variable for financial forecasting. Conduct an internet search looking at companies like Best Buy, Ford Motor Company, Microsoft, and Sony to see how their marketing and finance departments come together to project future sales.

   It is important that you do this activity to become competent with this learning plan’s content. Your final grade will reflect your involvement.

   If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.
7. **Graded Discussion 3.1: Financial Forecasts**

   Why construct financial forecasts? From a planning perspective, is it necessary to forecast the future as it relates to the organization as well as the industry as a whole? If you were President and CEO of Apple Corporation, would you want to know what the forecast for iPhones would be in the next year, 5 years, and 10 years? Why would this information be important? Explain.

   This discussion is worth 25 points.

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8. **LP3 Summary**

   Financial forecasting allows the financial manager to anticipate events before they occur. A systems approach is necessary to develop pro forma statements. We first construct a pro forma income statement based on sales projections and the production plan. This information is then translated into a cash budget. Finally, all previously assimilated information is then recorded into a pro forma balance sheet. Percent to sales method is utilized as well where it is assumed that accounts on the balance sheet will maintain a given percentage relationship to sales. The important thing to remember, regardless of the method used, is the determination of the amount of new funds needed to finance the activities of the organization.

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9. **Graded LP3 Assignment**

   Directions for Assigned Problems

   Chapter 4 – Problems 6, 11, 13, 24

   These assigned problems are located in your *Foundations of Financial Management* textbook. Follow the instructions printed for each problem and submit this assignment to your instructor in a Microsoft Excel or Word document.

   This assignment is worth 80 points and will be graded according to the following scoring guide.
LP3 ASSIGNMENT SUGGESTED SCORING GUIDE

The total possible points are calculated by multiplying the highest number on the rating scale by the total number of criteria.

Rating Scale

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Criteria

Problem 6 Scoring Guide
1. Net dollar sales projection was calculated correctly.

Problem 11 Scoring Guide
1. Total cost of goods sold was calculated correctly.

Problem 13 Scoring Guide
1. Cost of goods sold was calculated correctly assuming LIFO inventory accounting.
2. Cost of goods sold was calculated correctly assuming FIFO inventory accounting.

Problem 24 Scoring Guide
1. Cash receipts schedule was prepared correctly.
2. Cash receipts for November were calculated correctly.
3. Cash receipts for December were calculated correctly.
4. Cash budget was prepared correctly.
5. Ending cash balance for November was calculated correctly.
6. Ending cash balance for December was calculated correctly.
LEARNING PLAN 4: TIME VALUE OF MONEY CONCEPTS COMPETENCY

SOLVE PROBLEMS USING TIME VALUE OF MONEY CONCEPTS

Learning Objectives

a) Explain the concept – time value of money.
b) Describe the relationship between present value and future value.
c) Calculate present value and future value given a single amount or an annuity.
d) Use present value and future value tables.
e) Calculate the yield on an investment.
f) Calculate the value of bonds, preferred stock, and common stock.

OVERVIEW

Money has a time value associated with it. This means that a dollar received today is worth more than a dollar received sometime in the future. Future value is based on the number of periods over which the funds are to be compounded at a given interest rate. Present value is based on the current value of funds to be received. Other factors, such as yield or rate of return, can be determined in addition to future value and present value. Valuation of a financial asset is based on the present value of future cash flows. 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. Stock valuation is based on determining the present value of the future benefits of equity ownership; preferred stock valuation is based on the dividend paid.
LEARNING ACTIVITIES

_____1. Would you accept $500 today knowing that in 10 years that $500 would be worth $1,000? Like many of us it depends on if $500 means more to us now or if we would be willing to wait 10 years to receive $1,000.

_____2. Read Chapters 9 & 10.

_____3. Review the PowerPoint slides for Chapters 9 & 10.

Chapter 9

Chapter 10


Chapter 9 Interactive

Chapter 10 Interactive

_____5. Review the relationship of future value and present value in the textbook. What are the characteristics of both? Be cognizant of how of how differently future value and present value determine the time value of money.

It is important that you do this activity to become competent with this learning plan’s content. Your final grade will reflect your involvement.

If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.

