

# ELEMENTS OF FINANCE I

Grade: XI

Full Marks: 100  
Teaching Hrs: 150

## I. INTRODUCTION

Finance is an emerging discipline. Traditionally finance was concerned with financial instruments and institutions only. But, the scope of finance has now been expanded to encompass areas like mathematics, statistics, working capital management, financial analysis, risk, insurance, and multinational finance. The role of finance in company's success has become paramount as all business decisions and activities of a business have financial implications. As such Finance as a subject has found a prominent place as one of the functional areas of commerce education at the higher secondary level.

## II. GENERAL OBJECTIVES

General objectives of this course are to enable the students to understand concepts and principle of elementary finance as foundation for higher level education and to impart skills required for understanding financial market and institutions, corporate finance and insurance.

## III. SPECIFIC OBJECTIVES

**On completion of this course, the student shall be able to:**

- a. describe the meaning and scope of business finance;
- b. explain the functions, types, role and importance of financial institutions and financial markets;
- c. discuss and determine the various types of financial assets;
- d. learn the basic concept of interest and discounting factors. Involved in finance;
- e. explain the concept and types of risk of insurance;

## IV. CONTENTS AND UNIT-WISE TEACHING HOURS

Units	Chapters	Teaching Hours
1	Overview of Finance	10
2	Financial Markets	10
3	Financial Institutions	20
4	Financial Assets	15
5	Interest	15
6	Present Value and Discounting Technique I	15
7	Present Value and Discounting Technique II	15
8	Risk and Insurance	20
9	Life Insurance	15
10	Non-life Insurance	15
	<b>Total</b>	<b>150</b>

## **V. COURSE CONTENT**

### **UNIT 1 : OVERVIEW OF FINANCE**

Concept and importance of finance; Relationship of finance with economics and accountancy; Scope of finance: investments, corporate finance, financial institutions and markets.

### **UNIT 2 : FINANCIAL MARKETS**

Concept; Types of financial markets: money and capital, primary and secondary markets; Financial intermediaries: deposit institutions, insurance companies other financial institutions; investment bankers, mortgage bankers; the secondary market: organized exchanges and over-the-counter market.

### **UNIT 3 : FINANCIAL INSTITUTIONS**

Introduction and types of financial institutions, role of financial institution in financial markets; Introduction, functions and role of central bank; Commercial bank; Development bank and other financial institutions: finance companies, finance cooperatives, mutual funds, pension and provident fund.

### **UNIT 4 : FINANCIAL ASSETS**

Real vs. financial assets; Meaning and characteristics of financial assets; Instruments of financial assets: long-term vs. short-term, ownership vs. creditorship and fixed vs. variable instruments; Types of long-term instruments: common stock, preferred stock and bonds; Concept of par value, book value and market value of long term instruments and computation of book value of common stock; Types and uses of short term instruments: treasury bill, bankers acceptance, commercial paper, promissory notes, bill of exchange, letter of credit, mutual funds, Telebanking Instruments. ATM, Debit Card, Credit Card and electronic transfer.

### **UNIT 5 : INTEREST**

Concept of interest; Nominal and real rate of interest, periodic and effective rate of interest, risk-free rate of interest; Determinants of interest rate: inflation premium, default premium, maturity premium, liquidity premium; Computation of interest rates.

### **UNIT 6 : PRESENT VALUE AND DISCOUNTING TECHNIQUE I**

Future value and compounding: investing for a single period, investing for more than one period. Present value and discounting: the single-period case, the multi-periods case, Loan amortization.

### **UNIT 7 : PRESENT VALUE AND DISCOUNTING TECHNIQUE II**

Concept of cash flows : Even and uneven, timing of cash flows. Future and present values of multiple cash flows: future value with multiple cash flows present value with multiple cash flows. Annuities and perpetuities: present values for annuity cash flows, future values for annuities, annuities due, perpetuities.

**UNIT 8 : RISK AND INSURANCE**

Risk: concept, nature, cost & management. Concept and evolution of insurance; Functions of insurance; Benefits of insurance; Nature of insurable risks; Principle of insurance; Features of insurance contract; Meaning, objectives and methods of reinsurance.

