

**ALLAMA IQBAL OPEN UNIVERSITY, ISLAMABAD
(Department of Commerce)**

INTRODUCTION TO BUSINESS FINANCE (1415)

CHECKLIST

SEMESTER: SPRING, 2026

This packet comprises the following material:

1. Course Outlines
2. Assignment Nos. 1 & 2
3. Assignment Forms (2 sets)

In this packet, if you find anything missing from the above-mentioned material, please contact us at the address given below:

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**ALLAMA IQBAL OPEN UNIVERSITY ISLAMABAD
(Department of Commerce)**

WARNING

1. **PLAGIARISM OR HIRING OF GHOST WRITER(S) FOR SOLVING THE ASSIGNMENT(S) WILL DEBAR THE STUDENT FROM AWARD OF DEGREE/CERTIFICATE IF FOUND AT ANY STAGE.**
2. **SUBMITTING ASSIGNMENT(S) BORROWED OR STOLEN FROM OTHER(S) AS ONE'S OWN WILL BE PENALIZED AS DEFINED IN "AIOU PLAGIARISM POLICY".**

Assignment Submission Schedule			
<i>6 credit Hours</i>	<i>Due Date</i>	<i>3 credit hours</i>	<i>Due date</i>
Assignment 1	10-06-2026	Assignment 1	06-07-2026
Assignment 2	06-07-2026		
Assignment 3	31-07-2026	Assignment 2	20-08-2026
Assignment 4	20-08-2026		
Note: <i>Tutorial schedule (Rehnama-e-Tulba) will available on AIOU website: http://www.aiou.edu.pk</i>			

Course: Introduction to Business Finance (1415) Semester: Spring, 2026
Level: ADC

Please read the following instructions for writing your assignments. (SSC, HSSC & BA Programmes)

1. All questions are compulsory and carry equal marks but within a question the marks are distributed according to its requirements.
2. Read the question carefully and then answer it according to the requirements of the questions.
3. Late submission of assignments will not be accepted.
4. Your own analysis and synthesis will be appreciated.
5. Avoid irrelevant discussion/information and reproducing from books, and study guides of allied material.

Total Marks: 100

Pass Marks: 50

ASSIGNMENT No. 1
(Units: 1–4)

Note: Attempt all questions.

- Q. 1 a. What are the various types of business firms? Highlight the key differences between them. **(10)**
- b. Explain different types of financial markets and their roles in the economy. **(10)**
- Q. 2 What insights do the balance sheet and income statement offer, and why are these insights important for investors? **(20)**

- Q. 3 a. If you invest Rs 60,000 every year for the next 15 years starting 1 year from 1st January 2025, you earn an interest rate of 7% annually. How much will you have at the end of 10 years? **(10)**
- b. What is the present value of the following cash flows at the interest rate of 9% per year? **(10)**
- Rs. 400,000 received 5 years from now.
 - Rs. 600,000 received 20 years from now.
 - Rs. 220,000 received every year, beginning one year from now and ending 12 years from now.
- Q. 4 How can the value of a company be measured? A company has a total share capital of Rs 1000 million. It has issued 50 million shares. What is the book value per share of this company? Now you are told that the shares of this company are selling at Rs 55 on the stock exchange. Which value is more realistic? Give the reason to support your answer. **(20)**
- Q. 5 a. What are the different types of marketable securities, and how do they differ from each other? **(10)**
- b. What strategies can a firm implement to improve the efficiency of its cash management? **(10)**

Total Marks: 100

Pass Marks: 50

ASSIGNMENT No. 2
(Units: 5–9)

Note: Attempt all questions.