_____6. Imagine that you purchased a television, computer, or vehicle that came with financing and 0% interest over 6 months, 18 months, or 60 months. Take a moment and compare your current minimum monthly payment at 0% to the same loan with 5% interest. How much are you saving each month with 0% interest? How much over the life of the loan?

It is important that you do this activity to become competent with this learning plan’s content. Your final grade will reflect your involvement.

If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.
7. **Graded Discussion 4.1: Time Value of Money**

Time value of money is an important aspect of money management. Why is it important to know what interest rates, terms of an agreement, and present value are in relationship to future value when making financial decisions? In perspective, if you won a $25 million lottery, would you take the lump sum prize of $17 million immediately or the annual annuity of $1 million dollars for the next 25 years? Your response should be based on what you know about present value and future value as well as include your personal opinion.

This discussion is worth 25 points.

8. **LP4 Summary**

Time value of money applies to many day-to-day decisions. Understanding the effective rate on a business loan, mortgage payment, or true return on an investment depends on understanding the time value of money. Future value is the value of an amount that is allowed to grow at a given interest rate over a given time period. Present value is the exact opposite of future value. The concept of present value is that a sum payable in the future is worth less today than the stated amount. When dealing with time value of money, you will want to first determine if it relates to future value or present value as well as if it is a single sum or an annuity. Time value of money concepts are also used to value financial assets, such as bonds, common stock, and preferred stock. Additionally, time value of money influences how investors establish the rates of return they demand. Once it is known how much bondholders and stockholders demand in the way of rates of return, the corporation then knows what is required to pay them to attract their funds. The cost of corporate financing, capital, is used in analyzing whether a project is acceptable for investment or not.

9. **Graded LP4 Assignment**

Directions for Assigned Problems

Chapter 9 – Problems 2, 5
Chapter 10 – Problems 3, 8

These assigned problems are located in your *Foundations of Financial Management* textbook. Follow the instructions printed for each problem and submit this assignment to your instructor in a Microsoft Excel or Word document.

This assignment is worth 80 points and will be graded according to the following scoring guide.
LP4 ASSIGNMENT SUGGESTED SCORING GUIDE

The total possible points are calculated by multiplying the highest number on the rating scale by the total number of criteria.

Rating Scale

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Criteria

Problem 2 Scoring Guide
1. The correct appendix was referenced to calculate the problems.
2. Present value was calculated correctly for a, b, and c.

Problem 5 Scoring Guide
1. The correct appendix was referenced to calculate the problems.
2. Future value was calculated correctly for a, b, c.
3. Future value was calculated correctly for d.

Problem 3 Scoring Guide
1. Current price of bond was computed correctly with 4% yield to maturity.
2. Current price of bond was computed correctly with 14% yield to maturity.

Problem 8 Scoring Guide
1. Bond price at 10% was computed correctly.
2. Bond price at 7% was computed correctly.
3. Percentage return on investment if bought at 10% and sold at 7% computed correctly.
LEARNING PLAN 5: WORKING CAPITAL

COMPETENCY

MANAGE WORKING CAPITAL

Learning Objectives

a) Calculate net working capital.
b) Discuss the purposes of working capital management.
c) Contrast short-term financing to long-term financing.
d) Project working capital needs.
e) Manage current assets.
f) Calculate economic order quantity and the cost of holding inventory.
g) Defend the concept of an optimal working capital policy.
h) Identify potential sources of short-term financing.
i) Calculate the cost of various types of credit.
j) Analyze the impact of decisions on working capital.

OVERVIEW

Working capital management involves financing and controlling the current assets of the organization. Management must distinguish between current assets that are easily converted to cash and those that are more permanent. Long-term financing is usually more expensive than short-term financing, based on the theory of the term structure of interest rates. Cash management involves control over the receipt and payment of cash so as to minimize nonearning cash balances. Accounts receivable management requires credit policy decisions aimed at maximizing profitability. Trade credit from suppliers is normally the most available form of short-term financing.
LEARNING ACTIVITIES

1. Conduct an internet search by going to General Electric’s website at http://www.ge.com/. Go to “Products and Services” on the homepage. Click on “Business Finance.” Scroll down and look at the types of services GE Capital provides for “Small Business.” Does it appear that GE Capital is competitive with more traditional financial institutions? Would GE Capital be considered a source of financing working capital needs?

