ACCT 5130
ADVANCED FINANCE
COURSE OUTLINE
SPRING 2016

Instructor: Professor Isaac Otchere, PhD, CA;  
Email: isaac.otchere@carleton.ca:  
Office: DT 1712  
Phone: (613) 520-2600 Ext. 2731

Course Schedule & location
Tues & Thurs: 9.05-11.55am: DT 701  
Wed: 2.30-4.00pm or by appointment

Course Description and Objectives:
In this increasingly complex business environment, senior executives in business and public sector organizations require knowledge of financial management. This course builds upon and integrates knowledge previously gained in finance courses taken in an undergraduate program and in the MAcc program. It dives deeper into technical and complex issues, helps develop professional judgement, and focuses on the ability to integrate the various competencies together. It hones the skills required to be a professional accountant. On successful completion of this course the participant will have mastered the fundamental financial concepts and techniques, and acquired the ability to apply the techniques to financial problem-solving and decision-making in a professional manner.

Course calendar description
The impact of the financing decision upon the value of the firm, firm valuation, investing, and risk management.

Prerequisite: ACCT 5121 with a minimum grade of B-.

Reading (s)/Textbook (s):

**Evaluation:**

<table>
<thead>
<tr>
<th>Methods of Evaluation</th>
<th>Percent of Grade</th>
<th>Due Date</th>
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<tbody>
<tr>
<td>Participation</td>
<td>10%</td>
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<tr>
<td>Quiz</td>
<td>10%</td>
<td>Tues, May 5, 2016</td>
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<tr>
<td>Mid term test (1.5 hours)</td>
<td>25%</td>
<td>Tues, May 12, 2016</td>
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<tr>
<td>Group Assignment</td>
<td>15%</td>
<td>Thurs, 19 May, 2016</td>
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<tr>
<td>Final Exam – 4 hours</td>
<td>40%</td>
<td>Mon, June 6, 2016</td>
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<td><strong>Total</strong></td>
<td><strong>100%</strong></td>
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The final exam will be comprehensive in nature and will cover the whole course. Only non-programmable calculators (without alpha storage capabilities) will be permitted for use during examinations. Translation dictionaries are allowed as long as they are in print format and do not contain any handwritten notes. Electronic translation dictionaries are not allowed.

The grading scale used to calculate your final grade will be the one listed in the Carleton University Graduate Calendar:

- **A+**: 90 - 100
- **B+**: 77 – 79
- **C+**: 67 – 69
- **D+**: 57 – 59
- **A**: 85 – 89
- **B**: 73 – 76
- **C**: 63 – 66
- **D**: 53 – 56
- **A-**: 80 – 84
- **B-**: 70 – 72
- **C-**: 60 – 62
- **D-**: 50 – 52

**Classroom Structure**

Class time will be spent discussing the major concepts, and having you work on problems for the rest of the class time.

**Drop Course Policy:**

The deadline for academic withdrawal is the last day of classes (each term).

**Deferred Final Examination:**

Students unable to write a final examination because of illness or other circumstances beyond their control must contact the instructor in writing to request a deferred exam. Permission may be granted when the absence is supported by a medical certificate and or appropriate document/s to support the reason for the deferral. Deferred exams are not granted for students who have made travel arrangements that conflict with examination schedule.
**TOPICAL COVERAGE**

The topical coverage is based on all knowledge requirements of the CPA Canada Knowledge Supplement. See Appendix A.