- Q. 1 a. You are considering two investment options: Annual Bank Ltd.'s Deposit Account, which offers an 8% interest rate compounded annually, and Monthly Bank Ltd.'s savings account, which offers a 7.5% interest rate compounded monthly. Based purely on the Effective Annual Rate (EAR), which investment would you prefer and why? **(10)**
- b. How does the valuation of pure discount bonds differ from the valuation of perpetual bonds? explain with a suitable example? **(10)**
- Q. 2 Explain the various capital budgeting techniques used by companies to evaluate investment projects. Discuss the advantages and disadvantages of each method, and provide real-world examples to illustrate when each technique would be most appropriate for decision-making. **(20)**
- Q.3 Given below is the information on the capital structure of three companies on 31-12-2024. **(20)**

All figures in thousands of Rs.	Company A	Company B	Company C
Paid Up Ordinary Share Capital	135,000	90,000	750,000
Capital Reserves	20,000	0	120,000

Retained Earnings	15,000	250,000	220,000
9% Preference Shares,	0	20,000	300,000
11% Bonds, redeemable at par	90,000	20,000	0
Dividend on ordinary shares: %	15%	30%	16%
Expected Growth in equity: %	10%	5%	4%
Earnings per ordinary share	42,000	112,500	224,000
Market Value of ordinary share	15	45	12
Effective Tax on Earnings	32%	33%	35%

Using the above data, calculate the following costs for each company.

- Cost of Equity.
- Cost of Debt.
- Weighted Average Cost of Capital.

Q.4 Future value of an annuity for each case in the accompanying table. Answer the questions that follow. **(20)**

Case	Amount of annuity	Interest rate	Deposit period
A	Rs. 3000	10%	12
B	1000	15	6
C	35,000	20	5
D	12,000	10	8
E	8,000	14	30

Calculate the future value of the annuity assuming that it is

- An ordinary annuity
- An annuity due.

- Q. 5 a. What is meant by tax shield? Explain with an example. **(10)**
- b. What is the difference between capital expenditure and revenue expenditure? Explain with the help of examples. **(10)**

DETAILED COURSE OUTLINES (8594)

Unit 1 INTRODUCTION TO FINANCE

- i. Meanings of Finance and Financial Management;
- ii. Career opportunities in finance;
- iii. Forms of business organization;
- iv. Goals of the corporation;
- v. Agency relationships.

Unit 2 Financial Statements:

- i. Balance sheet;
- ii. Income statement;
- iii. Statement of cash flows (IAS 7);
- iv. Accounting income vs. cash flow; Personal taxes;
- v. Corporate taxes
- vi. Analysis of Financial Statements and their Use:
- vii. Ratio analysis;
- viii. Du Pont system; Effects of improving ratios;
- ix. Limitations of ratio analysis; Qualitative factors;

Unit 3 Forecasting Techniques:

- i. Forecasting sales;
- ii. Projecting the assets needed to support sales;
- iii. Projecting internally generated funds;
- iv. Projecting outside funds needed;
- v. Deciding how to raise funds;
- vi. Seeing the effects of a plan on ratios
- vii. Efficient Market Hypothesis and its Implication

Unit 4 TIME VALUE OF MONEY

- i. The Role of Time Value in Finance;
- ii. Time Value w.r.t. Single Amounts (Future Value and Present Value) including Simple Interest Mechanism and Compound Interest Mechanism
- iii. Time Value w.r.t. Compact Stream of Cash Flows i.e. Annuities (Future Value and Present Value) including Ordinary/Simple Annuity, Annuity Due/Outstanding, and Perpetuity
- iv. Time Value w.r.t. Mixed Stream of Cash Flows (Future Value and Present Value);
- v. Practical Implication of Time Value of Money covering Intra-year Compounding; Nominal Vs Effective Rate of Interest;
- vi. Continuous Compounding;
- vii. Funds Accumulation through Regular Deposits;
- viii. Loan Amortization;
- ix. Finding Interest / Growth Rates.