**UNIT 9 : LIFE INSURANCE**

Concept and importance of life insurance; Elements of life insurance contract; Procedures of affecting life insurance policy; Role of agents; Computation of life insurance premium; Types of life insurance;

**UNIT 10 : NON-LIFE INSURANCE**

**Concept of non life insurance;** Concept and importance, types of policy and procedures;

**VI. INSTRUCTIONAL PROCEDURES**

- Lecture and discussion
- Case observation
- Field Visit
- Library Assignment
- Project Work
- Group and Individual Work
- Presentation

**VII. ASSESSMENT TECHNIQUES**

Written Examination 100 (100%)

Evaluation Scheme

Units	Title	Number of question			Marks Allocated		
		Th.	Pr.	Tot	Th.	Pr.	Tot
1	Overview of Finance	1		1	5		5
2	Financial Markets	1		1	5		5
3	Financial Institutions	2		2	15		15
4	Financial Assets	1	1	2	5	5	10
5	Interest		1	1		10	10
6	Present Value and Discounting Technique I		1	1		10	10
7	Present Value and Discounting Technique II		1	1		10	10
8	Risk and Insurance	2		2	15		15
9	Life Insurance	1	1	2	5	5	10
10	Non-life Insurance	1		1	10		10
	<b>Total</b>	<b>9</b>	<b>5</b>	<b>14</b>	<b>60</b>	<b>40</b>	<b>100</b>

Note: Some question may combine theory and computational problems.

## VIII. REFERENCES

1. Brigham Eugen F. **Fundamentals of Financial Management:** The Dryden Press, Orlando.
2. Dahal, Bhuwan and Dahal Sarita. **A Hand Book to Banking:** Asmita Publications. Kathmandu.
3. Joshi, j Padam Raj and Adhikari, Shivahari. **Byabasthapan Ka. Lagi Bitta Sastra:** Taleju Prakashan. Kathmandu.
4. Joshi, Shyam and Adhikari, Shivahari. **Byabasthapan Ka Lagi Bitta Sastra:** Taleju Prakashan. Kathmandu.
5. Manandhar, Kamal Dass et.al. **Fundamental of Financial Management:** Khanal Books and Stationery. Kathmandu.
6. Panda G.S., **Principle and Practice of Insurance:** Kalyani Publishers. Ludhiana.
7. Paudel, Rajan B, et.al, **Fundamental of Financial Management:** Asmita Books & Publishers. Kathmandu.
8. Rejda, George E. **Principles of Risk Management & Insurance:** Peerson, Delhi.
9. Shrestha, M.K., et.al, **Fundamental Principles of Financial Management:** Taleju Prakashan, Kathmandu.
10. Shrestha, Madhusudan. **Fundamental of Banking:** Buddha Academic & Publishers. Kathmandu.
11. Pradhan Dr. Radheshyam & Kathiwada RudraMani. **Bitta Byabasthapan:** Buddha Academic Enterprises Pvt.Ltd. Educational Publishers & Distributers Kathmandu.

### Model Questions

Subject: Elements of Finance Grade : XI <b>Model Questions</b>	Subject Code : Full Marks : 100 Pass Marks : 35 Time : 3 Hours
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All questions are compulsory.

