

CONTENTS

1 INTRODUCTION TO THE FINANCIAL MANAGEMENT	5
2 EVALUATING FIRM'S FINANCIAL PERFORMANCE.....	7
2.1 Review of Accounting	7
2.2 Financial ratios	9
2.3 Limitations of Ratio Analysis	12
2.4 Financial Planning and Forecasting Financial Statements	12
3 TYPES OF FINANCING.....	15
3.1 Debt Capital	15
3.2 Lease Financing.....	16
3.2.1 Forms of Lease Financing	17
3.2.2 Advantages of the Leasing	17
3.3 Equity Capital.....	19
3.4 Net Working Capital.....	20
4 RAISING CAPITAL IN THE FINANCIAL MARKETS.....	22
4.1 What are financial markets	22
4.2 Public Offerings and Private Placements	24
4.3 The Private Placement Market and Venture Capital	24
5 FINANCIAL POLICY AND THE COST OF CAPITAL.....	26
5.1 Calculating the Cost of Individual Sources of Finance	26
5.1.1 The Cost of Debt.....	26
5.1.2 The Cost of Preferred Stock	27
5.1.3 The Cost of Common Stock	28
5.2 The Weighted Average Cost of Capital (WACC).....	30
5.3 The Optimal Capital Structure	31
6 DIVIDEND POLICY AND INTERNAL FINANCING.....	38
6.1 The Importance of Dividend Policy	38
6.2 Dividend Policy Decisions in Practice	41
6.3 Stock Dividends and Stock Splits	42
6.4 Stock Repurchases.....	42
7 RISK AND RETURN IN FINANCIAL DECISION MAKING	44
7.1 Stand-Alone Risk	44
7.1.1 Probability Distributions	45
7.1.2 Expected Rate of Return	45
7.1.3 Measuring Stand-Alone Risk: The Standard Deviation.....	47
7.1.4 Measuring Stand-Alone Risk: The Coefficient of Variation	48
7.2 Risk in a Portfolio Context	49
7.2.1 Portfolio Returns.....	49
7.2.2 Portfolio Risk	50
7.2.3 Covariance and Correlation.....	50
7.3 Diversifiable Risk versus Market Risk	52
7.3.1 The Concept of Beta	53

7.3.2	Market Risk Premium	54
7.3.3	The Security Market Line (SML)	54
8	VALUE AND CAPITAL BUDGETING	56
8.1	Capital Budgeting Decision Rules	56
8.1.1	Payback Period	57
8.1.2	Discounted Payback Period.....	58
8.1.3	Net Present Value	59
8.1.4	Internal Rate of Return.....	61
8.1.5	Modified Internal Rate of Return (MIRR).....	64
8.2	The Lease versus Purchase Decision.....	65
9	SHORT TERM FINANCING/WORKING CAPITAL MANAGEMENT	68
9.1	The Cash Conversion Cycle.....	69
9.2	Determinants of Cash Holding.....	73
9.3	Some Aspects of Short-Term Financing Policy.....	73
10	CREDIT MANAGEMENT	78
10.1	Accounts Payable (Trade Credits).....	78
10.1.1	The cost of Trade Credits	78
10.1.2	Components of Trade Credit: Free versus Costly	81
10.1.3	The Decision to Grant Credit: NPV Analysis	81
CASE STUDIES.....	84	
Evaluating a Firm's Financial Performance	84	
Managing for Shareholder Value – EVA	85	
Sources of Long – term Finance (Equity)	88	
Sources of Long – term Finance (Debt and Leasing)	89	
Evaluation of leasing versus buying	90	
Estimating the Weighted Average Cost of Capital	91	
Planning the Firm's Financing Mix	93	
Risk and Return	95	
Capital Budgeting	97	
Case on Working Capital Policy.....	98	
Credit Management.....	100	
BIBLIOGRAPHY	101	