

SAN JOSE STATE UNIVERSITY

Lucas College of Business

Spring Semester – 2018

Dr. B. J. Campsey

B. T. 960 (924-3428 or 924-3460)

Graduate Business School 270

Graduate Financial Management

Failing to prepare is preparing to fail.

John Wooden

When the student is ready, the teacher will appear.

Zen Proverb

Most people have the will to win, but it is the will to prepare that builds winners!

Bobby Knight, Coach Texas Tech and Indiana University Basketball Coach Emeritus

PREREQUISITE: *Graduate Accounting (BUS 220) or the equivalent with a grade of B or better.*

*This prerequisite **MUST** be observed.*

COURSE DESCRIPTION

The objective of financial management is to maximize the intrinsic value of the firm. Thus, a financial manager must understand not only what determines a firm's value, but also what actions, will increase value and what actions will not. This course, taken from the perspective of the corporate treasurer, will investigate management decisions using financial theory, while recognizing the limitations placed on the operating environment by the financial marketplace; the course will take a practical viewpoint as well.

LEARNING OBJECTIVES

It is the purpose of this course to provide:

- the theoretical infrastructure of the principles of financial management.*
- an awareness of the principles and underlying assumptions of financial models and their use in structuring and solving key financial problems.*
- an appreciation of the potential for, and difficulties in, implementation of financial theory in the firm's "real-world" environment.*
- an opportunity to improve written and oral communication skills.*
- additional input into the academic foundation required for entrance into the modern business environment.*

TEXT AND ANCILLARY MATERIALS

Required: *Financial Management - Theory and Practice, Fifteenth Edition, by E. F. Brigham and M. C. Ehrhardt, South-Western Publishers, 2017 available at the Campus Bookstore. Several new, perhaps used, and rental options for the acquisition of the text exist at the campus Spartan Bookstore. Additionally, individual chapters can be purchase via the Internet at cengagebrain.com (formally ichapters.com).*

Optional:

- GSB 270 Course Reader The Course Reader will be available, **after** our first class meeting, at Maple Press 330 South 10th Street. It contains:
 - Complete solutions to both selected and many unassigned problems (almost all assigned problems are included)*
 - Extra problems and solutions to illustrate issues neglected or minimized by the textbook*
 - Additional material to explain and amplify difficult financial concepts**
- Wall Street Journal*

OFFICE HOURS:

- Mondays 4:00 to 5:30pm
- Tuesdays and Thursdays 4:30 to 5:00pm – office hours will be extended by request
- Wednesdays 10:00 to 11:30am – office hours will be extended by request
- Fridays By appointment or by accident

*Since I am frequently required to be out of the office or otherwise involved with various duties as a faculty member, my ability to see you on a “drop-in” basis outside office hours will be severely limited but welcomed when they occur. Comments about the course or questions that require **only a very short answer** may be e-mailed to billy.campsey@sjsu.edu.*

GRADING

<i>Schedule</i>	<i>Weight</i>	<i>Date</i>
Mid-Term Examination	35%	April 21, 2018
Final Examination	40%	May 14, 2018
Reality Checks (Dates)	25%	<i>Each Class Period (Excluding Examination Dates)</i>

Grading Standards*

100 - 90	=	A
89 - 80	=	B
79 - 70	=	C
Below 69	=	Don't Ask

No Incomplete grade will be given without serious and compelling reasons. I am sorry, but the University's definition of serious and compelling does not include having a bad grade. Unfortunately, the date to drop Session B classes for the Lucas Graduate School of Business has already passed.

* *Non-quantitative factors such as class participation, improvement on examinations, rank in class, bribery (not really - I just wanted to see if you are paying attention), or other extenuating factors will be considered in the grading process.*

*Please note there is no mechanism in place for grade improvement after the final examination has been administered. The time to ask, "what can I do to improve my grade" is today **NOT** after the Final Examination.*

Note: *The grading standards above represent maximum requirements for each grade not necessarily the minimum.*

