

Course unit title:	Business Finance II		
Course unit code:	AFIN102		
Type of course unit:	Compulsory		
Level of course unit:	Bachelor (1 <sup>st</sup> Cycle)		
Year of study:	1		
Semester when the unit is delivered:	2 (Spring)		
Number of ECTS credits allocated :	6		
Name of lecturer(s):	Dr. Nicos Koussis		
Learning outcomes of the course unit:	<ol style="list-style-type: none"> <li>1. Implement detailed cash flow statements allowing for taxation and net present value analysis for investment appraisal, projects with different useful lives and optimal timing of investment</li> <li>2. Analyse and determine different valuation methods of shares including the dividend discount model, discounted cash flow and the price to earnings method</li> <li>3. Analyse financial planning using financial ratios of firms and critically evaluate the company's leverage, liquidity, efficiency, profitability and market value of the firm.</li> <li>4. Explain the evaluation of risk based on the Capital Asset Pricing model and use the Capital Asset Pricing model for capital budgeting</li> <li>5. List the different sources of finance, comprehend the relationship between capital structure and cost of equity and calculate weighted average cost of capital for evaluating investment decisions</li> <li>6. Understand the issues involved in working capital management and implement simple-practical models for inventory and credit and cash management</li> </ol>		
Mode of delivery:	Face-to-face		
Prerequisites:	AFIN101	Co-requisites:	None
Recommended optional program components:	None		
Course contents:	<p><b>Detailed Calculation of Cash Flows and Applications of Present Value:</b></p> <ul style="list-style-type: none"> <li>• Implement detailed calculation of cash flows for project appraisal including depreciation, taxes and investments in working capital</li> <li>• Identify a project's opportunity costs and externalities and understand how to treat them in cash flow calculation for capital budgeting purposes</li> <li>• Analyze and determine the choice of assets with different economic lives using the equivalent annual cost approach</li> <li>• Decide on leasing versus buying an asset</li> <li>• Solve problems determining the optimal timing of investments</li> <li>• Valuation of firms (share price) using free cash flows, present value, the dividend discount model and shareholder value analysis.</li> </ul> <p><b>Financial Analysis and Planning:</b></p> <ul style="list-style-type: none"> <li>• Categorize the issues required for the evaluation of financial performance and planning and the respective ratios purporting to</li> </ul>		

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- Identify different financial information required for the calculation of financial ratios from financial statements and market-based information
- Interpret the financial status of the firm using financial ratios
- Summarize the different application where financial ratios will be valuably implemented (financial planning, credit evaluation, and firm risk assessment for investment or yield determination of debt).

#### **Valuation Models for Shares:**

- Explain the difference between net book value and market value of shares
- The dividend discount model
- Constant growth dividend discount model
- Calculation of growth of dividend using return on equity and plowback
- Implications of dividend discount model for dividend policy
- Disadvantages of the dividend discount model
- Valuation of shares using discount cash flow
- Price earnings method using comparable industry price earnings ratios

#### **Risk and return:**

- Explain the portfolio creation and diversification benefits
- Define the calculation of risk based on the Capital Asset Pricing model
- Explain how risk is determined based on the Capital Asset Pricing model
- Apply CAPM for project evaluation using Net Present Value

#### **Financing and the cost of capital:**

- Identify and evaluate the different sources of long-term financing sources and the issuance of securities
- Preferred shares
- Analyse the characteristics of securities with options such as rights issues and convertible and callable debt
- Explain the tax advantage of debt
- Calculate the value of the levered firm using adjusted present value to include debt tax shield
- Implement the weighted average cost of capital (cost of capital for overall firm) in order to find the value of a levered firm (enterprise value)
- Distinguish and evaluate between public and rights issues

#### **Working capital management:**

- Outline the issues involved in working capital management
- Define and solve the problem of Optimal Order Quantity based on

	<p>the Economic Order Quantity model. Be able to perform sensitivity analysis in model parameters and interpret the results</p> <ul style="list-style-type: none"> <li>• Identify and evaluate the different sources of short-term finance including a short-term loan, overdraft trade credit and lease finance.</li> <li>• Outline the factors used for assessing the credit quality of a customer</li> <li>• Outline the factors determining the terms of sale (duration, discount etc)</li> <li>• Evaluate the decision to prepay or delay credit payment</li> <li>• Explain the use of factoring for collecting receivables and advantages and disadvantages of this approach</li> <li>• Evaluate the repetitive credit with probability to default</li> <li>• Outline the trade-offs in holding large or small cash balances and optimal cash-flow management</li> <li>• Explain the different types of marketable securities and their use</li> <li>• Explain cash management models such as Baumol and Miller-Orr</li> </ul>
Recommended and/or required reading:	Copeland, T., F. Weston , K. Shastri <b>Financial Theory and Corporate Policy</b> , Addison-Wesley, 2014
Textbooks:	R. Brealey, S. Myers and F. Allen, <b>Principles of Corporate Finance</b> , 12th Edition, McGraw-Hill.
References:	
Planned learning activities and teaching methods:	The taught part course is delivered to the students by means of lecturers, conducted with the help of computer presentations and the use of the board. Lecture notes and other course material like spreadsheet examples are available to students through the web.
Assessment methods and criteria:	<ul style="list-style-type: none"> <li>• Midterm exam 40%</li> <li>• Final Exam 60%</li> </ul>
Language of instruction:	English
Work placement(s):	No