Contents

Part I	Fundamental Concepts in Financial Management	1
Chapter 1	An Overview of Financial Management Differences in Financial Policy: Delta vs. Eastern 3 The Financial Manager's Responsibilities 4 The Changing Role of Financial Management 5 Increasing Importance of Financial Management 7 Alternative Forms of Business Organization 9 Finance in the Organizational Structure of the Firm 12 The Goals of the Corporation 12 The Agency Problem 17 Managerial Actions to Maximize Shareholder Wealth 23 The Economic Environment 24 Organization of the Book 25 International: The International Environment 26 Small Business: Goals and Resources in the Small Firm 27 Summary and Key Concepts 29	3
Chapter 2	Financial Statements, Taxes, and Cash Flows For Manual Statements, Taxes, and Cash Flows For Manual Statements and Securities 34 The Federal Income Tax	33
	System 39 Depreciation 47 Cash Flow Analysis 50 Small Business: Taxes and the Small Firm 52 Summary and Key Concepts 53 Appendix 2A Effects of Depreciation Methods on Taxes, Net Income, and Cash Flows 60	
Chapter 3	Financial Markets, Institutions, and Interest Rates	65
	Knowing When to Borrow: Caterpillar and Financial Corporation of America 65 The Financial Markets 66 Financial Institutions 68 The Stock Market 72 The Cost of Money 75 Interest Rate Levels 76 The Determinants of Market Interest Rates 80 The Term Structure of Interest Rates 85 Other Factors That Influence Interest Rate Levels 89 Interest Rate Levels and Stock Prices 91 Interest Rates and Business Decisions 92 International: Eurocurrency Market 94 Summary and Key Concepts 94	
Chapter 4	Risk and Rates of Return Why Risk Varies: Homestake versus Du Pont or GE 103 Measuring Risk 104 Expected Rate of Return 106 Portfolio Risk and the Capital Asset Pricing Model 114 The Relationship Between Risk and Rates of Return 127 Physical Assets versus Securities 133 A Word of Caution 133 International: The Risk of Foreign Investment 134 Summary and Key Concepts 135 Appendix 4A Calculating Beta Coefficients 143	103

nesera 871 dinamis in 19 civilist anniell. The state of the second state of the second

bastmont coll design and an analysis of the later between the

AC MINERAGO.

TO THE STANDARD REPORTED BY MARKET STANDARD REPORT OF THE PROPERTY OF THE PROP

Chapter 5	Time Value of Money As Co. plants Invest.	14
	How the Value of Money Changes over Time, or What Bank of America Bonds, Your College Education, and a GM Electric Car Have in Common 149 Future Value 151 Present Value 155 Future Value versus Present Value 157 Future Value of an Annuity 158 Present Value of an Annuity 161 Perpetuities 163 Present Value of an Uneven Series of Payments 164 Determining Interest Rates 167 Semiannual and Other Compounding Periods 168 Amortized Loans 172 Summary and Key Concepts 173 Appendix 5A Continuous Compounding and Discounting 189	
Chapter 6 (*)	Bond and Stock Valuation Picking Winners and Avoiding Losers in the Bond and Stock Markets 191 Bond Values 192 Preferred Stock Valuation 208 Common Stock Valuation 208 Stock Market Equilibrium 222 Recent Developments 230 Small Business: Valuation of Small Firms 231 Summary and Key Concepts 232	19
Part II	Financial Statements and Financial Forecasting	249
Chapter 7	Analysis of Financial Statements Reaping the Rewards of Proper Financial Statement Analysis 251 Financial Statements and Reports 253 Ratio Analysis 265	25
Chapter 8	Details Magazine: Lack of Financial Forecasting Leads to Loss of Control 303 Sales Forecasts 304 Forecasting Financial Requirements: The Percentage of Sales Method 306 Forecasting Financial Requirements When the Balance Sheet Ratios Are Subject to Change 314 Modifying the Forecast of Additional Funds Needed 317 Computerized Financial Planning Models 320 International: Currency Exchange Rates 321 Summary and Key Concepts 322 Appendix 8A Microcomputers and Financial Forecasting 334	303
Part III Investor	Strategic Long-Term Investment Decisions	339
Chapter 9 ly	The Basics of Capital Budgeting of	34
Co. Lane steril control Lane	Lockheed's Tri-Star Project: Flawed Capital Budgeting Analysis Leads to Failure 341 Importance of Capital Budgeting 342 Obtaining Ideas for Capital Projects 343 Project Classifications 344 Relationship Between Capital Budgeting and Security Valuation 346 Capital Budgeting Ranking Criteria 346 Evaluation of the Decision Rules 354 Comparison of the NPV and IRR Methods 355 The Reinvestment Rate (Opportunity Cost) Assumption 358 Modified Internal Rate of Return (IRR*) 359 Multiple IRRs 361 The Post-Audit 363 Small Business: Capital Budgeting in the Small Firm 364 Summary and Key Concepts 366	