STUDENT RESPONSIBILITIES

- *Assignments will be discussed in class, but not collected.*
- *If you miss class, you should get the assignments and class notes from one of your peers. Then see me for any required clarification or amplification.*
- *You must take the examinations when they are scheduled. Problems with taking the examinations on the appropriate date must be discussed with the instructor before the examination. If you must miss the mid-term examination for a legitimate, approved reason, that examination's value will be transferred to the Final Examination (that is, the Final will account for **75** percent of your grade). Under rare and unusual circumstances, a make-up examination may be arranged. This highly unlikely occurrence will be at the totally arbitrary discretion of your professor.*
- *Since you must take the examinations when they are scheduled, I guarantee that I will do all in my power to ensure that both our Mid-Term and the Final Examination will be held on the date indicated on the syllabus. Thus, we may modify the chapters to be covered on the examination, but not the examination date. Of course, unforeseen emergencies such as earthquakes, snowmageddons, zombie attacks, the plague, etc., may alter our schedule.*
- *Failure to notify your instructor or one of his agents (voice mail, e-mail, or a departmental administrative assistant) of your need to miss the mid-term and/or the final examination without prior consent or significantly extenuating circumstances, will result in your receiving a **WU**, which denotes failure for an unauthorized withdrawal from the class. This grade reverts to an "**F**" in one year; so, do not miss an examination.*
- *Even though the "Policy on Class Attendance at San José State University" requires that students attend class sessions to ensure continued enrollment, dropping this course*

is your responsibility. That is, failure to attend classes **does not** guarantee that a student will automatically be dropped from the course.

- While I do not grade on attendance, I have found a **very high positive correlation** between class attendance and student grades. That is, I plan to present material in class that you should know for the exams.
- Since the Add/Drop deadlines for the University will have already passed when our course begins in March, questions concerning add or dropping the course should be addressed to the Lucas Graduate Program.
- If you are having problems with the course, do not hesitate to speak with me early — failure to do so almost assuredly compounds problems later.

Special Accommodations

Campus policy assures strict compliance with the American's with Disabilities Act. Presidential directive 97-03 (http://www.sjsu.edu/president/docs/directives/PD_1997-03.pdf) requires that students with disabilities register with the Accessible Education Center (AEC) to establish a record of their disability. Once registered with the AEC, I will attempt to provide any necessary course adaptations or accommodations. To begin this process, please see me as soon as possible.

Periodic Evaluations

In addition to the Mid-Term and Final Examination, I will provide you with an opportunity to “show what you know”. These short opportunities, called Reality Checks, will let you know what I think you should know, let you know what you really know, and of course, let me know what you know. You know? If your performance on these quizzes is below the grade you wish to earn, a reevaluation of your study habits or your propensity not to seek professional help from Dr. Finance should be brought into question. These quizzes will be formally graded, so careful attention should be paid to these opportunities to evaluate your continuing progress in the course. We will discuss how these quizzes should be approached on the first night of class. I have also found that many “self-test” problems in each chapter – and their solutions in the textbook’s Appendix A – to be helpful in assimilating and comprehending financial concepts.

CLASS STRUCTURE

- *The format will generally be a combination of lecture and class discussion. Hopefully, the emphasis will be on the latter.*
- *When problems, computer assignments, or cases are assigned, a high level of class interaction is expected. Just watching the answers being placed on the board will not be conducive to the learning process. I firmly believe that learning is an interactive process; therefore, you should know that the term “passive learning” is an oxymoron, at least within the boundaries of this class.*
- *I will assume you have read and understood the text material before class. Lecture therefore will attempt to supplement and expand on the material in the text. If my assumption regarding your understanding of the material is incorrect, please ask questions about the text material before I attempt to supplement the chapter’s issues.*
- *A problem-solving approach will be used in lecture and in the cases. Only simple algebra will be used in our financial decision-making. However, the course is definitely oriented to quantitative decision-making.*
- *Calculators may be used, but not shared on exams. Their use will be extremely helpful (please note the irony of understatement) on exams. If you wish, you may use any pre-programmed Business/Financial calculator that is available from a large number of different manufacturers. I will demonstrate mathematical solutions, facilitated by using a Texas Instruments BA II Plus Professional financial calculator. Unfortunately, I am not proficient in the use of many of the other alternative financial calculators on the market. Cell phones **MAY NOT** be used for **ANY** purpose (clock, calculator, etc.) on examinations. Moreover, until laptop computers or iPad-type devices are as inexpensive as financial calculators, they **MAY NOT** be used during an examination.*