2. Read Chapters 6, 7, & 8.

3. Review the PowerPoint slides for Chapters 6, 7 & 8.
   - [Chapter 6](#)
   - [Chapter 7](#)
   - [Chapter 8](#)

   - [Chapter 6 Interactive](#)
   - [Chapter 7 Interactive](#)
   - [Chapter 8 Interactive](#)

5. Use the Wall Street Journal or some other financial publication to find the going interest rates for the list of marketable securities in Table 7-1. Which security would you choose for a short-term investment? Why?

   *It is important that you do this activity to become competent with this learning plan's content. Your final grade will reflect your involvement.*

   *If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.*

6. A borrower is often confronted with a stated interest rate and an effective interest rate. What is the difference, and which one should the financial manager recognize as the true cost of borrowing?

   *It is important that you do this activity to become competent with this learning plan's...*
content. Your final grade will reflect your involvement.

If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.

7. Graded Discussion 5.1: Managing Working Capital

Oftentimes businesses will fail because their method of managing working capital does not focus on the importance of sustaining working capital and managing the flow of cash through the business. Every new organization needs enough working capital to setup the business, pay operating costs, and continue to operate until payment arrives 30, 60 or maybe even 90 days later. However, if a business uses a lot of their working capital to pay for fixed assets, they may find they cannot pay suppliers, buy materials, or even pay employees’ salaries. Discuss the importance of cash on hand and how it affects the strength of the business. Would you agree that the amount of cash on hand is a factor when comparing like businesses?

This discussion is worth 25 points.

8. LP5 Summary

Working capital management involves the financing and controlling of the current assets of the organization. The current assets include the following: cash, marketable securities, accounts receivable, and inventory. An overriding concept in current asset management is that the less liquid an asset, the higher the required return. The organization that manages its current assets efficiently will minimize (or optimize) its investment in them, thereby freeing up funds for other corporate uses. The result will be higher profitability and return on total assets for the firm. An organization in search of short-term financing must be aware of all the institutional arrangements that are available. Trade credit from suppliers is normally the most available form of short-term financing and is a natural outgrowth of the buying and reselling of goods. Organizations are increasingly turning to foreign markets for lower cost sources of funds.

9. Graded Assignment 5: LP5 Assignment

Directions for Assigned Problems

Chapter 6 – Problem 14

Chapter 7 – Problems 5, 13
Chapter 8 – Problem 18

These assigned problems are located in your Foundations of Financial Management textbook. Follow the instructions printed for each problem and submit this assignment to your instructor in a Microsoft Excel or Word document.

This assignment is worth 80 points and will be graded according to the following scoring guide.

**LP5 ASSIGNMENT SUGGESTED SCORING GUIDE**

*The total possible points are calculated by multiplying the highest number on the rating scale by the total number of criteria.*

**Rating Scale**

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</tr>
</tbody>
</table>

**Criteria**

**Problem 14 Scoring Guide**
1. Conservative and aggressive financing plans for Collins Systems were constructed correctly including earnings after taxes.

**Problem 5 Scoring Guide**
1. Average collection period was calculated correctly.

**Problem 13 Scoring Guide**
1. Economic ordering quantity was calculated correctly.
2. Number of orders placed during the year was calculated correctly.
3. Average inventory was calculated correctly.
4. Total cost of inventory expected was calculated correctly.

**Problem 18 Scoring Guide**
1. Annual payment was calculated correctly.
2. Semiannual payments were calculated correctly.
3. Quarterly payments were calculated correctly.
4. Monthly payments were calculated correctly.
LEARNING PLAN 6: OPTIMAL CAPITAL STRUCTURE EXPLAINED

COMPETENCY

DETERMINE OPTIMAL CAPITAL STRUCTURE

Learning Objectives

a) Calculate the cost of debt, cost of preferred stock, cost of common equity, and weighted average cost of capital (WACC).

b) Discuss how the Capital Asset Pricing model informs capital structure decisions. (Appendix 11A in Block & Hirt)

c) Calculate the cost of equity using the security market line (SML), the determinants of Beta, and Beta’s impact on cost of capital. (Appendix 11A in Block & Hirt)

