

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 > expenses (expenditure)
(الإيرادات) > (النفقات)

فائض (وليه عجز)

⇒ Savings (surplus) ⇒ investment

if money acquire < expenses

deficit

س

financing
(تمويل)

(مقابلة قروض...)

* Careers in finance :

② Two major areas in finance :

1. financial services

eg: Bank → role: accept deposits

← (يَقْبَلُ الودائع)

and give loans (تَرْفِضُ)

← فَيُضَاهِي قَرْضًا

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

→ role: collects premiums cover potential losses.

← (يَجْمَعُ هَيْكَلًا)

→ كل هذه المؤسسات تهدف إلى الربح

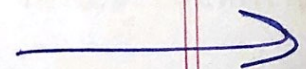
Organizations

Profitables

not for profit
(non-profitables)

مثل: الخيرية، التجار
والجمعيات الخيرية

2. Managerial finance (الإدارة المالية) (role of financial manager) (المُنِير المالي)



equity: ملكية
elect: يتخلى

أهم الأشخاص في الشركة: (المؤسسين)

Corporations: owners (المساهمين)

→ stockholders

(أصحاب الأسهم)

Stockholders usually receives:

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

مبلغ
بصرفي
معاونة
مثال
الشركة
مثلا

المبلغ
تخلى
من
المبلغ
الشركة

مستأجر
مستأجر

Independent directors

Board of directives: مجلس الإدارة

- 1) Inside // (executives)
- 2) outside // (Independent directors)

(ولا يمكن أن يكون جزءا من الشركة)
(مستأجر 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.
(أرباح) (مستأجر مع شركة) (الخ)

- 2). Partnership .
- 3). Corporation

53
الكتاب

المادة

Tax: ضريبة

Advantages (of Sole proprietorship).

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

← به اختيار

~~Personal~~

3). Tax is paid once as personal income tax

4). لا حاجة

5). Low organisational cost .

ease of dissolution .

سهولة (في التخلي)
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

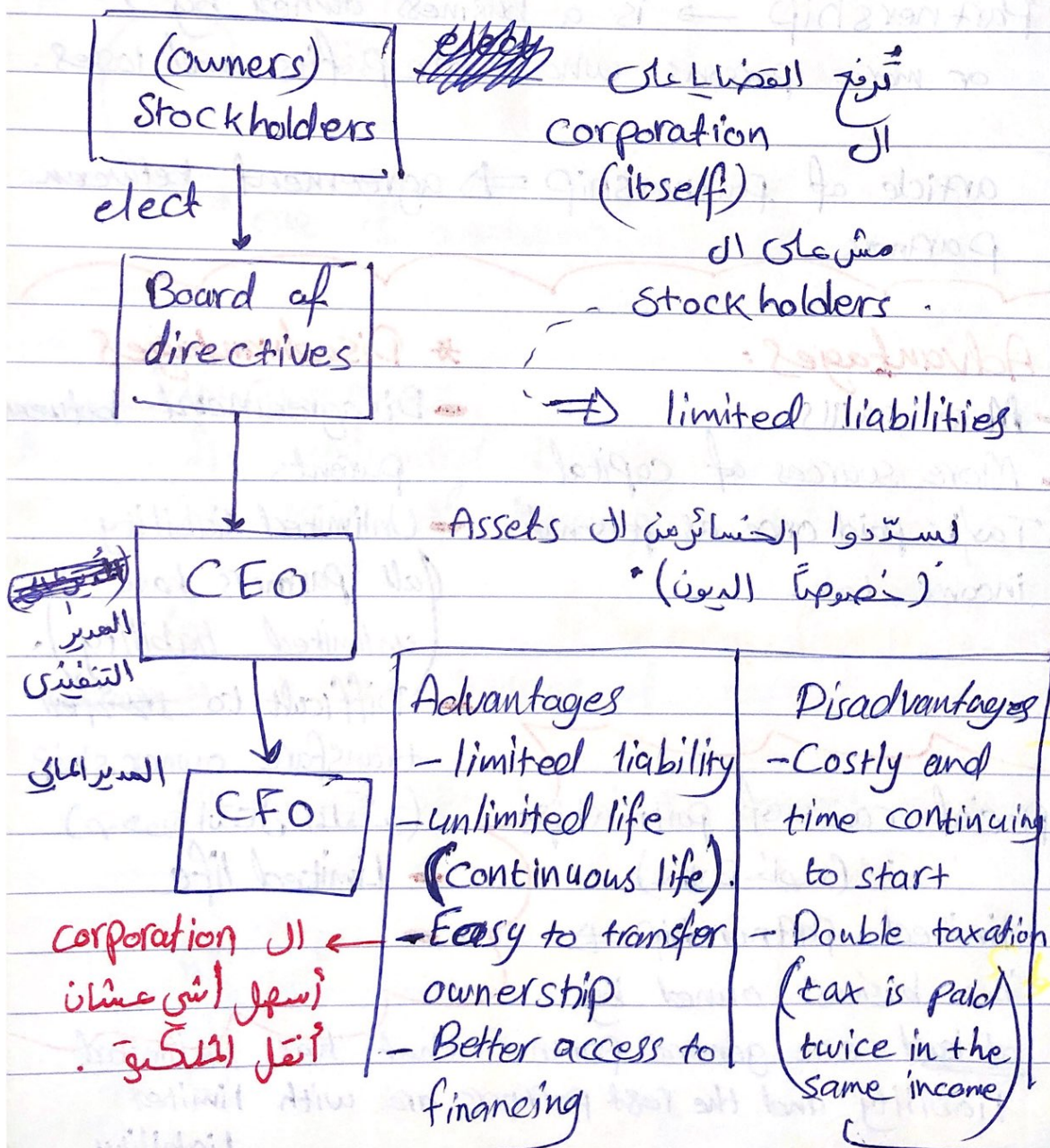
* Special cases of partnerships: (الحالات الخاصة)

