

Chapter 1

Sep 10, 19
Tuesday

finance

Institutions:

مؤسسات

individuals:

أفراد

أقسام

- 1) Individuals
- 2) Businesses
- 3) Government

⇒ Finance: is the art and science of managing money

تعريف فن إدارة المال

⇒ Finance: is the study of how individuals, businesses and government acquire and spend money

دراسة

if money acquire > expences (expenditure)
(الإيراد) > (المصروف)

فائض (دولة عجز)

⇒ Savings (surplus) ⇒ investment

if money acquire < expences

deficit

س

financing
(تمويل)

(مقابلة قروض)

* Careers in finance :

② Two major areas in finance :

1. financial services

eg: Bank → role: accept deposits

← (قبول الودائع)

and give loans (تقديم قروض)

← (تقديم قروض)

eg. (b) : Insurance companies. (شركات التأمين)

→ role: collect premiums cover potential losses.

← (جمعون هيك)

كل هذه المؤسسات تهدف إلى الربح

Organizations

Profitables

not for profit
(non-profitables)

مثل: الخيرية، التجار

والجمعيات الخيرية

2. Managerial finance (الإدارة المالية)

(role of financial manager)

(المدير المالي)

equity: ملكية
elect: يتخى

أهم الأشخاص في الشركة: (المؤسسون)

Corporations: owners (المساهمين)
(Co)

→ stockholders

(أصحاب الأسهم)

Stockholders usually receives:

- 1) Dividend (أرباح)
- 2) The difference between the selling price and the ~~purchase~~ price

مراج
بصيرتي
معاون

مثال
لشركة
مثلا

للمراج

لشركة

من
للمراج

الشركة

مستشار

للمراج

Independent directors

Board of directives: مجلس الإدارة

1) Inside // (executives)

2) outside // (Independent directors)

(ولا يتم بكون جزء)
 (مستشار مع Co)

CFO: المدير المالي

* Types of business organizations:
 (Legal forms of Business)

- 1) Sole Proprietorship → a business owned by a single person who received all profits and ~~sustains~~ all losses.
 (يكون مسئول كل شيء)
 (مُحاسب ومدير مالي)
 (أرباح)
 (خ)

- 2). Partnership
- 3). Corporation

53
الكتاب
سنة

المادة

Tax: ضريبة

Advantages (of Sole proprietorship).

- 1). Easy to start.
- 2). Freedom of choice.

← به حرية اختيار

~~Personal~~

3). Tax is paid once as personal income tax

4). لا دفع ضريبة

5). Low organisational cost.

ease of dissolution.

سهولة (أي التي)
المشروع

Disadvantages:

- * 1). unlimited liability (مسؤولية غير محدودة)
- * 2). lack of knowledge in certain areas (Skills)
- * 3). limited sources of capital
- * 4). limited life (lack of continuity)

(Marketing, finance...)

3). limited sources of capital

4). limited life (lack of continuity)

← unlimited life
استمرار العمل

Sep 12, 19

*

* Types of business organizations :

- Done ✓
- 1). Sole Proprietorships
 - 2). Partnerships
 - 3). Corporations

2 Partnership → is a business owned by 2 or more persons who share profits and losses.

(الاتفاقية) ← article of partnership ⇒ agreement between partners

* **Advantages:**

- More skills
- More sources of capital
- Taxes paid once as personal income tax.

