

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

if money acquire > expences (expendition)
(الإيراد) > (الإنفاق)

فائض (وليه عجز)

⇒ Savings (surplus) ⇒ investment

if money acquire < expences

deficit

س

financing (تمويل)

(مصارف: قروض)

* Careers in finance :

⊗ Two major areas in finance :

1. financial services

eg: Bank → role: accept deposits

← (قبول الودائع)

and give loans (قرض)

← (تقديم قروض)

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

→ role: collect premiums cover

potential losses.

← (تجميع الأقساط)

← كل هذه المؤسسات تهدف إلى الربح

Organizations

Profitables

not for profit
(non-profitables)

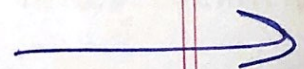
مثل: أندية، الجمعيات الخيرية

والجمعيات الخيرية

2. Managerial finance (الإدارة المالية)

(role of financial manager)

(المنهج المالي)



equity: ملكية
 elect: ينتخب

أهم أشكال في الشركات والمؤسسات: Corporations: owners
 (المساهمين) (Co) → stockholders
 (أصحاب الأسهم)

Stockholders usually receives:

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

مركز بصيرتي تعاوني
 مثال
 (شركة)
 ملكة

لجان
 تنفيذية
 من
 لجان
 الشركة
 مستقلة
 Independent directors

Board of directives: مجلس الإدارة
 1) Inside // (executives)
 2) outside // (Independent directors)

(ولا يتم بكون جزء) فالأهم علاقة بال... (المساهمين 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 بمفرده) (يحاسب بمفرده) (أرباح) (تؤمّن)

- 2). Partnership .
- 3). Corporation

53
الكتاب
مقدمة

الإدارة

Tax: ضريبة

Advantages (of Sole Proprietorship).

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

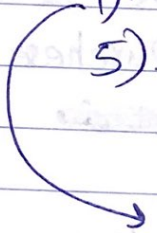
بسهولة اختيارية

~~Personal~~

3). Tax is paid once as personal income tax

4). لا توجد مسؤولية

5). Low organisational cost.



ease of dissolution.

سهولة التي التي
المشروع

Disadvantages:

- * 1). unlimited liability (مسؤولية غير محدودة)
- * 2). lack of knowledge in certain areas (Skills)
 - * ~~Marketing, finance...~~
- * 3). limited sources of capital
- * 4). Limited life (lack of continuity)
 - * رأس المال أو التمويل
 - * استمرار

unlimit life
استمرار التي التي

Sep 12, 19

* مراجعة
* 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

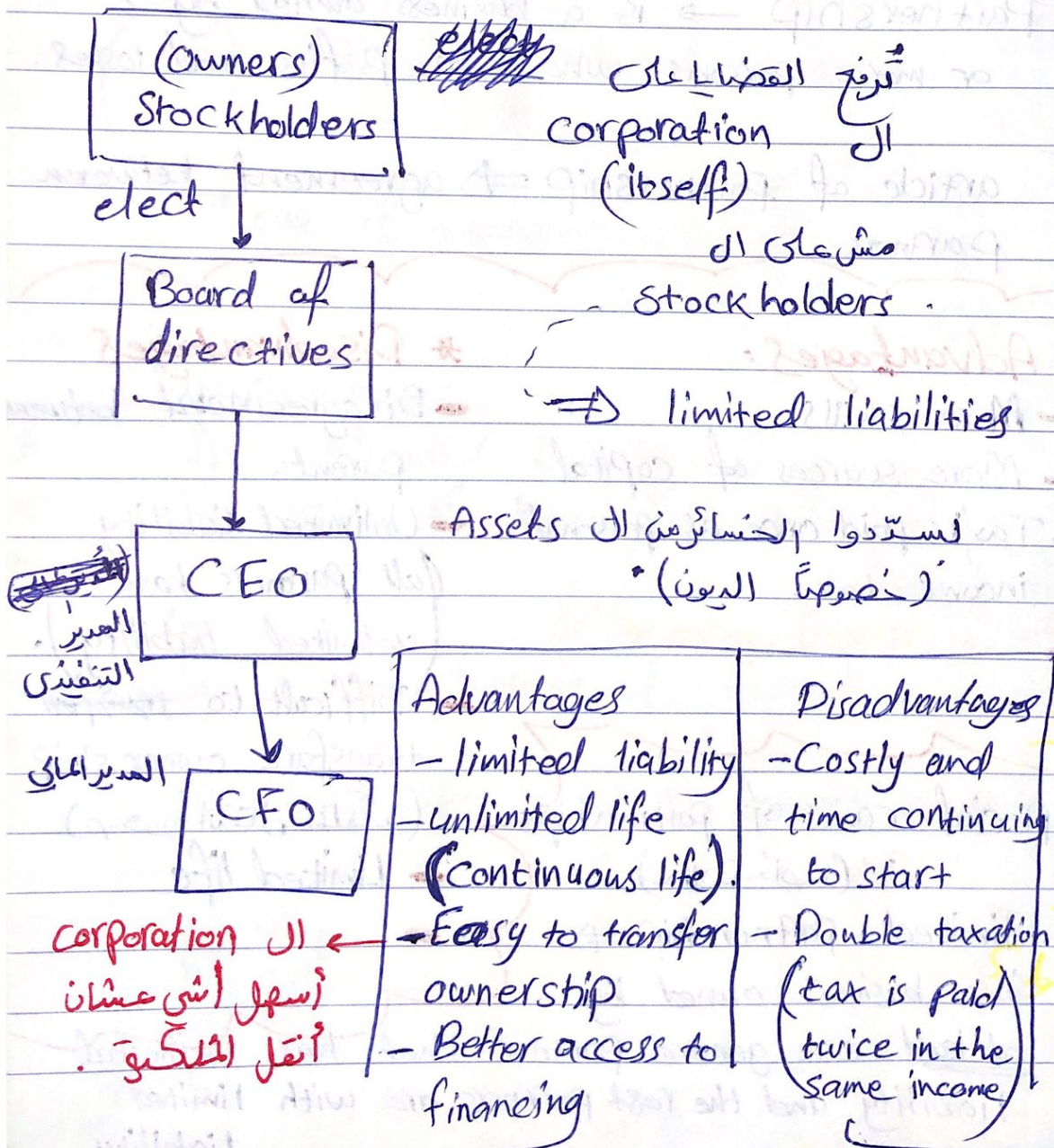
- Disagreement between partners.
- Unlimited liability (all partners have unlimited liability).
- Difficult to ~~transfer~~ transfare ownership