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:

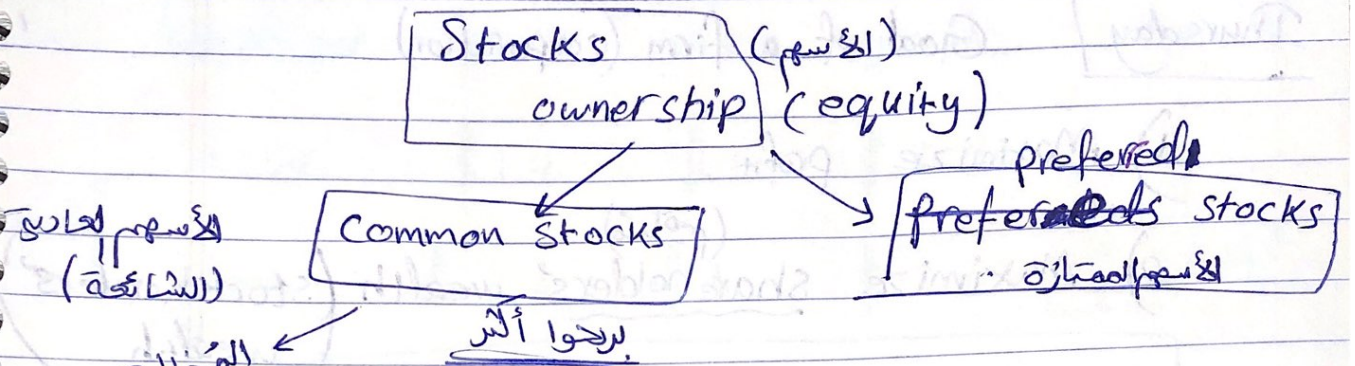
- Better access to financing
- Can hire professionals.