STEPS TO MAKING A GREAT GRADE:

1. *Attend class pro-actively.*
2. *Complete assignments independently and on time.*
3. *Ask questions as necessary.*
4. *Allocate enough time in your work schedule to accommodate Steps 1, 2, and 3.*

*That’s it! That’s all there is to it! However, some of you will not be able to follow these four simple steps. If you cannot, save your money and drop this course, **NOW!***

ITEMS I'M EMBARRASSED TO PUT ON A SYLLABUS

*Your commitment, as a student, to learning is evidenced by your enrollment at San Jose State University. The University's Academic Integrity policy, **F15-7**, at www.sjsu.edu/senate/policies/pol_plagiarism_acad_integrity/, requires students to be honest in all your academic course work.*

- It is ridiculous to cheat in a Graduate class. A graduate education is about choices, and cheating is simply not one of them.*
- Be respectful and courteous to others. Once class begins - stay until class is dismissed. If you are too - fill in the blank here - (sick, thirsty, caffeine deprived, excessively liquefied, etc.) to stay in the class, you are also too sick (etc.) to return. Please see me if you have a medical or other condition that might cause me to mitigate my request.*
- Be respectful and courteous to others. Anything, such as cellular telephones that rings, beeps, boops, or otherwise disturbs the class, and/or Dr. Finance, should be disabled for the duration of the class. If the call is that important, you probably should not attend class. Again, exceptions can be made for mitigating situations. This is not a dictatorship, although sometimes I wish*

Syllabus — GSB 270*

Lucas Graduate School of Business — MBA Program
San José State University — Spring Semester 2018

Class	Date	Topic	Assignment
1	3 19	Introduction to Finance, the Financial Environment and Financial Analysis.	2:
	3 - 6 & 10 - 11		
	Monday	Chapters 1 (Brief scan only), 2 (Omit Pp. 71 to 89), and 3 . Joanz Trailer Case - Attached. Joanz Trailer will serve as a resource for our discussion of financial analysis, so familiarity with the case is essential.	CR:
2	4 2	Financial Analysis - continued, and The Time Value of Money.	3:
	1 - 12		
	Monday	Chapters 3, and 4.	4: 12 - 24 & 27
3	4 7	T V M conclusions, Introduction to Debt Securities Valuation, and Risk Concepts	
	4: Remaining Selected Pblms.		
	Saturday	Chapters 4 and 5.	5: 1 - 3, 7 - 9*, 12 & 16.
			<i>* Modify Problem 5-9 so that $r_s = 8\%, 10\% \& 12\%$.</i>
4	4 9	Risk Analysis and Equity Valuation - Dividend Capitalization Model	6:
	1, 3 & 6 - 12.		
	Monday	Chapters 6 (Omit Pp. 276 to 282) and 7 (Only Pp. 320 to 331). 3, 5, 9, 10, 12, 13, 16, & 19.	7:
5	4 16	Risk Analysis and Equity Valuation- Free Cash Flow Capitalization Model	7:
	6, 7, 17 & 18.		
	Monday	Chapter 7 (Additional Reading Pp. 293 to 320). Also, refer to Chapter 2 (pp. 70 to 83) and Problem 2-12.	
6	4 21	MID-TERM EXAMINATION - Chapters 1 - 7.	
	Saturday		
7	4 23	Cost of Capital, Techniques of Capital Budgeting, and Mid-Term Review.	9:
	1 - 2 & 9 - 14.		
	Monday	Chapters 9 and 10.	10: 1 - 5, 9 - 11, 15 & 19.
8	4 30	Cash Flows Estimation and Financial Planning	
	Monday	Chapter 11 (Omit Pp. 467 to 476 & 480 to 484) and 1 - 5, 7, 9 & 10. Chapter 12 (Omit Pp. 506 to 522).	11: 12: 1 - 7.
9	5 7	Dividend Policy and Capital Structure Decisions	14:
	Monday	Chapters 14 and 15 (Omit pp. 614 - 626 and 639 - 642). 2 - 3, 8 - 11.	1 - 9. 15:

10 5 / 14 COMPREHENSIVE FINAL EXAMINATION

Monday

- * *Each assignment is intended to be reviewed on the day for which it is assigned. Any assignment not reviewed on that day will be discussed during the next class period.*
- * *Please note that this is a very ambitious plan for our short 2018 Spring Semester. We will accelerate or slow the pace of the course as your interests and my abilities dictate. In other words, this syllabus is a plan of action, not a contract.*
- * *Tearful apologies will be given for any mistake in this syllabus (think Louisiana evangelist, Jimmy Swaggart). I this reference is too obscure, Google it in "images" - Safe Search's strict filtering on, of course. Void where prohibited, no purchase required.*

Joanz Trailer Case Financial Management — GSB 270

The Joanz Trailer Company, an Arkansas based manufacturer of mobile homes, recently hired Katharine Chapman as a financial analyst. Her first assignment is to conduct a financial analysis of the firm covering the last two years of operations. As a starting point, she gathered the following financial data.

<i>Balance Sheets</i>	2016	2017
Cash	\$ 57,600	\$ 52,000
Accounts receivable	351,200	402,000
Inventory	<u>715,200</u>	<u>836,000</u>
Total Current Assets	\$1,124,000	\$1,290,000
Gross Fixed Assets	491,000	527,000
Less: Accumulated depreciation	<u>146,200</u>	<u>166,200</u>
Net fixed assets	<u>\$ 344,800</u>	<u>\$ 360,800</u>
Total Assets	<u>\$1,468,800</u>	<u>\$1,650,800</u>
Accounts payable	\$ 145,600	\$ 175,200
Notes payable	200,000	225,000
Accruals	<u>136,000</u>	<u>140,000</u>
Total current liabilities	\$ 481,600	\$ 540,200
Long-term debt	<u>323,432</u>	<u>424,612</u>
Total Debt	\$ 805,032	\$ 964,812
Common stock	460,000	460,000
Retained earnings	<u>203,768</u>	<u>225,988</u>
Total equity	<u>\$ 663,768</u>	<u>\$ 685,988</u>
Total claims	<u>\$1,468,800</u>	<u>\$1,650,800</u>

<i>Income Statements</i>	2016	2017
Sales	\$3,432,000	\$3,850,000
Cost of Goods Sold	2,864,000	3,250,000
Other expenses	340,000	430,300
Depreciation	<u>18,900</u>	<u>20,000</u>
EBIT	\$ 209,100	\$ 149,700
Interest expense	<u>62,500</u>	<u>76,000</u>
EBT	\$ 146,600	\$ 73,700
Taxes (40%)	<u>58,640</u>	<u>29,480</u>
Net income	<u>\$ 87,960</u>	<u>\$ 44,220</u>

<i>Other Data</i>	2016	2017
Stock Price December 31st	\$ 8.50	\$ 6.00
Number of shares outstanding	100,000	100,000
Earnings per Share	\$ 0.88	\$ 0.44
Dividend per Share	\$ 0.22	\$ 0.22
Annual lease payment	\$40,000	\$40,000

Katharine also obtained the following industry data for 2017:

Ratio	Industry Average	Ratio Computation
Current Ratio	2.7	$\frac{\text{Current Assets}}{\text{Current Liabilities}}$
Quick Ratio	1.0	$\frac{\text{Current Assets} - \text{Inventory}}{\text{Current Liabilities}}$
Inventory Turnover	7.0	$\frac{\text{Sales}}{\text{Inventory}}$
Days Sales Outstanding (DSO)	32 days	$\frac{\text{Accounts Receivable}}{\text{Credit Sales per Day}}$
Fixed Asset Turnover	10.7	$\frac{\text{Sales}}{\text{Net Fixed Assets}}$
Total Asset Turnover	2.6	$\frac{\text{Sales}}{\text{Total Assets}}$
Debt Ratio	50%	$\frac{\text{Total Debt}}{\text{Total Assets}}$
Times Interest Earned (TIE)	2.5	$\frac{\text{E. B. I. T.}}{\text{Interest Expense}}$
Fixed Charge Coverage	2.1	$\frac{\text{E. B. I. T.} + \text{Leases}}{\text{Pre-tax Equivalent Fixed Charges}}$
Net Profit Margin	3.5%	$\frac{\text{Net Income}}{\text{Sales}}$
Basic Earning Power	19.1%	$\frac{\text{E. B. I. T.}}{\text{Total Assets}}$
Return on Assets (ROA)	9.1%	$\frac{\text{Net Income}}{\text{Total Assets}}$
Return on Equity (ROE)	18.2%	$\frac{\text{Net Income}}{\text{Owners' Equity}}$
Price/Earnings Ratio (P/E)	14.2	$\frac{\text{Market Price per Share}}{\text{Earnings per Share}}$
Market to Book Ratio (M/B)	1.4	$\frac{\text{Market Price per Share}}{\text{Book Value per Share}}$