* Special cases of partnerships: حالات خاصة

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 ~~is~~ in the same income as follow:

a) Corporate tax (paid by the corporation):

b) 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

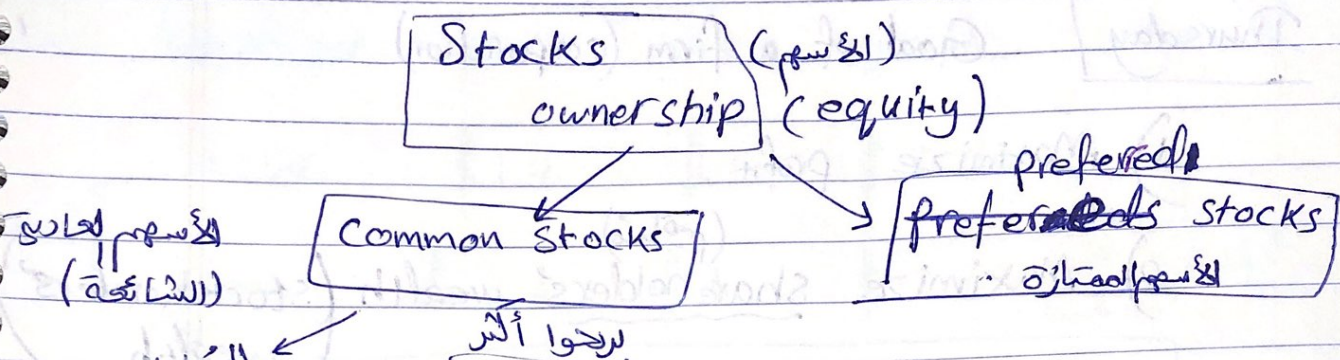
(تخضع لقوانين ومراقبة الحكومة)

• بنسبة كبيرة

لـ مستثمرين ، الملاك ، في

owners كثير

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



- ownership
- receive dividends only when declared

ال corporation هي (أي بقراركم تطيهرهم)

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) الشركة ملزمة توزع

أرباح ثابتة لأصحاب الأسهم الخالية

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

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

* سؤال القرية المتكاملة .

