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".**

Course: Introduction to Business Finance (8594) **Semester: Autumn 2026**
Level: BS(A&F)/ADC **Total Marks: 100**
Pass Marks: 50

ASSIGNMENT No. 1
(Units: 1–4)

Note: Attempt all questions.

Q. 1 Discuss the structure and key elements of the Income Statement and Balance Sheet. How does each component help stakeholders analyze the financial health of a business? **(20)**

Q. 2 Explain the following financial instruments **(20)**

a. Bonds
b. Shares
c. Treasury Bills
d. Bill of Exchange
e. Letter of Acceptance

Q. 3 Explain the concept of cash management and discuss the key factors that make a cash management system effective in an organization. Provide a detailed explanation. **(20)**

Q. 4 You are planning to invest a significant amount of money and have two options: Alpha Bank Ltd.'s Deposit Account, offering 9% interest compounded annually, and Beta Bank Ltd.'s Savings Account, offering 8.5% interest compounded monthly. Calculate the effective annual rate (EAR) for both investment options, compare them, and determine which is more advantageous. Provide detailed calculations and a clear justification for your choice. **(20)**

Q. 5 A company's total share capital is Rs 8,400 million, and it has issued 400 million ordinary shares. **(20)**

a. Calculate the book value per share of the company.

b. The company's shares are currently trading at Rs 24 per share on the stock exchange. Discuss the significance of the difference between the book value and the market price, and explain which value is more relevant for investors when making investment decisions.

ASSIGNMENT No. 2

(Units: 5–9)

Total Marks: 100 **Pass Marks: 50**

Note: Attempt all questions.

Q. 1 a. Define coupon rate and current yield, and explain how and why they differ in bond valuation. **(10)**

b. How does valuation of pure discount bonds differ from valuation of perpetual bonds? **(10)**

Q. 2 Future value of annuity for each case in the accompanying table. Answer the questions that follow. **(20)**

Case	Amount of annuity (Rs.)	Interest rate (Annual)	Deposit period (Years)
U	5,000	7%	6
V	2,500	8%	4
W	15,000	11%	5
X	10,000	6%	8
Y	8,000	4%	12
Z	12000	9%	7

Calculate the future value of an annuity assuming that it is:

a. An ordinary annuity

b. An annuity due

Q. 3 a. What is meant by a tax shield, and why do bonds provide a tax shield while preference shares do not? Explain your answer. **(10)**

b. Explain the difference between the real cost of finance and the nominal cost of finance, and give an example of each. **(10)**

Q.4 What are the different methods for valuing ordinary shares, and which type of investor is likely to prefer each method? Explain your answer clearly. **(20)**

Q. 5 Haidar Textile Mills Ltd. is considering the following projects: **(20)**

All figures in millions of Rupees			
	Project X	**Project Y**	**Project Z**
Capital Cost	120	1,000	850
Net cash Inflow: Year 1	110	400	150
Year 2	140	380	170
Year 3	150	360	200
Year 4	160	390	240
Year 5	230	410	310
Year 6	280	450	460
Year 7	300	460	490
Year 8	60	430	550
Year 9	40	360	500
Year 10	0	270	0
The cost of finance for all projects is 9%			

a. Calculate Payback Period (PBP) for each project.

b. Calculate Net Present Value (NPV) for each project using the given cost of capital.

c. Calculate the Profitability Index (PI) of each project.

d. Based on the above calculations, recommend which project should be selected?

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 Implications

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 of 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. ajor 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 Approaches 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 Rating, 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, and 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.