**TOPICAL OUTLINE AND SCHEDULE**

<table>
<thead>
<tr>
<th>Week</th>
<th>Topic / LO</th>
<th>CPA Competency Map References</th>
<th>Readings</th>
<th>Problems(chp questions / Cases</th>
</tr>
</thead>
</table>
| 1    | Introduction: External Environment and financial markets | 5.1.1 5.1.2 5.2.3 | **Reading:** Ross et al. Chp 1.6 Nature of and accessibility to capital markets (financial markets, public offerings and underwriters, private placements, secondary markets  
**Reading:** Ross et al. Chp 12.6: Capital market efficiency | **Ross et al Problems:** chp 1-7, 1-8, 1-15;  
Chp: 12-5, 12-6, 12-7, 12-9, 12-10 |
| 2    | Short term Financing Decisions | 5.1.1 5.1.2 5.2.1 | **Ross et al. Chapter 18:** Working-capital management and role of liquidity  
**Reading 18-2:** Operating cycle and cash cycle  
**Reading 18-6:** Sources of short-term financing (trade, factoring, lines of credit)  
Chapter 20: Credit and inventory management  
**Reading 20-2** Credit policy decisions (evaluating credit risk, determining collection policy and credit period, making use of cash discounts, organizing the credit function  
**Reading 20-8** Inventory management technique | **Ross et al Problems:** chp 18-7, 18-13, 18-14;  
Problems: chp 20-5, 20-12, 20-15 |
| 3    | Medium- and long-term financing, Instruments & Risk Management tools | 5.1.1 5.5.1 5.5.2 | Sources of medium- and long-term financing  
- Bank loans  
- Internally generated funds  
- Securitization  
- Government assistance  
**Reading 7.2** Debt instruments  
**Reading 8.2** Equity instruments (common shares, preferred shares, stock rights, warrants)  
**Reading 24.3** Derivative financial instruments (options, futures, forwards, swaps, other derivatives)  
**Reading 25.4** Stock-based compensation (executive stock options)  
**Reading 25.5** Tools to hedge exposures (e.g., interest rate swap, foreign currency hedge)  
**Reading 25.7** Convertible securities | Problems will be assigned in class  
Ross 7: critical thinking Q#5  
Ross 8: critical thinking Q#10  
Ross 24: critical thinking Q#13  
Ross 25: critical thinking Q#1  
Ross 25: critical thinking Q#6 |
| 4    | Risk and Return | 5.2.1 5.2.2 5.2.5 5.5.1 | **Ross et al. Chp 13**  
**Reading 13.1** Expected return and variances  
**Reading 13.2** Portfolios  
**Reading 13.4** Systematic and unsystematic risks | Problems  
Ross13.3; 13.9; 13.23; 13.27 |
| 5    | Portfolio Analysis | 5.2.1 5.2.2 | **Ross et al. Chp 13**  
**Reading 13.5** Diversification and portfolio risk | Problems: |

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1 **ALL PROBLEMS, READINGS AND CASES ARE FROM THE ROSS ET AL. TEXTBOOK, UNLESS OTHERWISE INDICATED.**
<table>
<thead>
<tr>
<th>Reading</th>
<th>Pages</th>
<th>Notes</th>
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<tbody>
<tr>
<td>5.2.6</td>
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<td>Reading 13.6 Systematic risk and beta</td>
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<tr>
<td>5.5.1</td>
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<td>Reading 13.7 The Security market line and the Capital Asset Pricing Model (CAPM)</td>
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<tr>
<td>5.5.1</td>
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<td>Reading 13.8 Arbitrage Pricing Theory</td>
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<td>5.1.2</td>
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<td>Reading 15.1 Venture Capital and Early stage financing</td>
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<td>5.2.3</td>
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<td>Reading 15.2 Initial Public offering</td>
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<td>5.2.4</td>
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<td>Reading 15.4 Seasoned equity offering</td>
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<td>5.2.5</td>
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<td>Reading 15.8 Rights offering</td>
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<tr>
<td>5.2.3</td>
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<td>Ross et al. Chp 16 Capital Structure Decisions</td>
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<td>5.2.4</td>
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<td>Reading 16.1 dividend policy</td>
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<td>5.2.5</td>
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<td>Reading 16.3 Taxes and dividend</td>
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<td>5.6.1</td>
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<td>Reading 16.5 Dividend signaling</td>
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<td>5.2.1</td>
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<td>Reading 16.6 Optimal capital structure</td>
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<td>5.2.3</td>
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<td>Reading 16.8 Internally generated funds and Pecking Order</td>
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<td>5.2.6</td>
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<td>Impact of capital structure changes on EPS</td>
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<td>5.2.1</td>
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<td>Ross et al. Chp 17</td>
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<td>5.2.5</td>
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<td>Reading 17.1(dividend policy)</td>
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<td>5.4.1</td>
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<td>Reading 17.3 Taxes and dividend</td>
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<td>5.4.2</td>
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<td>Reading 17.5 Dividend signaling</td>
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<td>5.2.1</td>
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<td>Reading 17.6 Residual Dividend policy</td>
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<td>5.2.3</td>
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<td>Reading 17.7 alternatives to cash dividends: stock repurchases</td>
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<td>5.2.6</td>
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<td>Reading 17.8 stock dividends and stock splits, dividend reinvestment</td>
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<td>Reading: Damodaran (Damo) Chp 12</td>
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<tr>
<td>5.2.5</td>
<td></td>
<td>• Purpose and nature of the valuation</td>
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<td>5.4.1</td>
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<td>• Fair market value concept</td>
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<td>5.4.2</td>
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<td>• Common inputs to valuation techniques</td>
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<td>(credit risk, market price, marketability, volatility, discount rate, etc.)</td>
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<td>• Approaches to valuation (for fixed income securities and/or equity instruments):</td>
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<td></td>
<td>- Asset based (liquidation value, replacement cost)</td>
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<td>5.2.1</td>
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<td>Reading: Damodaran (Damo) Chp 12</td>
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<td>• Approaches to valuation</td>
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<td>5.4.1</td>
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<td>• Transaction based</td>
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<td>5.4.2</td>
<td></td>
<td>• capitalization of earnings, capitalization of cash flows,</td>
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<td>• discounted cash flow valuation</td>
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<td></td>
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<td>• Equity valuation vs. Firm Valuation</td>
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<td>• Free Cash Flow to Equity (FCFE) approach</td>
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<td></td>
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<td>• Free Cash Flow to Firm (FCFF) approach</td>
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<td></td>
<td></td>
<td>• Market based (multiples)</td>
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**Problems:**

