

ACCG808: CORPORATE FINANCE

Lecturer: Siang Chang

Semester 1

Year 2010

**MACQUARIE UNIVERSITY
FACULTY OF BUSINESS AND ECONOMICS
UNIT OUTLINE**

Year and Semester: 2010 Semester 1

Unit convenor: Siang Chang

Prerequisites: Financial Management or Equivalent

Students in this unit should read this unit outline carefully at the start of semester. It contains important information about the unit. If anything in it is unclear, please ask your lecturer.

ABOUT THIS UNIT

The objective of this unit is to explore the theory and application of corporate finance issues at an advanced level, and to equip students with the required depth of knowledge and skill expected of a professional.

The unit will revise basic financial concepts, valuation techniques and topics covered in earlier finance courses. This will prepare the students to learn more complicated theoretical issues and analytical techniques, and enable them to apply their knowledge to a real life corporate finance project.

TEACHING STAFF

Siang CHANG Mobile: 0411 954 519
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Consultation time By arrangement

CLASSES

There will be eleven lectures and two exams.

The lectures will be:

Wed Room E4B 314, 2pm to 5pm
Wed Room E4B 316, 6pm to 9pm
Fri Room W6B 345, 9am to 12noon

RECOMMENDED TEXT

ACCG808 Corporate Finance, 2nd Edition (ISBN: 978007028830-0), Custom Publication prepared by Siang Chang

The custom publication is compiled from the chapters as follows:

Principles of Corporate Finance by Brealey, Myers and Allen, McGraw Hill Irwin, 9th Edition-Chapters 1, 2, 3, 4, 5, 6, 7, 8, 9, 10, 11, 20, 21, 22 (The contents of these chapters are similar to the equivalent chapters in the Australian edition)

Principles of Corporate Finance by Brealey, Myers, Partington and Robinson, McGraw Hill Irwin, Australian Edition-Chapters 10, 16, 17, 18, 19

UNIT WEB PAGE

<http://learn.mq.edu.au>

STEPS:

LOGIN

Type in USERNAME and PASSWORD

Click on ACCG808

Students are advised to check the unit website regularly, and ensure that all material posted on the website can be accessed without difficulties. If you are unable to access any of the material on the website, check with your classmates first before notifying your lecturer of the problem.

TEACHING AND LEARNING STRATEGY

The lecture notes, handouts, some questions and solutions are available at the unit web site. Refer to page 6 of this unit outline for the list of the weekly exercises.

Students are advised to keep up to date with the weekly exercises, at least 50% of the exam questions will be based on these exercises. Suggested solutions may contain error, it is important that students work through the exercises, and examine the solution given. Do not blindly accept the solution, as you are encouraged to challenge the answers. Where there are queries concerning the exercises, students should notify the lecturer via email, or by handing in a list of queries in class. Relevant queries will be discussed in class, and queries related to lectures older than 4 weeks may be ignored.

Students will be given two Problem Sets to complete individually during the semester.

There will be an individual project, to be handed in before 12 noon, 11th June 2010 at BESS, E4B Room 106. The project will require the student to apply the theory and techniques learned in the unit to a real life project. See Attachment 1 for details.

The exams are conducted during class time. The mid-semester exam will cover all materials from Topic 1 to 10, and the final exam will cover the remaining materials. You are strongly advised to sit for the exam at the class time you have enrolled for, a change of exam time will be very difficult to arrange.

CALCULATOR

Calculators will be allowed in the exams, and students are advised to bring their calculators to class.

If you are planning to use a programmable calculator, make sure that you obtain approval from the lecturer before using it in the exams. You are expected to show all workings for your calculations. All calculations should be to two decimal places, excessive rounding will be penalised.

ASSESSMENT

Problem Sets (2)	10%	Individual Project	20%
Mid Term Exam	35%	Final Exam	35%

To pass the unit, you are required to:

1. obtain at least 15 out of 30 for the Problem Set and the Individual Project
2. obtain at least 35 out of 70 for the two exams
3. obtain at least 50% for the whole course

The only exception to not sitting an examination at the designated time is because of documented illness or unavoidable disruption. In these circumstances you may wish to consider applying for Special Consideration. Information about unavoidable disruption and the special consideration process is available at:

<http://www.reg.mq.edu.au/Forms/APSCon.pdf>

You are advised that it is Macquarie University policy not to set early examinations for individuals or groups of students. All students are expected to ensure that they are available until the end of the teaching semester, 11 June 2010.

PLAGIARISM

The University defines plagiarism in its rules: "Plagiarism involves using the work of another person and presenting it as one's own." Plagiarism is a serious breach of the University's rules and carries significant penalties. You must read the University's practices and procedures on plagiarism. These can be found in the *Handbook of Undergraduate Studies* or on the web at: <http://www.student.mq.edu.au/plagiarism/>

The policies and procedures explain what plagiarism is, how to avoid it, the procedures that will be taken in cases of suspected plagiarism, and the penalties if you are found guilty. Penalties may include a deduction of marks, failure in the unit, and/or referral to the University Discipline Committee.

STUDENT SUPPORT SERVICES

Macquarie University provides a range of Academic Student Support Services. Details of these services can be accessed at <http://www.student.mq.edu.au>.