Unit 5 FINANCIAL ASSETS / SECURITIES, AND THEIR VALUATION

- i. Meaning and Understanding about Financial Assets;

- ii. Primary Features of Financial Assets; Basic Model (Formula) / Mechanics of Valuing a Financial Asset / Security; Fundamentals of Interest Rate including Interest Rate,
- iii. Required Rate (of Return),
- iv. Inflation,
- v. Real Vs Nominal Rate of Interest (Return)
- vi. Term Structure of Interest Rates including Yield Curve and its Dimensions, and Yield to Maturity (YTM)
- vii. Risk and Risk Premium; M
- viii. Major Types of Risk w.r.t. Debt-specific Risk Premium Components (Issuer- & Issuer-related); Default, Maturity,
- ix. Contractual Provision

Unit 6 Equity & Corporate Bonds Valuation;

- i. Nature, Definition, Features and Components,
- ii. Cost of Bonds to the Issuer,
- iii. Valuation of a Bond (Pricing of a Bond) – Model and Sensitivity Analysis (Price Changes);
- iv. Common Types of Bonds, and their respective Features;
- v. Stocks, and Equity; Nature, Definition,
- vi. Features and Components;
- vii. Debt Vs Equity; Common Stock Vs Preferred Stock;
- viii. Preferred Stock Valuation; Authorized / Registered Capital;
- ix. Issued, Subscribed and Paid-up Capital; Classification of Preferred Stock; Concept, and Process of IPO w.r.t. Pakistan
- x. Efficient Market Hypothesis, and Market Efficiency; Basic Model for Common Stock Valuation; Major Types of Valuation Models for Common Stock including Zero-growth Model, Constant-growth Model, Variable-growth Model
- xi. Other Approached of Valuation for Common Stock including Book Value, Liquidation Value, Price/Earnings Multiples

Unit 7 CAPITAL INVESTMENT & ITS VALUATION,

- i. Capital: Sources of Capital and Cost of Capital, and Determination of the Cost of Capital,
- ii. Optimal Mix of Capital Sources
- iii. Meanings, and Nature of Investment (Relevant Assets),
- iv. Meanings of Capital Budgeting,
- v. Fundamentals of Capital Budgeting including Motives for capital expenditure, Process of capital budgeting
- vi. Basic Terminology covering Independent Projects versus Mutually Exclusive Projects,
- vii. Unlimited Funds versus Capital Rationing, Accept-Reject versus Capital Rationing, Accept-Reject versus Ranking Approaches

- viii. Overview of Capital Budgeting Techniques: (1) Payback Period 1st Technique, Decision Criteria, Pros and Cons of Payback Analysis; (2) Net Present Value (NPV) 2nd Technique, NPV and Profitability Index, NPV and Economic Value Added; (3) Internal Rate of Return (IRR) 3rd Technique, Calculating the IRR through Interpolation
- ix. Comparing NPV and IRR Techniques:
 - (1) Net Present Value Profiles, and (2) Conflicting Rankings including Reinvestment Assumptions, Timing of the cash flow, Magnitude of the Initial Investment.

Unit 8 CAPITAL BUDGETING CASH FLOWS

- i. Capital Budgeting Process: An overview and Understanding
- ii. Relevant Cash Flows:
- iii. Major Cash Flow Components
- iv. Expansion VS Replacement Decisions
- v. Sunk Costs and Opportunity Costs
- vi. Finding the Initial Investment:
- vii. Installed Cost of New Asset
- viii. After-tax Proceeds from Sale of Old Assets
- ix. Change in Net Working Capital
- x. Calculating the Initial Investment
- xi. Finding the Operating Cash Flows
- xii. After-tax Meanings and Use
- xiii. Estimating Project “After Tax Incremental Operating Cash Flows”
- xiv. Finding the Terminal Cash Flows
- xv. Proceeds from Sale of Assets
- xvi. Taxes on Sale of Assets
- xvii. Change in Net Working Capital

Unit 9 Project Evaluation & Selection: Alternative Methods

- i. Project Monitoring: Progress Reviews & Post Completion Audits
- ii. The Problem of Project Risk
- iii. Total Project Risk
- iv. Contribution to Total Firm Risk: Firm Portfolio Approach
- v. Managerial Options

Recommended Texts:

1. Principles of Managerial Finance by Lawrence J. Gitman Latest Edition
2. Fundamentals of Finance by Van Horne Latest Edition
3. Melicher, W.R & Norton, A.E, (Latest Edition), Finance, John Wiley and Sons, Inc.