OVERVIEW

Cost of capital represents the weighted average cost of the source of financing for corporations. Cost of capital is normally the discount rate to use in analyzing an investment. Remember, cost of capital is based on valuation techniques which are discussed in learning plan four and is applied to bonds, preferred stock, and common stock. Corporations attempt to find a minimum cost of capital through varying the mix of their sources of financing. The cost of capital may eventually increase as larger amounts of financing are utilized.
LEARNING ACTIVITIES

1. Consider the following scenario: you have two divisions within an organization; one division manager wants the organization to invest in Project A while the other division manager wants the organization to invest in Project B. How should the organization decide which project to accept? Should the cost of capital play a part in the decision? Why?

2. Read Chapter 11.

3. Review the PowerPoint slides for Chapter 11.
   
   Chapter 11

   
   Chapter 11 Interactive

5. In computing the cost of capital, do you use the historical costs of existing debt and equity or the current costs as determined in the market? Why? You may choose to write your response down or reflect on them.

   It is important that you do this activity to become competent with this learning plan’s content. Your final grade will reflect your involvement.

   If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.

6. It has been said that if the organization can’t earn a rate of return greater than the cost of capital it should not make the investment. Do you agree? Why or Why not?

   It is important that you do this activity to become competent with this learning plan’s content. Your final grade will reflect your involvement.

   If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.

7. Graded Discussion 6.1: Optimal Capital Structure

Cost of capital is the means by which a business can raise money, either through the issuance of stock, borrowing, or a combination of the two. Keep in mind that a business must earn money that is equal to, if not more than, what is being invested to receive an
acceptable return. Discuss one or two methods used in the capital budgeting process and the advantages that each represent.

This discussion is worth 25 points.

8. LP6 Summary

The cost of capital is determined by computing the costs of various sources of financing and weighting them in proportion to their representation in the capital structure. The cost of each component in the capital structure is closely associated with the valuation of that source. For debt and preferred stock, the cost is directly related to the current yield, with debt adjusted downward to reflect the tax-deductible nature of interest. For common stock, the cost of retained earnings (Ke) is the current dividend yield on the security plus an anticipated rate of growth for the future. Debt is usually the cheapest form of financing; however, excessive debt use may increase the financial risk of the firm and drive up the costs of all sources of financing. Once the overall lowest cost of capital is determined, the weighted average cost of capital is the discount rate used in present-valuing future flows to ensure that at least the cost of financing is being earned.

9. Graded Assignment 1: LP6 Assignment

Directions for Assigned Problems

Chapter 11 – Problems 2, 9, 19

Chapter 11 Appendix – Problem 11A-1

These assigned problems are located in your Foundations of Financial Management textbook. Follow the instructions printed for each problem and submit this assignment to your instructor in a Microsoft Excel or Word document.

This assignment is worth 80 points and will be graded according to the following scoring guide.
LP6 ASSIGNMENT SUGGESTED SCORING GUIDE

The total possible points are calculated by multiplying the highest number on the rating scale by the total number of criteria.

Rating Scale

<table>
<thead>
<tr>
<th>Rating</th>
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<tbody>
<tr>
<td>10</td>
<td>Work meets or exceeds criterion at a high level of competence.</td>
</tr>
<tr>
<td>9</td>
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</tbody>
</table>

Criteria

<table>
<thead>
<tr>
<th>Problem 2 Scoring Guide</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Weighted average cost of capital was calculated correctly.</td>
</tr>
<tr>
<td>2. The correct project was selected.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Problem 9 Scoring Guide</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Approximate yield to maturity was calculated correctly.</td>
</tr>
<tr>
<td>2. After tax cost of debt was calculated correctly.</td>
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</tbody>
</table>

<table>
<thead>
<tr>
<th>Problem 19 Scoring Guide</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Weighted average cost of capital was calculated correctly.</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Problem 11A-1 Scoring Guide</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Kj with a beta of 0.6 was calculated correctly.</td>
</tr>
<tr>
<td>2. Kj with a beta of 1.3 was calculated correctly.</td>
</tr>
<tr>
<td>3. Kj with a beta of 1.9 was calculated correctly.</td>
</tr>
</tbody>
</table>
LEARNING PLAN 7: CAPITAL BUDGETING DECISION

COMPETENCY

COMPARE VARIOUS METHODS USEFUL IN MAKING CAPITAL BUDGETING DECISIONS

Learning Objectives

a) Calculate using the net present value method.
b) Calculate using the payback period method.
c) Calculate using the internal rate of return (IRR) method.