* **Disadvantages**

- Disagreement between partners.
- Unlimited liability (all partners have unlimited liability).
- Difficult to ~~transfer~~ transfare ownership

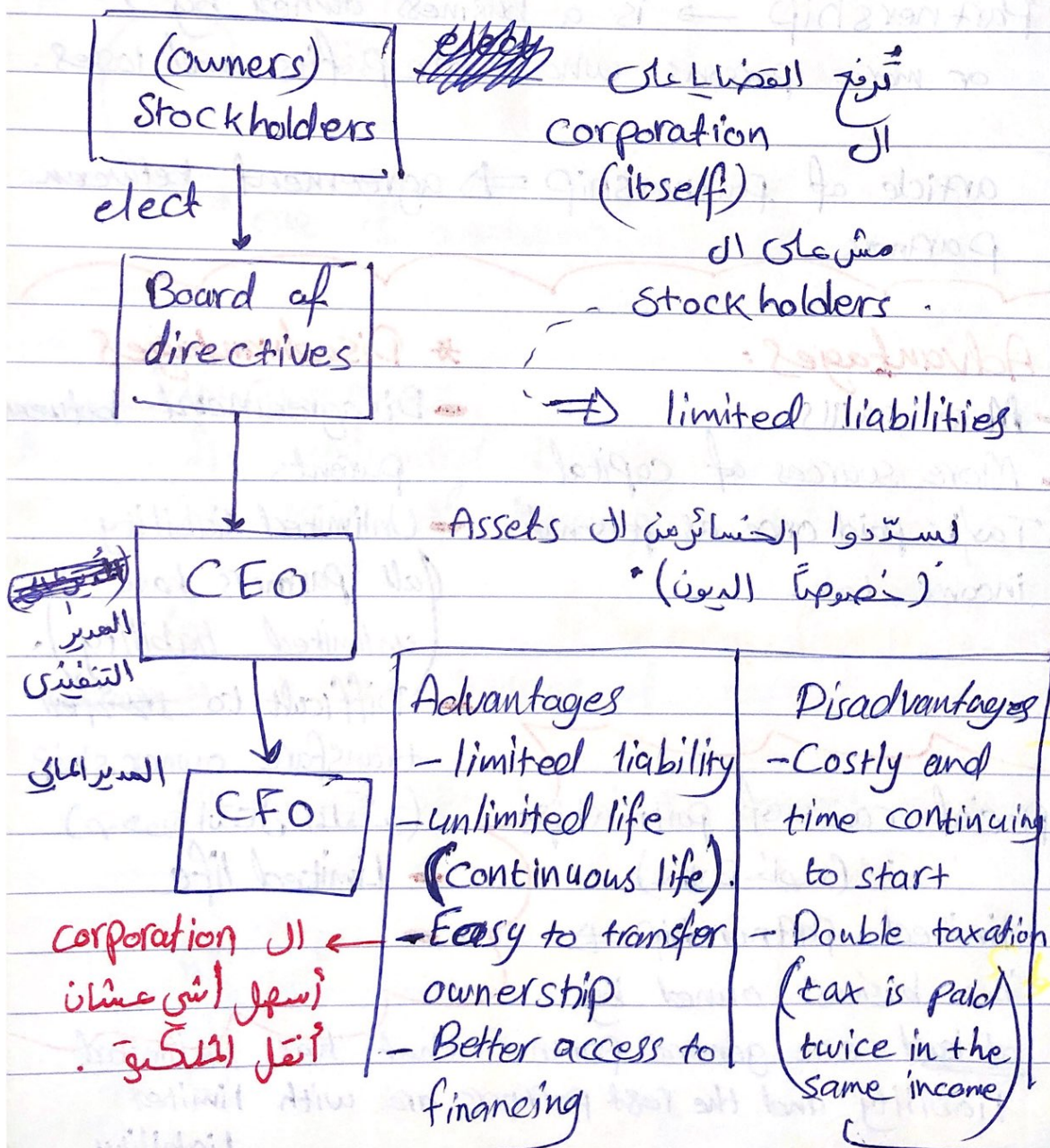
* **Special cases of partnerships:**
(الحالات الخاصة)

A). limited partnership ⇒

is a business owned by at least one general partner that has unlimited liability and the rest partners are with limited liability.