Sep 19, 19
Thursday

Goal of a firm (corporation)

1) Maximize profit.

or:

2) Maximize shareholders' wealth (stockholders' wealth)

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

من خلال (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 الهدف 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 أعلى

شاه

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 الأرباح
 هي العنصر
 الرئيسي
 في
 القيمة

إذا صغى ① اختار value
 EPS ↑ ⇒ Profit ↑

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

Creditors
 account
 Payable

→ Revenues - Expenses = Profit

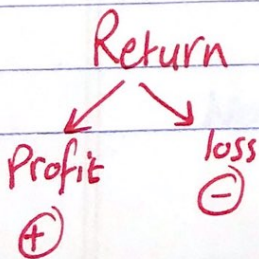
can increase through:

1. Increasing revenues
2. Decreasing Exp

ⓒ Maximize profit as a goal doesn't consider risks

⇒ There is a direct relationship between risk and return

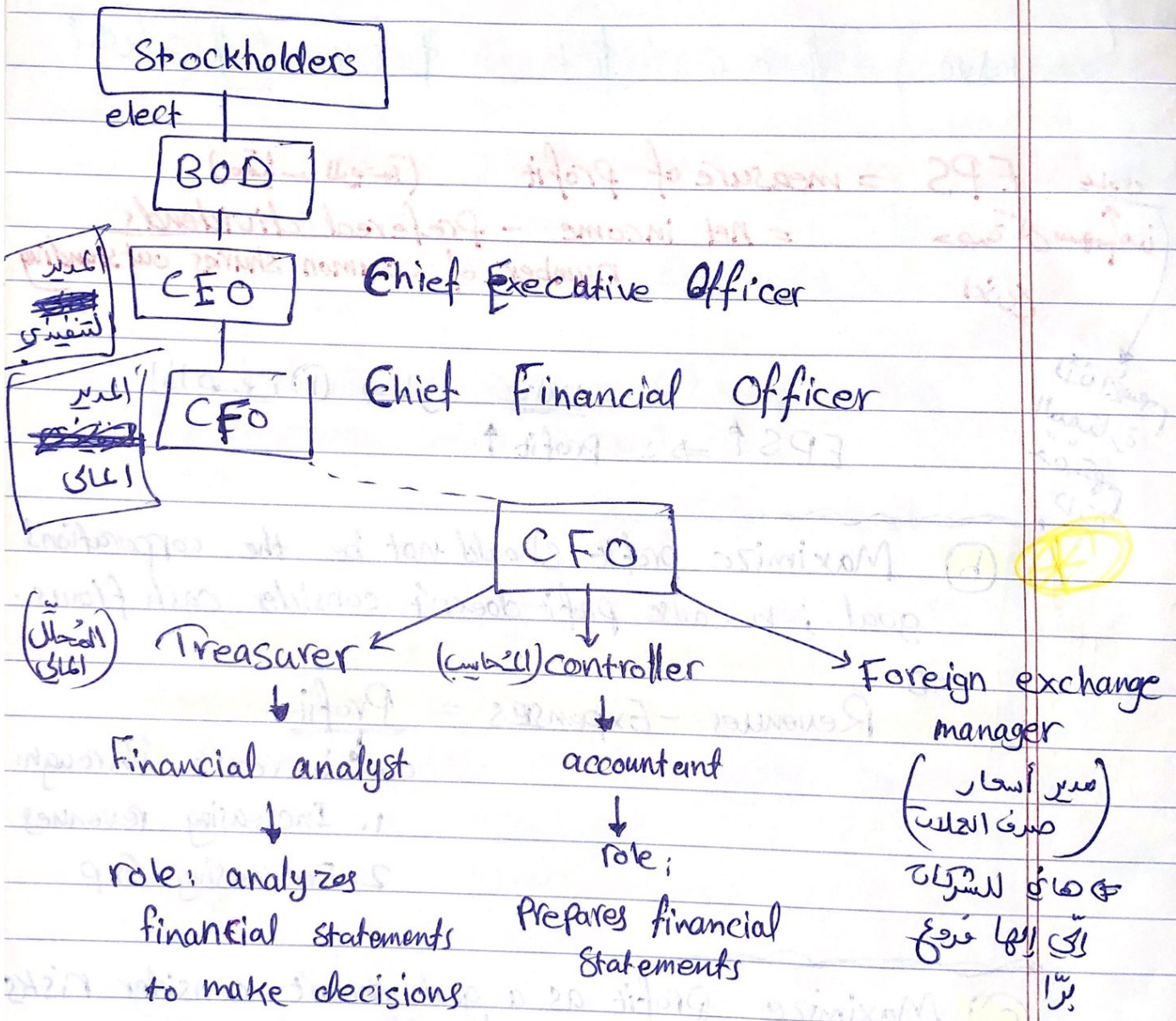
The higher the risk ⇒ The higher the return



• 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.

(إضافة) 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 الربح أو خسارة

في ربح؟ ← مشتري

فإن ← ما

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

ومنتار من أعلى — ربح

⇒ The financial manager should invest in the new computer.