OVERVIEW

Capital budgeting decision represents a long-term investment decision. Cash flow is used in the capital budgeting decision. The payback method considers the importance of liquidity but does not take into consideration time value of money. Net present value and internal rate of return are generally the preferred methods of capital budgeting analysis. Cost of capital represents the discount or cutoff rate.
LEARNING ACTIVITIES

1. For most of us, a capital budgeting decision would be buying a house, which is a purchase with a long-term investment. For organizations, long-term investments can be acquiring another company, building a larger factory, developing a new product line, etc. Think of a company you’ve heard about recently that has revealed their next capital budgeting decision. What is that decision?

2. Read Chapter 12.

3. Review the PowerPoint slides for Chapter 12.

   Chapter 12


   Chapter 12 Interactive

5. Why do you think that capital budgeting relies on analysis of cash flows as opposed to net income? You may choose to write your answers down or reflect on them.

   It is important that you do this activity to become competent with this learning plan’s content. Your final grade will reflect your involvement.

   If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.

6. If an organization has projects that will earn more than their cost of capital, should the organization ration capital? Why or Why not?

   It is important that you do this activity to become competent with this learning plan’s content. Your final grade will reflect your involvement.

   If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.

7. Graded Discussion 7.1: Capital Budgeting Decisions

   Capital budgeting decisions include determining when long term investments, such as an equipment purchase, are necessary and worth pursuing. One method of capital budgeting process is to determine the Net Present Value. Discuss in detail how to calculate net
present value. In addition, explain why profitability, as a result of a purchase, must equal or exceed the cost of capital or purchase to be deemed worthy.

This discussion is worth 25 points.

8. **LP7 Summary**

The capital budgeting decision involves the planning of expenditures for a project that will take a minimum of one year to complete. Capital budgeting deals with actual dollars; therefore, cash flow is used in the decision making process. Three primary methods used to analyze capital investment proposals – the pay-back method, internal rate of return, and the net present value. Net present value method is the most widely used and uses the cost of capital as the discount rate. In using this method, it must be determined that the project will earn back at least the cost of funding to be an acceptable investment.

9. **Graded Assignment 7: LP7 Assignment**

Directions for Assigned Problems

Chapter 12 – Problems 3, 6, 11, 18

These assigned problems are located in your *Foundations of Financial Management* textbook. Follow the instructions printed for each problem and submit this assignment to your instructor in a Microsoft Excel or Word document.

This assignment is worth 80 points and will be graded according to the following scoring guide.

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**LP7 ASSIGNMENT SUGGESTED SCORING GUIDE**

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<td><strong>Problem 3 Scoring Guide</strong></td>
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<tr>
<td>1. Cash flow was calculated correctly.</td>
</tr>
<tr>
<td>2. Cash flow was calculated correctly with $500,000 in depreciation.</td>
</tr>
<tr>
<td>3. Cash flow benefit from the depreciation was calculated correctly.</td>
</tr>
<tr>
<td><strong>Problem 6 Scoring Guide</strong></td>
</tr>
<tr>
<td>1. Payback method was calculated correctly for Investment X.</td>
</tr>
<tr>
<td>2. Payback method was calculated correctly for Investment Y.</td>
</tr>
<tr>
<td>3. Correct investment was selected.</td>
</tr>
<tr>
<td><strong>Problem 11 Scoring Guide</strong></td>
</tr>
<tr>
<td>1. Internal rate of return was calculated correctly.</td>
</tr>
<tr>
<td><strong>Problem 18 Scoring Guide</strong></td>
</tr>
<tr>
<td>1. Net present value was calculated correctly.</td>
</tr>
<tr>
<td>2. Internal rate of return was calculated correctly.</td>
</tr>
<tr>
<td>3. Was the project selected and why.</td>
</tr>
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</table>
LEARNING PLAN 8: INTERNATIONAL FINANCE EXAMINED

COMPETENCY

ANALYZE CONTEMPORARY ISSUES ASSOCIATED WITH INTERNATIONAL FINANCE

   Learning Objectives

a) Examine the nature and environment of today’s multinational corporations.

b) Analyze the key concepts associated with international exchange including the factors influencing exchange rates, spot and forward rates, cross rates and the use of hedges to mitigate exchange risk.

c) Examine various methods used to finance international operations.