B) Limited liability Partnership (LLP) →
 all partners are with limited liability
eg: Law firm, Auditing firms.
 Auditing : تدقيق

Sep 17, 19



* Disadvantages:

2- Double taxation: Tax is paid twice ~~as~~ in the same income as follow:

- Corporate tax (paid by the corporation)
- Personal income tax paid in the dividends received by the stockholders

Income
= Revenues
- Expenses.

ex: Income: \$10000
tax = 40%

$$\Rightarrow \text{tax} = 10000 \times 0.4 = \$4000$$

$$\Rightarrow 10000 - 4000 = \$6000$$

dividends = \$6000

↓
الأرباح
الموزعة



* Advantages:

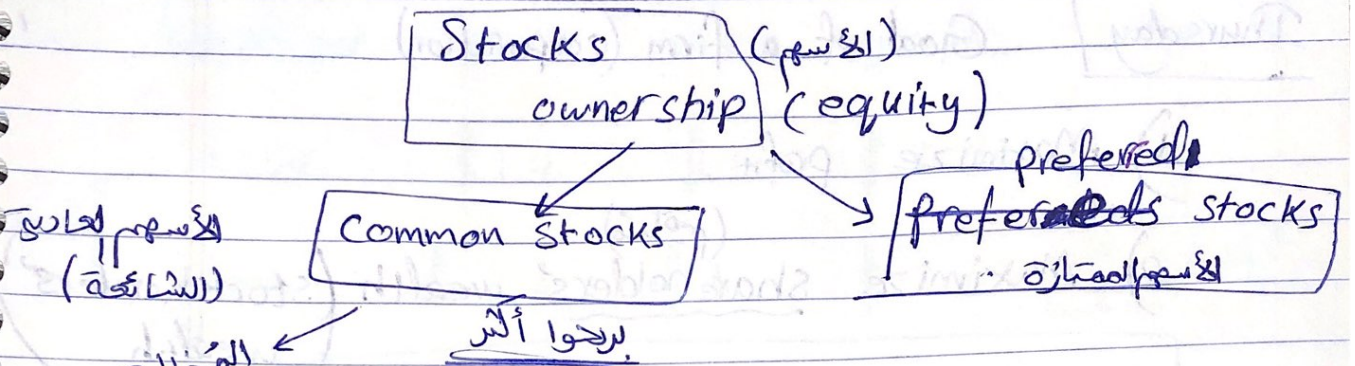
- Better access to financing
- Can hire professionals.

- Highly regulated by the government

(تخضع لقوانين ومراقبة الحكومة
بشكل كبير)

لـ ٤٠٠٠٠٠٠٠٠٠
owners

* ارتفاع الأسهم وانخفاضها يحدد بالأداء المالي للشركة (المؤسسة) —



المخاطرة بالاستثمار
 - ownership
 - receive dividends only when declared
 (ال corporation هي)

أي بقراركم تعطيمهم

eg: The corporation (BOD) decides wheather to distribute dividends to common stockholders

- Have voting right (elect BOD) .
- Have lowest claim on assets and income

- ownership
 - receive fixed dividends
 (الأرباح ثابتة لا تتغير)

في الشركة مخرصة توزع

أرباح ثابتة لأصحاب الأسهم العادية

eg: \$10 Preferred Stock, each preferred stock holder will receive \$10 dividends

on each stock owner من متأكدة منها

- (لا لهم حق التصويت)
 No voting right (they don't elect the BOD)
- Have 2nd place on assets and income

Sep 19, 19

Thursday

Goal of a firm (corporation)

1) Maximize profit.

or:

2) Maximize ^(مُساهم) shareholders' wealth (stockholders' wealth)

$$\text{stockholders' wealth} = \boxed{\text{stock price}} \times \boxed{\text{\# of stocks}}$$

ملاحظة (maximize stock price):

$$\text{Profit} = \text{Revenue} - \text{Expenses}$$

income

إذا كان الهدف: ① هل هذا الهدف يؤدي إلى maximum stock price?