Q.1.	Define finance. State its relationship with Economics.	2+3																														
Q.2.	Write the meaning of financial intermediary. Briefly write the types of financial intermediaries present in Nepal.	2+3																														
Q.3.	Write about the role of financial institution in Financial Market.	5																														
Q.4.	What is a Commercial Bank ? What are its major functions?	4+6																														
Q.5.	Write short notes on : (i) Treasury bills (ii) Bills of exchange	2.5+2. 5																														
Q.6.	The balance sheet of a company as on 31 <sup>st</sup> December, 2008 is given below.																															
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th style="width: 50%;">Liabilities &amp; Capital Rs. l</th> <th style="width: 50%;">Assets Rs.</th> </tr> <tr> <td>Current Liabilities 10,00,000</td> <td>Current Assets 35,00,000</td> </tr> <tr> <td>Long Term Bank Loan 40,00,000</td> <td>Fixed Assets 65,00,000</td> </tr> <tr> <td>20,000 Common Shares 20,00,000</td> <td></td> </tr> <tr> <td>Retained Earnings 30,00,000</td> <td></td> </tr> <tr> <td style="text-align: right;">Total 1,00,00,000</td> <td style="text-align: right;">1,00,00,000</td> </tr> </table>	Liabilities & Capital Rs. l	Assets Rs.	Current Liabilities 10,00,000	Current Assets 35,00,000	Long Term Bank Loan 40,00,000	Fixed Assets 65,00,000	20,000 Common Shares 20,00,000		Retained Earnings 30,00,000		Total 1,00,00,000	1,00,00,000																			
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	Find out: (i) The book value of company (ii) The book value per share	3+2																														
Q.7.	(i) A Treasury bond that matures in 10 years has a yield of 6 percent. A 10 year corporate bond has a yield of 8 percent. Assume that the liquidity premium on the corporate bond is 0.5 percent. What is the default risk premium on the corporate bond ? (ii) The real risk-free rate is 3 percent and inflation is expected to be 3 percent for the next 2 years. A 2-year treasury security yields 6.2 percent. What is the maturity risk premium for the 2-year security ?	[5+5=10]																														
Q.8.	(i) Find out the present value of Rs. 5,550 due in 3 years at a discount rate of 6 percent. (ii) Find out the future value of an initial Rs, 10,000 compounded for 2 years at 8 percent. (iii) You approach Nepal Bank Limited for a term loan of As. 500,000. The bank agrees to give the loan to be fully amortized in a period of 5 years at 10 percent, annual payment. Calculate the size of each installment.	[2.5+2.5+5=10]																														
Q.9.	Following are the cash flow streams of investment proposals x and y																															
	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <th colspan="5" style="text-align: right;">Cash flow streams</th> </tr> <tr> <th style="width: 10%;"></th> <th style="width: 10%;"></th> <th style="width: 10%;">Year</th> <th style="width: 15%;">x</th> <th style="width: 15%;">y</th> </tr> <tr> <td></td> <td></td> <td>1</td> <td>Rs. 10,000</td> <td>Rs. 20,000</td> </tr> <tr> <td></td> <td></td> <td>2</td> <td>Rs. 10,000</td> <td>Rs. 15,000</td> </tr> <tr> <td></td> <td></td> <td>3</td> <td>Rs. 10,000</td> <td>Rs. 10,000</td> </tr> <tr> <td></td> <td></td> <td>4</td> <td>Rs. 10,000</td> <td>Rs. 5,000</td> </tr> </table>	Cash flow streams							Year	x	y			1	Rs. 10,000	Rs. 20,000			2	Rs. 10,000	Rs. 15,000			3	Rs. 10,000	Rs. 10,000			4	Rs. 10,000	Rs. 5,000	
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		Year	x	y																												
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		2	Rs. 10,000	Rs. 15,000																												
		3	Rs. 10,000	Rs. 10,000																												
		4	Rs. 10,000	Rs. 5,000																												
	(i) What is the present value of cash flow stream from proposal x if the discount rate is 8 percent ? (ii) What is the future value of cash flow stream from proposal Y if appropriate compound rate is 9 percent?																															
Q.10.	What is meant by Risk ? Write about the important types of Pure Risk	3+4																														
Q.11.	Write the meaning of insurance. What are its principles?	3+5																														
Q.12.	What are the essential elements of Life Insurance Contract?	5																														
Q.13.	Ms. Sangeeta is willing to pay one year life policy of Rs. 3,00,000 from Rastriya Beema Sansthan. She is now 30 years old. Assume the probability that a person's age 30 years will die during the year is 0.6 percent and the cost of money is 8%. What is the fair amount of premium Ms. Sangeeta must pay for this policy.	5																														
Q.14.	Discuss the important types of Non-life insurance and state their contribution in business.	10																														

**ELEMENTS OF FINANCE II**  
**Grade: XII**

*Full Marks: 100*  
*Teaching Hrs: 150*

**IX. INTRODUCTION**

Finance is an emerging discipline. Traditionally finance was concerned with financial instruments and institutions only. But, the scope of finance has now been expanded to encompass areas like mathematics, statistics, working capital management, financial analysis, risk, insurance, and multinational finance. The role of finance in company's success has become paramount as all business decisions and activities of a business have financial implications. As such Finance as a subject has found a prominent place as one of the functional areas of commerce education at the higher secondary level.

**X. GENERAL OBJECTIVES**

General objectives of this course are to enable the students to understand concepts and principle of elementary finance as foundation for higher level education and to impart skills required for understanding corporate finance.

**XI. SPECIFIC OBJECTIVES**

**On completion of this course, the student shall be able to:**

- a. describe the concept and scope of corporate finance and its environment;
- b. appreciate the significance of financial statements in analyzing financial problems of the business;
- c. discuss and compute short-term and long-term source of finance;
- d. acquire elementary knowledge of investment decision tools;
- e. explain the concepts and importance of working capital in business;
- f. appreciate different components of current assets;
- g. explain the concept and importance of dividend.

**XII. CONTENTS AND UNIT-WISE TEACHING HOURS**

Units	Chapters	Teaching Hours
1	Overview of Corporate Finance	10
2	Business and Financial Environment	12
3	Financial Statements and Cash Flows	13
4	Short-term Financing	15
5	Long-term Financing	15
6	Cost of Capital	8
7	Investment in Fixed Assets	15
8	Basics of Working Capital	12
9	Managing Current Assets	25
10	Dividend	10
11	Multinational Finance	15
	<b>Total</b>	<b>150</b>

### **XIII. COURSE CONTENT**

#### **UNIT 1 : OVERVIEW OF CORPORATE FINANCE**

Concept of corporate finance; Evolution of finance; Finance functions; financial decisions (investments, financing and liquidity).