- Ross 13.10; 13.17; 13.19; 13.20
- Ross 15.1, 15.2, 15-14, 15-15
- Case MPCC Goes Public, Ross page 453
- Ross 16.9; 16.13, 16.16, 16.17
- Case: - Nicolet Real Estate Recapitalization, Ross page 486
- Ross 17.3; 17.4; 17.13; 17.16.
- Case: – Kelowna Microchips, INC. (Ross, page 517)
|   | Approaches to the valuation of intangible assets | Ross et al. Chp 22  
Reading 22.1 Operating and Financial leases  
Reading 22.3 Taxes and Leasing  
Reading 22.5 Lease or Buy decision  
Reading 22.7 Reasons for leasing | Problems: Ross 22.2; 22.3 22.4; 22.5; 22.6; 22.7 |
|---|---|---|
| 11 | Leasing | 5.1.2  
5.2.3  
5.2.4  
6.1.6 | Ross et al. Chp 22  
Reading 22.1 Operating and Financial leases  
Reading 22.3 Taxes and Leasing  
Reading 22.5 Lease or Buy decision  
Reading 22.7 Reasons for leasing | Problems: Ross 22.2; 22.3 22.4; 22.5; 22.6; 22.7 |
| 12 | Corporate Finance Transactions | 5.2.3  
5.2.5  
5.4.2  
5.6.1 | Ross et al. Chp 23  
Reading 23.4 Accounting for acquisition  
Reading 23.5 Key risks and rewards in corporate finance  
Reading 23.6 Synergies involved in the combination of entities  
Reading 23.8 Cost of acquisition  
International considerations (exchange risks, political risks, economic risk, international sources of capital)  
Reading 23.9 Forms of expansion and divestiture (mergers, acquisitions, strategic alliances, joint ventures, spin-offs) | Problems: Ross 23.12; 23.15  
Appendix A: CPA Canada Knowledge Topics Covered in Acct 5130

Most of the following knowledge topics will be covered in ACCT 5130

SECTION 5: FINANCE

External Environment and Impact on Finance Decisions/Analysis
a) Nature of and accessibility to capital markets (financial markets, public offerings and underwriters, private placements, secondary markets)
b) Capital market efficiency (efficient market hypothesis)
c) Other factors in market pricing

Financing Decisions and Finance Management
a) Inputs into determining cash flow needs
b) Working-capital management
   □ Role of liquidity
c) Sources of short-term financing (trade, factoring, lines of credit)
d) Credit policy decisions (evaluating credit risk, determining collection policy and credit period, making use of cash discounts, organizing the credit function)
e) Short-term versus long-term financial planning (objectives and process, forecasting, pro forma financial statements)
f) Sources of medium- and long-term financing
   □ Bank loans
   □ Internally generated funds
   □ Initial public offerings
   □ Venture capital
   □ Securitization
   □ Government assistance
g) Asset-based financing
h) Lease financing (direct lease, sale and leaseback)
i) Derivative financial instruments
j) Project financing

Investing and Risk Management
a) Forms of ownership and extent of ownership (direct, outsourcing, strategic partnerships)
b) Nature and use of financial instruments
c) Debt instruments
d) Equity instruments (common shares, preferred shares, stock rights, warrants)
e) Derivative financial instruments (options, futures, forwards, swaps, other derivatives)
f) Convertible securities
g) Stock-based compensation (options, appreciation rights)
h) Tools to hedge exposures (e.g., interest rate swap, foreign currency hedge)
i) Other types of investments
j) Portfolio diversification and optimal investment decision making
k) Macro-economic risk assessment