الجواب: من شرط

الهدف الأفضل هو ②

The goal of a firm should be maximize shareholders' wealth for the following reasons:

(a) Maximize profit as a goal doesn't consider timing

eg (page 57):

Investment	Year 1	Year 2	Year 3
Rotor	\$ 1.4	\$ 1	

الوقت مهم جداً: ب @ من أخذ بين الاعتبار

حالياً للهدف ②

من بعد بوقت

Earnings Per Share = measure of profit
(مقياس للربحية)
↑
EPS
(حصة كل سهم من الأرباح)

Investment	year 1	year 2	year 3	total
Rotor	\$1.4	\$1	\$0.4	\$2.8
Valve	\$0.6	\$1	\$1.4	\$3

EPS = measure of profit (مقياس للربحية)
= $\frac{\text{Net income} - \text{Preferred dividends}}{\text{number of common shares outstanding}}$
عادي
حصة كل سهم من الأرباح

لأن الأسهم
الممتازة
تعتبر
خاصة

إذا صغى ① جتار valve
EPS ↑ ⇒ Profit ↑

⑥ Maximize profit should not be the corporation's goal; because profit doesn't consider cash flows.

→ Revenues - Expenses = Profit

can increase through:

1. Increasing revenues
2. Decreasing Exp

⑦ Maximize profit as a goal doesn't consider risks

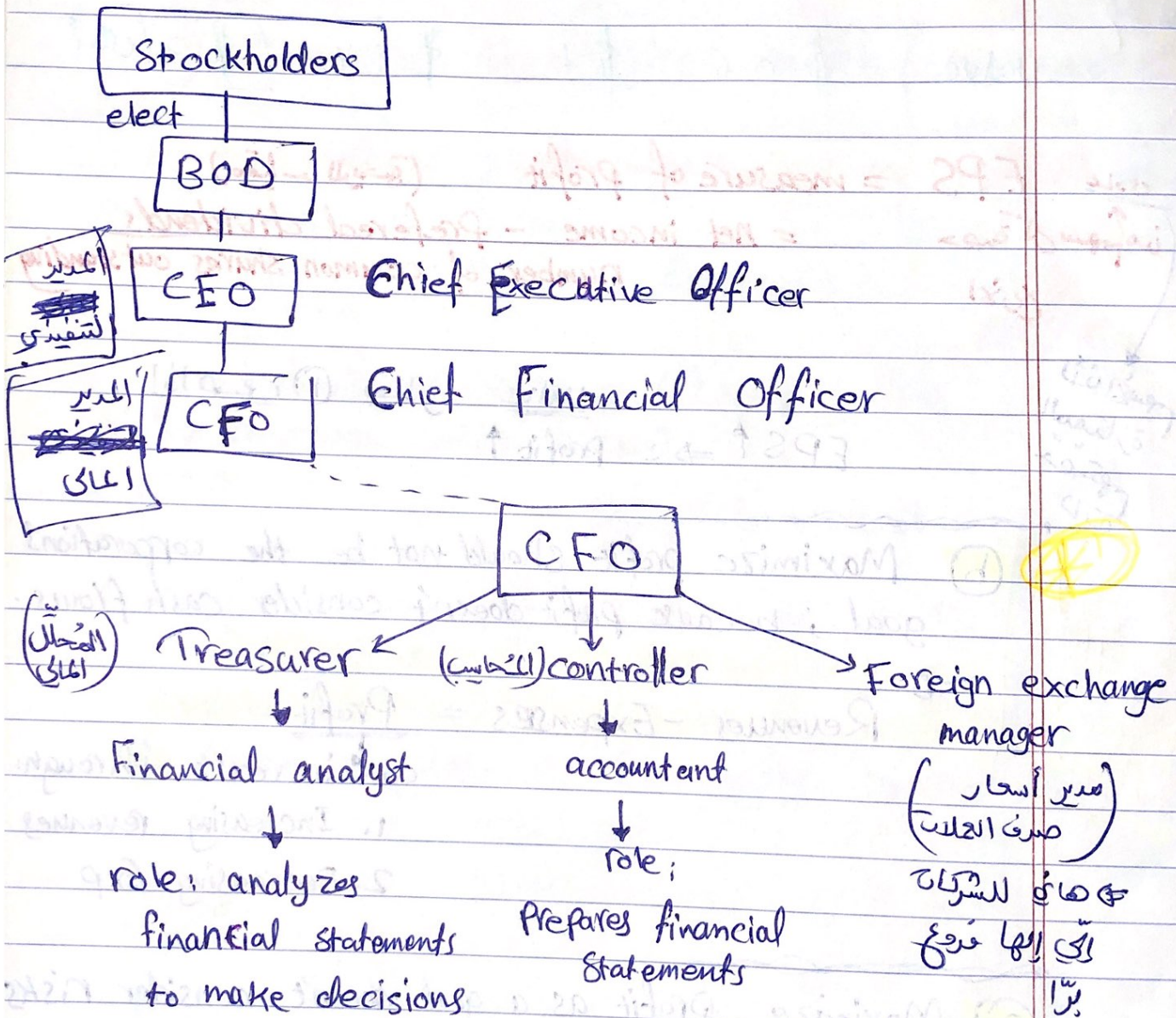
⇒ There is a direct relationship between risk and return