- Highly regulated by the government

(تخضع لقوانين ومراقبة الحكومة
بشكل كبير)

لـ ٤٠٠٠٠٠٠٠٠٠
owners

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



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

أي يقرر كم تعطيه لهم

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 متلكة 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: (مُساوٍ)
- 2) Maximize shareholders' wealth (stockholders' wealth)

stockholders' wealth = stock price × # of stocks

من خلال (maximize stock price):

(Profit = Revenue - 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:

- ① 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) ① من أخذ بعين الاعتبار حالياً

الهدف ② من بعد بوقت .

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

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

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

لأن الأسهم
 الممتازة
 تفضل
 حصة

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:

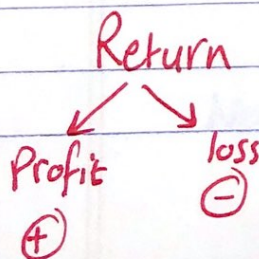
1. Increasing revenues
2. Decreasing Exp

⑦ Maximize profit as a goal doesn't consider risks

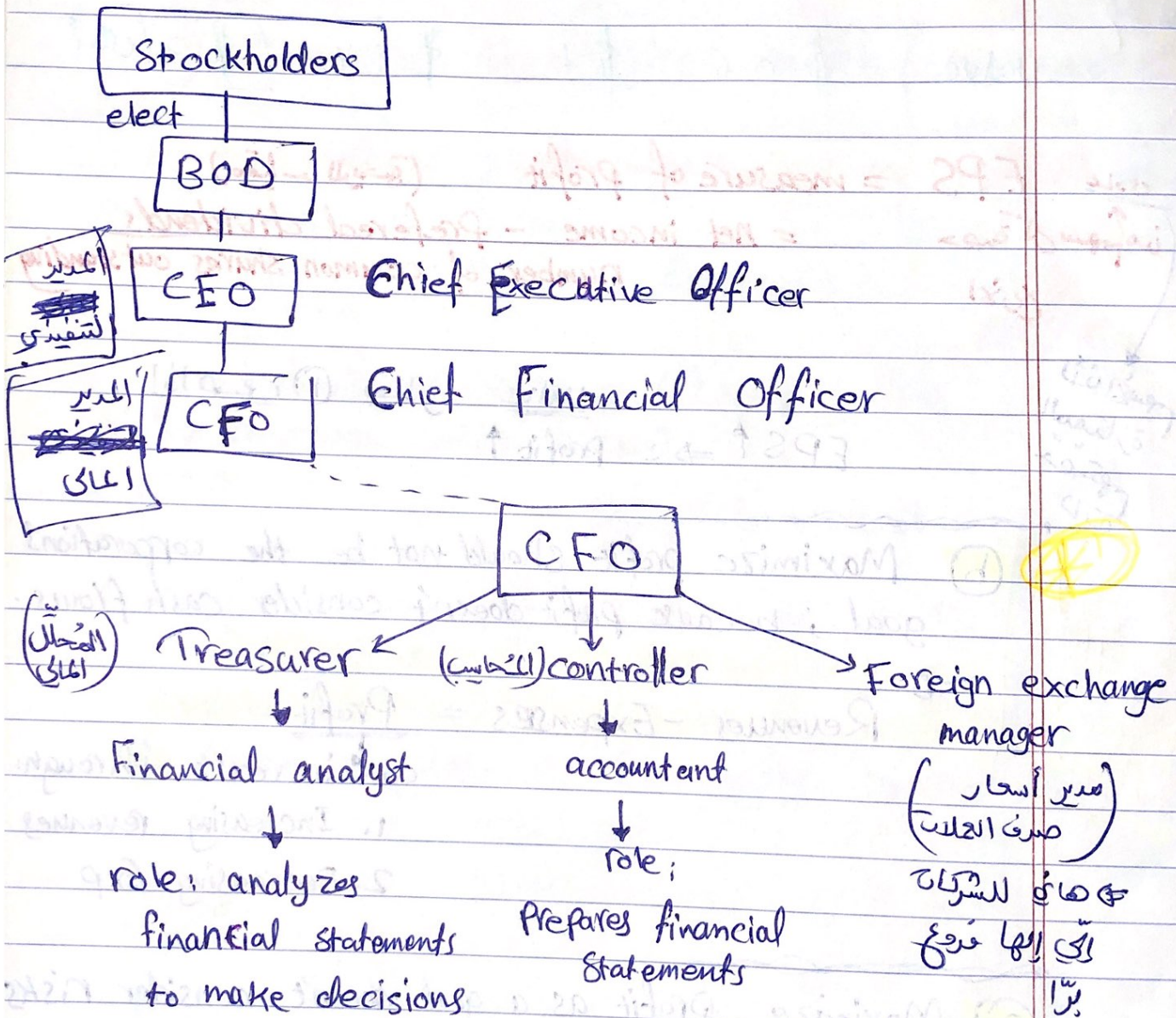
⇒ There is a direct relationship between risk and return