OVERVIEW

Multinational corporations cross international borders to gain expanded markets capitalizing on increased profit margins. Corporations that operate in several foreign countries must consider exchange rates as they relate to profitability and cash flow. Political risk must be carefully assessed when making a foreign investment decision. The potential ways for financing international operations are much greater than for domestic operations and should be carefully considered.
LEARNING ACTIVITIES

_____ 1. Conduct a web search to see how much international sales Nike conducts annually. Is Nike one of the top shoe and athletic apparel companies worldwide? Do they have more sales globally than here in the United States?

_____ 2. Read Chapter 21.

_____ 3. Review the PowerPoint slides for Chapter 21.

Chapter 21


Chapter 21 Interactive

_____ 5. What does LIBOR stand for, based on your textbook? Why is LIBOR important when dealing with international financial loans?

It is important that you do this activity to become competent with this learning plan’s content. Your final grade will reflect your involvement.

If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.

_____ 6. How would you explain why or how exports and imports tend to influence the value of a currency? You may choose to write your answers down or reflect on them.

It is important that you do this activity to become competent with this learning plan’s content. Your final grade will reflect your involvement.

If you have questions or need clarity, check with your instructor. Otherwise you do not need to submit anything.

_____ 7. Graded Discussion 8.1: International Finance

More and more businesses are realizing greater profit potential by selling their products and services in other countries on an international scale. However, there are challenges that businesses face when exposed to foreign exchange risk in addition to standard business and financial risk. Identify two United States companies that have entered the international arena and report their successes or failures in offering their products to the international
market. What financial risks, if any, have they incurred throughout the process?

This discussion is worth 25 points.

8. **LP8 Summary**

Multinational corporations have been more profitable than their domestic counterparts in recent years. As a result, this has lead to more American companies entering international markets. Internationally, U.S multinational corporations have helped in the promotion of economic development and international trade for several decades. As corporations have entered these markets, they have also been exposed to risk. Foreign exchange risk can be dealt by hedging in the forward exchange markets, in the money markets, and in the currency futures market. Political risk of a diplomatic nature can occur, involving negative policy decisions by a foreign government that discriminates against foreign companies. Political risk can be cumbersome to solve given the situation. Alternative sources of financing through both domestic and international capital markets is utilized by multinational corporations to find the lowest possible cost to raise funds. Financing international trade and investments can differ significantly by corporation.

9. **Graded Assignment 8: LP8 Assignment**

Directions for Assigned Problems

Chapter 21 – Problems 1, 2, 5, 7

These assigned problems are located in your *Foundations of Financial Management* textbook. Follow the instructions printed for each problem and submit this assignment to your instructor in a Microsoft Excel or Word document.

This assignment is worth 80 points and will be graded according to the following scoring guide.

10. **Graded Final Wxam**

The final exam is cumulative, based on learning plans 1 – 8 and is worth 150 points.
**LP8 ASSIGNMENT SUGGESTED SCORING GUIDE**

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**Criteria**

**Problem 1 Scoring Guide**

1. Swiss franc selling question answered correctly.
2. 30-day forward premium calculated correctly.
3. 90-day forward premium calculated correctly.
4. Dollars 90 day hence answered correctly.
5. Francs delivered in six months question answered correctly.

**Problem 2 Scoring Guide**

1. Exchange rate of the Polish zloty to the British pound calculated correctly.

**Problem 5 Scoring Guide**

1. Total ending value of the Singapore investment was calculated correctly.
2. Return on the $100,000 was calculated correctly.

**Problem 7 Scoring Guide**

1. Houston bank transaction explained correctly.
2. Maximum amount it could lose from hedging explained correctly.