The higher the risk ⇒ The higher the return

• مخاطرة أعلى ⇔ عائد أعلى



to make an investment decision both risk and profit should be considered.



Sep 24th 2019
Tuesday

* Relationships to Economics:

- Both of finance and Economic use marginal cost benefit analysis to make an investment decision. (ضيف) added
- Marginal cost-benefit Analysis \Rightarrow should invest in assets. if added benefits > added costs

Ex (Page 62):

cash out lay =
cash flow

- cost of new computer = \$8000
- proceeds from the sale of old computer = \$2000

- Benefits from the new computer = \$10000
- Benefits from the old computer = \$3000

\Rightarrow Should financial manager invest in the ^{new} computer, or not?

A: Marginal (added) benefits = $10000 - 3000$
 $= \$7000$ — ①

Marginal (added) cost = $8000 - 2000$
 $= \$6000$ — ②

Net benefit = $7000 - 6000 = \$1000$
(1) - (2)

(نفع) \rightarrow

v.imp

الفكرة في إنا نعرف إذا ~~ربح~~ أو خسارة

في ربح ؟ ← مشتري

فمن ← ما ؟

وليه : الفكرة اقتديش في ربح من القديم وقد يش من جديد
ومنتار من أعلى ——— ربح

⇒ The financial manager should
invest in the new computer.

* Break even
⇒ الفوائد = التكلفة if
(Revenues = Costs)

في هاي الحالة ما جسر ولا يربح So فقه داعي لهاد الاستثمار

⇒ * If added benefits > added costs
⇒ positive net benefits (Profit).

* If added benefits < added costs
⇒ negative net benefits (loss).

Ex: Page 75:

- Cash outlay for new equipment = \$600,000.
- Proceeds from the sale of old equipment = \$250,000.
- Benefits from the new equipment = \$900,000.
- Benefits from the old equipment = \$300,000.

A: a) Marginal (added) benefits ~~new~~
$$= 900,000 - 300,000 = \$600,000$$

b) Marginal (added) costs = $600,000 - 250,000$
$$= \$350,000$$

c) Net benefits = $600,000 - 350,000$
$$= \$250,000$$

d) $600,000 > 350,000$
(added benefits > added cost)
 \Rightarrow Profit

So: Should invest in the new equipment.

* Accounting ^{يتم على} \Rightarrow Accrual basis

* accrual basis : recognizes revenues at the time of sale and recognizes expenses when they are incurred .

* Finance \Rightarrow Cash basis .

* cash basis : recognizes revenues and expenses with respect to cash inflows and cash outflows.