1. To assist Katharine, compare Joanz Trailers' 2016 and 2017 data with the industry averages above.
2. What other analytical tools might aid Katharine in her analysis of Joanz Trailers? Continue your analysis with these tools and explain your findings.
3. While financial statement analysis can provide useful information regarding a firm's condition, it does have inherent limitations. Discuss the most important of these problems.

4. *Prepare a simple pro-forma income statement and balance sheet for 2018 which reflect the result if the firm could achieve industry average inventory turnover and industry average collection period.*

Lucas College and Graduate School of Business Mission

We are the institution of opportunity in Silicon Valley, educating future leaders through experiential learning and character development in a global business community and by conducting research that contributes to business theory, practice and education.

MBA Program Goals:

Please note that all program learning goals are covered in every course.

Goal One: Business Concepts

Develop a strategic level understanding of the key functions of business including marketing, accounting, finance, and organizational behavior.

Goal Two: Analysis and Decision Making

Understand decision making methods including decision trees, expected value, risk and uncertainty, and the value of information.

Goal Three: Cultural and Ethical Awareness

- 3a.** Understand the major issues facing multinational corporations in the management of their international operations—particularly those of an intercultural nature.
- 3b.** Explain the ethical, legal, and social consequences that ensue when ethics and the law are disregarded in favor of other objectives.

Goal Four: Leadership and Teams Skills

Comprehend the factors that contribute to effective leadership of teams and understanding of the skills and behaviors necessary to be an effective team member.

Goal Five: Global Change and Dynamics

- 5a.** Demonstrate an ability to understand and adapt to global market changes
- 5b.** Demonstrate an ability to integrate knowledge and develop innovative solutions to remain competitive given industry dynamics (strategic integration).

Goal Six: Communication Skills

- 6a.** Demonstrate an ability to plan, prepare, organize, and present effective oral presentations.
- 6b.** Demonstrate the principles and processes of effective written communications.

Lucas College and Graduate School of Business Policies:

To ensure that every student, current and future, who takes courses in the Graduate Classroom Center has the opportunity to experience an environment that is safe, attractive, and otherwise conducive to learning, the College of Business at San José State has established the following policies:

Eating:

Eating and drinking (except water) are prohibited in the Graduate Classroom Center. Students with food will be asked to leave the building. Students who disrupt the course by eating and do not leave the building will be referred to the Judicial Affairs Officer of the University.

Cell Phones:

Students will turn their cell phones off or put them on vibrate mode while in class. They will not answer their phones in class. Students whose phones disrupt the course and do not stop when requested by the instructor will be referred to the Judicial Affairs Officer of the University.

Computer Use:

In the classroom, faculty allow students to use computers only for class-related activities. These include activities such as taking notes on the lecture underway, following the lecture on Web-based PowerPoint slides that the instructor has posted, and finding Web sites to which the instructor directs students at the time of the lecture. Students who use their computers for other activities or who abuse the equipment in any way, at a minimum, will be asked to leave the class and will lose participation points for the day, and, at a maximum, will be referred to the Judicial Affairs Officer of the University for disrupting the course. (Such referral can lead to suspension from the University.) Students are urged to report to their instructor any computer use that they regard as inappropriate (i.e., used for activities that are not class related).

Academic Honesty:

Faculty will make every reasonable effort to foster honest academic conduct in their courses. They will secure examinations and their answers so that students cannot have prior access to them and proctor examinations to prevent students from copying or exchanging information. They will be on the alert for plagiarism. Faculty will provide additional information, ideally on the green sheet, about other unacceptable procedures in class work and examinations. Students who are caught cheating will be reported to the Judicial Affairs Officer of the University, as prescribed by Academic Senate Policy S04-12.