Capital Structure Decisions
a) Optimal capital structure
b) Ownership and control considerations
c) Financial leverage
d) Tax considerations (tax shield, etc.)
e) Effects of bankruptcy costs

**Distribution of Earnings**

a) Dividend policy
b) Alternatives to cash dividends (stock dividend, stock split, share repurchase, dividend reinvestment)

**Cash Flow/Net Income Estimation**

a) Tax effects
b) Effects of non-cash items
c) Discounting

**Valuation**

a) Purpose and nature of the valuation
b) Fair market value concept
c) Common inputs to valuation techniques (credit risk, market price, marketability, volatility, etc.)
d) Approaches to valuation (for fixed income securities and/or equity instruments):
   - Asset based (adjusted book value, liquidation value, replacement cost)
   - Transaction based (capitalization of earnings, capitalization of cash flows, discounted earnings, discounted cash flow)
   - Market based (multiples)
e) Approaches to the valuation of intangible assets

**Corporate Finance Transactions**

a) Forms of expansion and divestiture (mergers, acquisitions, strategic alliances, joint ventures, spin-offs)
b) Transaction considerations
c) Key risks and rewards in corporate finance
d) Synergies involved in the combination of entities
e) International considerations (exchange risks, political risks, economic risk, international sources of capital)

**Important Additional Information**

**Course Sharing Websites**

Student or professor materials created for this course (including presentations and posted notes, labs, case studies, assignments and exams) remain the intellectual property of the author(s). They are intended for personal use and may not be reproduced or redistributed without prior written consent of the author(s).

**Policy on Mobile Devices**

The use of mobile devices IS NOT PERMITTED in this class. It is disruptive to the instructor and class members. If you carry such a device to class, please make sure it is turned off. If an emergency situation requires you to keep it turned on, please discuss this with your instructor prior to class.
Group Work

The Sprott School of Business encourages group assignments in the school for several reasons. They provide you with opportunities to develop and enhance interpersonal, communication, leadership, followership and other group skills. Group assignments are also good for learning integrative skills for putting together a complex task. Your instructor may assign one or more group tasks/assignments/projects in this course. Before embarking on a specific problem as a group, it is your responsibility to ensure that the problem is meant to be a group assignment and not an individual one.

Person with Disabilities

Students with disabilities requiring academic accommodations in this course are encouraged to contact a co-ordinator at the Paul Menton Centre for Students with Disabilities to complete the necessary letters of accommodation. After registering with the PMC, make an appointment to meet and discuss your needs with me at least two weeks prior to the first in-class test or ITV midterm exam. This is necessary in order to ensure sufficient time to make the necessary arrangements. Please refer to http://www.carleton.ca/pmc/ for all PMC information.

Religious Observance

Students requesting academic accommodation on the basis of religious observance should make a formal, written request to their instructors for alternate dates and/or means of satisfying academic requirements. Such requests should be made during the first two weeks of class, or as soon as possible after the need for accommodation is known to exist, but no later than two weeks before the compulsory academic event. Accommodation is to be worked out directly and on an individual basis between the student and the instructor(s) involved. Instructors will make accommodations in a way that avoids academic disadvantage to the student.

Students or instructors who have questions or want to confirm accommodation eligibility of a religious event or practice may refer to the Equity Services website for a list of holy days and Carleton’s Academic Accommodation policies, or may contact an Equity Services Advisor in the Equity Services Department for assistance.

Pregnancy

Pregnant students requiring academic accommodations are encouraged to contact an Equity Advisor in Equity Services to complete a letter of accommodation. The student must then make an appointment to discuss her needs with the instructor at least two weeks prior to the first academic event in which it is anticipated the accommodation will be required.

Academic Integrity

Violations of academic integrity are a serious academic offence. Violations of academic integrity – presenting another’s ideas, arguments, words or images as your own, using unauthorized material, misrepresentation, fabricating or misrepresenting research data, unauthorized co-operation or collaboration or completing work for another student – weaken the quality of the degree and will not be tolerated. Penalties may include expulsion; suspension from all studies at Carleton; suspension from full-time studies; a refusal of
permission to continue or to register in a specific degree program; academic probation; and a grade of Failure in the course, amongst others. Students are expected to familiarize themselves with and follow the Carleton University Student Academic Integrity Policy which is available, along with resources for compliance at: http://www2.carleton.ca/sasc/advisingcentre/academic-integrity/.

Important Dates and Deadlines Summer 2016

Graduate, Undergraduate and Special Students