بالحاسبة : يتم تسجيل كل transactions أو عائدات بيع و Revenues من لوائح ماليين (ما يهتم بكون cash أولا) شئ أو غيره

التفسير :

v.imp

نينا القائين : يهتموا على ال cash in
out

في إذا في Revenues أو Expenses : يهتموا
ال cash منهم : يهتم بالحاسبة : ما يهتم بهم
إذا من cash .

Ex (page 64):

(نقطة)

- Sale price of the yacht = \$100,000
- cost of the yacht = \$80,000 (on credit)

(paid in cash)

من مبيعات
السؤال المسبق

⇒ Acc view
(accrual basis)

Revenue : \$100,000

- cost : \$80,000

Net income = \$20,000

Profit

Fin view
(cash basis)

- cash inflow : \$0

- cash outflow : \$80,000

Net cashflow = (\$80,000)

loss

(سالب) < مبيعات (إيجابي)
(inflows) < (outflows)

Accounting

- 1) Accrual basis.
- 2) Record-keepers.

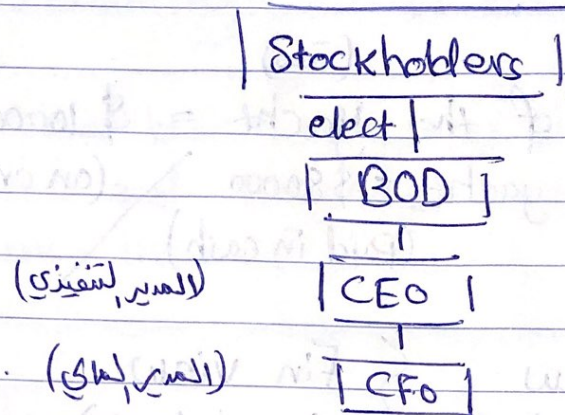
Finance

- 1) Cash basis.
- 2) Decision-makers.

Sep 26, 14
Thursday

Revision

مراجعة



لأنه عند الأسهم
أي منهم قليل
بالنسبة لـ Institutions (التأمين مثلا)

Stockholders

Individuals

Institutions

eg: Insurance
company

(بكونها أقلية بالنسبة للموجودين)

أي بعضهم هم مال Directors أي بتر

بشروا أسهم (مخاطرة واقعة)
وليس

أو
BOD

Agency problem (or: principle - agent problem)

* Owners (Stockholders) \Rightarrow Principles

* agent \Rightarrow CEO (الموظف)

Agency problem \Rightarrow conflict of interest between the
CEO and the stockholders.

(1) تحفيز أو عقاب

* الحل: (فاد هو ال Agency problem) طبيعة البشر
(1) منطقي ال CEO manager أهم ← بتعبر مصلحة زي
مصلحة ال Stockholders

Solutions or
* Plans (to motivate the CEO)

منصة 33 بتأخير
أمير

خطبة
محاضرة

Incentive plans

⇒ management compensation depends on the stock price.
(رابط أرباح المسير بأرباح الشركة وجعلها ملاكاً فيها من خلال فرصة Stock option)

⇒ Give the CEO Stock options if the stock price increased.

* Stock option: The right to purchase a specific number of stocks at a specific price and within a specific period of time.

(يشتري السهم بسعر أقل من السوق خلال فترة زمنية معينة) ← تحفيزاً له

أصبح
1) عند معين بـ معين بفترة زمنية معينة
2) بالسيعة هو ربح مستفيد ولأنه:
(أ) صارت مصلحة زي مصلحة المساهمين
(ب) ربح مستفيد لأنه اشترى بسعر أقل من السوق

خطبة مربية
الإنجاز
(تأخير)

Performance plans

⇒ management compensation depends on EPS (Earning per Share).
← حصة كل سهم عادي من الأرباح

$EPS = \frac{\text{Net income} - \text{Preferred dividends}}{\text{\# of common shares out standing}}$

كلما كان EPS أعلى ← ال Profitability (الربحية) تكون أعلى
وإذا زادت ← يكاثر العير

is
* The manager ↑ compensated if EPS has increased through:

- 1) cash bonus
 - 2) Performance shares.
- أسهم مجانية

له فاد هو الفرق بين ال Performance
وال Stock option

| Page 73 | :

1-1

- a) John is liable for the \$120,000 debt.
- b) John and Peter ~~are~~ are with unlimited liability
⇒ John is liable for \$60,000.
- c) John is with liability, he will only be held liable for the \$50,000.