LECTURE PROGRAM

	WEEK STARTING		TOPIC
LECTURE 1	22 nd Feb 2010	Revision of basic financial concepts	1 to 3
LECTURE 2	1 st Mar 2010	Revision of basic financial concepts	4 to 6
LECTURE 3	8 th Mar 2010	Revision of investment decision concepts	7, 8
LECTURE 4	15 th Mar 2010	Risk and Return	9
LECTURE 5	22 nd Mar 2010	Capital Budgeting	10
LECTURE 6	29 th Mar 2010	Project Analysis	11
LECTURE 7	5 th Apr 2010	Mid-Semester Exam	
LECTURE 8	12 th Apr 2010	Dividend controversy	12
LECTURE 9	19 th Apr 2010	Debt Policy and taxes	13, 14
LECTURE 10	26 th Apr 2010	Interactions of investment and financing decisions, Valuation	15, 16
LECTURE 11	3 rd May 2010	Understanding Options	17
LECTURE 12	10 th May 2010	Valuing Options Project Due	18
LECTURE 13	17 th May 2010	Final Exam	

Note 1: There will be lectures on Good Friday 2nd Apr. Exact time and place will be announced in the unit website.

2010S1 Accg808 Exercises

TOPIC		CHAPTER	PRACTICE QUESTIONS
2	BMA	2	11, 13, 14, 19
3	BMA	3	14, 15, 16, 18, 20, 21, 26, 27, 31, 32, 33
4	BMA	4	14, 15, 16, 17
5	BMA	5	16, 17, 18, 19, 22, 26
6	BMA	6	8, 11, 12, 15
7	BMA	7	See Note 1
8	BMA	8	15, 16, 23
9	BMA	9	11, 15, 18, 20, 21, 22
10	BMA	10	9, 10, 15, 19, 20, 21, 22
11	BMA	11	See Note 2
12	BMPR	16	14, 17
13	BMPR	17	4, 5, 11, 13, 14, 15, 18
15	BMPR	19	1, 3, 4, 7, 10, 14, 15
18	BMA	22	11, 12, 13, 14, 15, 16, 17

BMA=Principles of Corporate Finance by Berley Myers and Allen, McGraw-Hill Irwin, 9th Edition

BMPR=Principles of Corporate Finance by Brealey Myers Partington and Robinson, McGraw-Hill Irwin, Australian Edition

Note 1 See Accg808 Site for "Topic 7 Questions" Folder
 Topic 7 Questions A - Q1, Q2
 Topic 7 Questions B - Q5
 Topic 7 Questions C - Q7, Q8
 Topic 7 Questions D - Q13 a, b, c
 Topic 7 BMPR Ch 6 Questions-Q&P7, Q&P8, Q&P9,Q&P11, Q&P17, Q&P18

Note 2 See Accg808 Site for "Topic 11 Questions" Folder
 BMPR Ch10 Questions-Q&P1, 5, 6, 7

ATTACHMENT 1-PROJECT (20%)

DUE DATE: 11 June 2010

OBJECTIVE

TO STUDY VARIOUS CORPORATE FINANCE ISSUES OF A COMPANY LISTED ON THE AUSTRALIAN STOCK EXCHANGE

TASK A

VALUATION

1. Select a company listed on the Australian Stock Exchange, find and download the following data
 - a) Five years of Historical Financial Statements
 - b) Five years of price data for the company – Australian companies ends with .AX (<http://finance.yahoo.com/lookup?s>)
 - c) Five years of All Ordinaries Index data
<http://finance.yahoo.com/q/hp?s=%5EAORD>)
2. Using the data from 1b and 1c, construct a Characteristic Line and determine Beta for the company. Is this Equity or Asset Beta?
3. Rebuild the Five Year Historical Financial Statement, extracting only relevant cashflow data for NPV analysis
4. Forecast another five years of relevant data. You must explain the method you use to derive your forecast data. eg basis of your forecast growth rate, working capital consideration, nominal or real cashflows etc
5. Estimate the WACC for the company. You must explain how you derive the Cost of Equity, Cost of Debt and other components required to work out WACC.
6. Use the forecast data and a Terminal Value at year 5 to estimate the current valuation of your company.
7. Compare with the price in the market, and offer some explanation of any discrepancy.

SENSITIVITY ANALYSIS

8. Conduct sensitivity analysis on the forecast cashflow. Identify and comment on the sensitive factors affecting the value of the company.

TASK B

CAPITAL STRUCTURE

9. Select up to five other companies in a similar industry as your company, and compare their Capital Structures.
10. Comment on the Capital Structure of your company. You may wish to examine the financial capability of your company, and comment if the Capital Structure is optimal.

DIVIDEND POLICY

11. Using the same companies you have selected in item 9, compare their Dividend Policies.
12. Comment on the Dividend Policy of your company. You may wish to examine the financial capability of your company, and comment if the Dividend Policy is optimal.

Choose either TASK A or TASK B

TASK A

Valuation (15%) – Address points 1 to 7 above
Sensitivity analysis (5%) – Address point 8 above

TASK B

Capital structure (10%) - Address points 9 to 10 above
Dividend policy (10%) - Address points 11 to 12 above

The report must not exceed 3000 words, and the following format is suggested.

1. Use Portrait orientation
2. Use Times New Roman font, size 12 points
3. Use 1.5 spacing
4. Use A4 paper, single or double sided
5. Staple at the top left hand corner
6. Do not put the report in plastic sleeves or folders

The report must contain the following:

1. Cover page-including Course name, Title of report, Full name and Student ID.
2. Content
3. Executive Summary-A one page summary of the key findings of your research
4. Introduction-Provide a road map of how the report is structured
5. Body-Use as many headings as possible. Do not combine too many issues under one heading
6. Conclusion and Recommendation-This is not a summary, but to state some of the key issues you have found from the research, and any recommendation you may have as a result of your research.
7. Bibliography: You may use any system for referencing, a helpful guide can be found at: http://www.usq.edu.au/library/Breeze/Fac_Business/HarvardAGPS/