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. (إجمالي) 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)

(إيجابي) \rightarrow

v.imp

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

في ربح ؟ ← مشتري

فمن ← ما ؟

وليس : الفكرة اقتديش في ربح من القديم وقد يش من طبريد

ومنتار من أعلى ——— ربح

⇒ The financial manager should invest in the new computer.

* Break even
⇒ الفوائد = التكلفة إذا

(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 $\xRightarrow{\text{يعتمد على}}$ Accrual basis

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

* Finance $\xRightarrow{\text{يعتمد على}}$ Cash basis .

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

بالحاسبة : يتم تسجيل كل transactions أو عائدات بيع وال Revenues من لوائح ماليتين (ما يهتفي بكون cash أولا) شئ أو غيره

التفسير :

v.imp

نينا القائين : يهتفوا على ال cash in
out

عند إذا في Revenues أو Expenses : يهتفوا
ال cash منهم : يهتفوا بالحاسبة : ما يهتفوا منهم
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
السؤالين

⇒ 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.

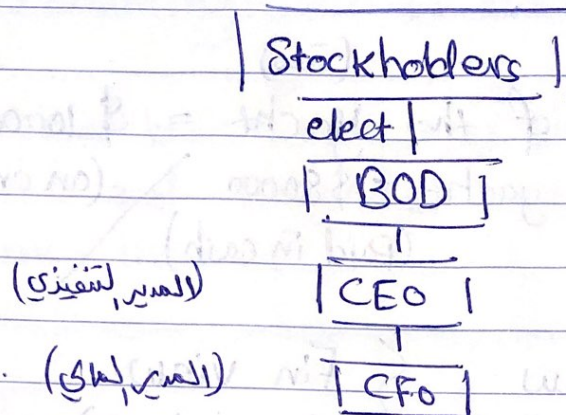
Finance

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

Sep 26, 14
Thursday

Revision

مراجعة



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



(بكونها أقلية بالنسبة للموجودين)



أي بعضهم هم مال Directors أي بترأ


Stockholders

Institutions

eg: Insurance
company

بشروا أسهم (مخاطرة واقعة)
وليس

أو
BOD

 Agency problem (or: principle - agent problem)

* Owners
(Stockholders)

هم مال
⇒ Principles

* agent ⇒ CEO (الموظف)

Agency problem ⇒ 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 المسير بسعر أقل من السوق خلال فترة زمنية معينة) ← تحفيزاً له

أصبح
1) عند معين بـ سعر معين بفترة زمنية معينة
2) بالسيرة هورج مستفيد ولأنه:
(أ) صارت مصلحة زي مصلحة المساهمين
(ب) ح 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 ← يكا في المسير

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
← دراجر
= \$ 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 لتوضيح يتكون إيجابياً في الأسهم في ارتفاع سعر
السهم . المعلومة مش من هنا (٥)

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. (لصالح المساهمين)

⊛ القرار يكون مقتدرين بوضع سعر 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. (ليس لصالح 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.

⊛ القرار تفكيرهم بأنهم لن يفقدوا المصالحات بأنهم ما يبغوا للشركة الثانية