1-2

* Sales = \$ 500,000

* dealer owed the Motor corporation
← دائن
= \$ 350,000

* Cash paid = $500,000 - 350,000$
= \$ 150,000

* Cost of vehicles paid in cash = \$ 400,000

a) Accounting view
(accrual basis)

Revenue \$ 500,000
- Expense \$ 400,000
Net profit = \$ 100,000

b) Finance view
(cash basis)

cash inflow \$ 150,000
- cash outflow \$ 400,000
Net cash flow = (\$ 250,000)

c) Accountant → Motor corporation made \$100,000 profit.
Financial manager → " " ran out of cash.

1-3

* Interest recieved : فوائد مستقبولة

بالسؤال

* mortgage : قرض (عقار)

a) Total cash inflows = $500 + 5500 = \$6000$

Total cash outflows = $1550 + 850 + 200 + 310 = \$2,910$

b) Net cash flows = inflows - outflows
= $\$3090$

c) Invest the funds . (استثمار النقود)

d) Finance the shortage . (تمويل العجز)

← يتأين / قرض / الخ

1-4

* Cost of the new system = $\$250,000$

* Cost of the current system = $\$55,000$

* Benefits of the new system = $\$325,000$

* Benefits of the current system = $\$125,000$

a- ~~Cost~~ Marginal (added) cost - benefits analysis .

b-	Marginal (added) benefits (New System)	$\$325,000$
	Marginal (added) benefits (Current System)	$\$125,000$
	Net profit =	$= \$200,000$



$$\begin{array}{rcl}
 \text{C- Marginal (added) costs (New)} & = & \$250,000 \\
 \text{Marginal (added) costs (old)} & - & \$55,000 \\
 & & \$195,000
 \end{array}$$

$$\begin{array}{l}
 \text{d- Marginal benefits} > \text{Marginal costs} \\
 (200,000 > \$195,000)
 \end{array}$$

She should invest in the new system.

e- Implementing the new system will lead to an increase in the stock price. If stock's prices increase, then the financial goal (maximize shareholders' wealth) will be increased.

↪ price of stock . # of stocks .

(مطلوب بالسؤال لفرح تتركس إيجابياً في أسهم الشركة بفرح سعر
السهم . المعلومة مش من هنا ☺)

Oct 3, 2019
Thursday

[5] Current stock price = \$27.8 . Pollack Enterprise
offering price = \$38.6

(بهم يشتروا المصير \$38.6 على أن يتولوا take over)

• ليس ناسون ما بهم ال take over يصير

• هل يتأجلوا لمصلحة المساهمين أولا ؟

⊛ Answers:

⊛ Scenario 1: Goal of a firm \Rightarrow maximize shareholder's wealth. ⊛ \Rightarrow If the management believes that the stock price will increase and will be higher than \$38.6 , then fighting take over will be in the interest of the stockholders. (مصلحة المساهمين)

الفرد
يكون
مفتكر
بفتح سر
السهم

⊛ If the management believes that the stock price will increase but the stock's price did not reach \$38.6 , then fighting take over is not in the interest of the stockholders. (من لمصلحة المساهمين)

⊛ Scenario 2: If management fights the stockholders so as they don't lose their jobs (self-interest), then fighting take over is not ^{the} interest of the stockholders.

الفرد
تفكيرهم
بانهم لا يفقدوا
المساكين
بانهم لا يبيعوا
للشركة الثانية