* if $\text{Revenues} = \text{Costs}$ ⇒ Break even

في حاله ما جسر ولا يربح So فانه 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 ~~is~~
 $= 900,000 - 300,000 = \$600,000$

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 مبيعات أو Revenues من شركات
هاتين (ما يقضي يكون cash أولاً) شركة أو غيره

التفسير:

v. imp

نفس القانس: يمتدوا على ال cash
in ←
out ←

عند إذا في Revenues أو Expenses: يمتدوا
ال cash منهم: يمتدوا الحاسبة: ما يقضي منهم
إذا من cash.

Ex (page 64):

(نحو)

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

من السؤال
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) < (إيجابي) (inflows) < (outflows)

Accounting

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

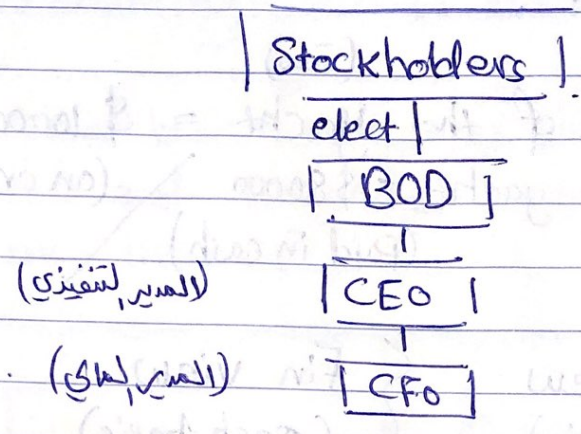
Finance

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

Sep 26, 14
Thursday

Revision

مراجعة



لأنه عند الأسهم
لي سهم قليل
بالنسبة لـ Institutions (التأمين مثلا)

Stockholders
Institutions
eg: Insurance company
بشروا أسهم (مخاطرة واقفة) ولكن

Individuals (بأغلبية أقلية بالنسبة للموجودين)
↓
لي بعضهم مقال Directors لي برا

Agency problem (or: principle - agent problem)

من
المقال
ان
BOD

* Owners (Stockholders) \Rightarrow Principles

* agent \Rightarrow CEO (الموظف)

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

تحفيز أو عقاب

* الحل: (فاد هو ال Agency problem) طبيعة البشر
 (أ) منطقي ال CEO manager أهمهم بتعويض مصالحة زى
 مصالحة ال Stockholders

Solutions or

* Plans (to motivate the CEO)

منحة 33 بتخصيص
 أمير

خطبة
 محفزة

Incentive plans

⇒ management compensation depends on the stock price.

⇒ (ربط أرباح المدير 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 الأسهم بسعر أقل من السوق خلال فترة زمنية معينة) تحفيزاً له

أصبح
 لا: عند معين بـ عر معين بفترة زمنية معينة

⇒ بالسبب هو ربح مستفيد ولأنه:

(أ) صارت مصالحة زى مصالحة المساهمين

(ب) ربح مستفيد لأنه اشتري بسعر أقل من السوق

خطبة مرتبة
 الإنجاز
 (تشجيع)

Performance plans

⇒ management compensation depends on EPS

(Earning per Share)

⇒ خصصة 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 ⇒ يزداد الأرباح العبر

is

* The manager ↑ compensated if EPS has increased through:

1) cash bonus

2) Performance shares

مجاناً

له فاد هو الفرق بين ال Performance

وال Stock option

| Page 73 | :

1-1

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

1-2

* Sales = \$ 500,000

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

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

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

a) Accounting view
(accrual basis)

b) Finance view
(cash basis)

Revenue \$ 500,000

- Expense \$ 400,000

Net profit = \$ 100,000

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

السؤال

* Interest recieved : فوائد مستقبولة

* 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 التحويلات)
 d) Finance the shortage . (تمويل العجز)
 ← بتاين اقرض / 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	= \$ 200,000



$$\begin{array}{r}
 \text{C- Marginal (added) costs (New)} = \$250,000 \\
 \text{Marginal (added) costs (old)} \quad \underline{- \$55,000} \\
 \hline
 \$195,000
 \end{array}$$

d- Marginal benefits > Marginal costs
 (200,000 > \$195,000)

She should invest in the new system's

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 المسألة لشرح نتيكتك إيجابياً ولسلفك شرح برفق سه
 . العلووة مش من هنا (٥) .

Oct 3, 2019

Thursday

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

(بهم يشتروا المصوب \$38.6 عنان اول)

ليس ناسون ما بهم ال take over يمين

هل نأخذوا لمصلحة المساهمين اول ؟

⊗ Answers:

القراء
يكونوا
مفتكرين
بفتح سر
السر

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)

⊗ 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 مصلحة المساهمين)

القراء
تفكرهم
بانهم ليفتروا
المساهمين
بانهم ما يبيعوا
للشركة الثانية

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.