#### **UNIT 2 : BUSINESS AND FINANCIAL ENVIRONMENT**

Forms of business organization-sole proprietorship, partnership, company; Concept of income tax. The financial environment-the purpose of financial market, financial intermediaries, financial brokers, and the secondary market, Nepal Stock Exchange: organization and functions.

#### **UNIT 3 : FINANCIAL STATEMENTS AND CASH FLOWS**

Concept and uses of financial statements in financial decision-making: income statement, balance sheet, statement of retained earning and cash flow statement; Depreciation and cash flows; Taxes and cash flows; Computation of cash flows after tax (CFAT).

#### **UNIT 4 : SHORT-TERM FINANCING**

Concept and importance of short-term financing; Sources of short-term financing: Accruals, trade credit, bank loan and commercial paper; Computation of cost of trade and bank loan.

#### **UNIT 5 : LONG-TERM FINANCING**

Debt: concept, features and types; Preferred stock: concept, features and limitations; Common stock: concept, features and types; Rights and privileges of common stock holders; Retained earnings: concept and importance; Concept of factors affecting capital structure; Computation of book value of equity and debt-equity ratios; Computation of costs of issuing securities.

#### **UNIT 6 : COST OF CAPITAL**

Concept of cost of capital; Computation of specific costs: debt, preferred stock, and common stock.

#### **UNIT 7 : INVESTMENT IN FIXED ASSETS**

Concept importance and features of investment decision; Concept of opportunity cost; Concept of net cash flow and present value; Types of investment proposals; Steps involved in the evaluation of an investment; Computation of pay back period, net present value and profitability index of independent projects.

#### **UNIT 8 : BASICS OF WORKING CAPITAL**

Concept, types, importance and determinates of working capital; Gross Working Capital and Net Working Capital; Concepts and computation of cash conversion cycle; Determinants of working capital.

#### **UNIT 9 : MANAGING CURRENT ASSETS**

**Cash and marketable securities:** concept and motive for holding cash, concept of inflows and outflows, concept and importance of cash budget, preparation of cash budget.

**Receivables:** Concept and importance of receivables, concept of average receivable and days sales outstanding (DSO), terms of credit sales, credit standards and collection policies and procedures, computation of average receivable & DSO.

**Inventory:** Concept of raw materials, work-in-process and finished goods, need to hold inventories, objective of inventory management, concept of carrying and ordering costs, total inventory costs, reorder point and safety stock, determining EOQ (formula and tabular approach).

#### **UNIT 10 : DIVIDEND**

Introduction and forms of dividends; dividend payment procedure and factors influencing dividend decision; constraints on paying dividends.

## UNIT 11: MULTINATIONAL FINANCE

Multinational corporations; Multinational versus domestic financial management; Exchange rates, concept of cross rate; Trading in foreign exchange: concepts of spot rates and future rates.

### XIV. INSTRUCTIONAL TECHNIQUES

- Lectures
- Demonstration
- Discussion
- Group work
- Project Work
- Presentation
- Independent Study

### XV. ASSESSMENT TECHNIQUES

Written Examination 100 (100%)

Evaluation Scheme

Units	Title	Number of questions			Marks Allocated		
		Th.	Pr.	Tot	Th.	Pr.	Tot
1	Overview of corporate finance	1		1	5		5
2	Business and Financial Environment	1		1	5		5
3	Financial Statements and Cash Flows			1			10
4	Short-term Financing		1	1		10	10
5	Long-term Financing	1	1	2	5	5	10
6	Cost of Capital		1	1		5	5
7	Investment in Fixed Assets		1	1		10	10
8	Basic of Working Capital			1			10
9	Managing Current Assets	1	2	3	5	15	20
10	Dividend	1		1	5		5
11	Multinational Finance			1			10
	<b>Total</b>						<b>100</b>

- Note:
1. Questions may combine theory and computational problems from Units 2, 5, and 8
  2. 14 questions are asked in total, out of them 8 theory questions carrying 45 marks and 6 computational questions carrying 55 marks.

## XVI. REFERENCES

1. Brigham Eugen F., **Fundamentals of Financial Management**: The Dryden Press, Orlando.
2. Manandhar, K.D., et.al. **Corporate Finance**, Januka Publication, Kathmandu.
3. Pandey I.M., **Elements of Finance**: Bikash Publication. New Delhi.
4. Paudel, Rajan B. et.al. **Fundamental of Corporate Finance**: Asmita Publication. Kathmandu.
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