	DED. Frequery Contents	XiX
Chapter 10	Cash Flow Estimation, Replacement, and	
VB)	Other Topics in Capital Budgeting	377
	Federal Express Learns the Importance of Accurate Cash Flow Estimation 377 Cash Flow Estimation 378 Identifying the Relevant Cash Flows 379 Changes in Net Working Capital 382 Capital Budgeting Project Evaluation 382 Comparing Projects with Unequal Lives 389 Adjusting for Inflation 393 Capital Rationing 395 International: Cash Flow Analysis of International Investments 396 Summary and Key Concepts 397	
Chapter 11	Risk Analysis in Capital Budgeting Co. standpoint	409
	Conclusions on Project Risk 423 Incorporating Project Risk and Capital Structure into Capital Budgeting Decisions 424 International: Risk and International Capital Budgeting 426 Summary and Key Concepts 427	
The same to be		
Co: Finan	Cirp Hese I decision Stratogic I and Torm Financina Decisions	125
Part IV Chapter 12	Co. Sterie stock or securities market & Invit" Bkip acting as their	435 437
april ()	Compaq Computers: High Growth Causes Need for New Capital 437 Balance Sheet Accounts and Definitions 438 Legal Rights and Privileges of Common Stockholders 441 Types of Common Stock 442 Evaluation of Common Stock as a Source of Funds 443 The Market for Common Stock 445 The Investment Banking Process 452 IBM's Initial Debt Offering 460 Emerging Trends 462 Small Business: Raising Equity Capital for the Small Firm 463 Summary and Key Concepts 464	
Chapter 13	Long-Term Debt Co: The form & content & type of delet issing	471
Out)	Raising Debt Capital 471 Traditional Debt Instruments 473 Specific Debt Contract Features 477 Recent Innovations 480 Bond Ratings 485 Rationale for Using Different Types of Securities 490 Factors Influencing Long-Term Financing Decisions 491 International: International Markets for Long-Term Debt 495 Summary and Key Concepts 496 Appendix 13A Bankruptcy and Reorganization 504 Appendix 13B Refunding Operations 511	_
Chapter 14	Hybrid Financing; Preferred Stock, Leasing, and Option Securities	519
	Using Unberid Financing to Most Different Firms' Mond. Combas Abble and	

Using Hybrid Financing to Meet Different Firms' Need: Compaq, Apple, and Datapoint 519 Preferred Stock 520 Leasing 525 Options 535 Warrants 540 Convertibles 542 Reporting Earnings When Warrants or Convertibles Are Outstanding 548 Small Business: Lease Financing for Small Businesses 548 Summary and Key Concepts 549

1	(Kestrudino)	
Chapter 15	Mergers, Divestitures, Holding Companies, and LBOs	56
0 -1	Low Stock Price and Undervalued Assets Make Federated Attractive for	
ann	Takeover 563 Rationale for Mergers 564 Types of Mergers 567	
	Level of Merger Activity 567 Procedures for Combining Firms 571 Merger Analysis 572 Valuing the Target Firm 575 The Role of	
	Investment Bankers 577 Joint Ventures 580 Divestitures 580	
	Holding Companies 583 Leveraged Buyouts (LBOs) 586	
	International: International Mergers 587 Summary and Key	
	Concepts 588	
Part V	The Cost of Capital, Leverage, and Dividend Policy	59
Chapter 16 0 www.	The Cost of Capital Co Supplying Power to Florida Requires Cost of Capital Estimate 597	59
Variables of the second of the	Supplying Power to Florida Requires Cost of Capital Estimate 597	
5	The Logic of the Weighted Average Cost of Capital 598 Basic	
(M)	Definitions 599 Cost of Debt, k _d (1 - T) 600 Cost of Preferred	
	Stock, k _p 601 Cost of Retained Earnings, k _s 602 Cost of Newly	
	Issued Common Stock, or External Equity, k_e 607 Weighted Average, or Composite, Cost of Capital, WACC = k_a 609 The Marginal Cost of	
	Composite, Cost of Capital, where $- k_a$ dog The Marginal Cost of Capital 610 Combining the MCC and Investment Opportunity	
	Schedules 618 Small Business: Cost of Equity Capital for Small	
	Firms 622 Summary and Key Concepts 624	
		(0
Chapter 17	Capital Structure and Leverage 6. Trade of het nist q Has the Debt Binge Gone Too Far? 637 Business and Financial	63
	Has the Debt Binge Gone Too Far? 637 Business and Financial	
/salver box and	Risk 639 Determining the Optimal Capital Structure 646 Degree of Leverage 654 Liquidity and Cash Flow Analysis 661 Capital Structure	
VX/	Theory 663 Asymmetric Informational Effects 665 Capital Structure	
The management of	and Mergers 668 Checklist for Capital Structure Decisions 669	
	Variations in Capital Structures among Firms 671 International:	
	International Financial Management 672 Summary and Key	
	Concepts 673	
Chapter 18	Dividend Policy Co: Pay showeholders the To or not.	68
	United Brands: How One Company Sets Its Dividend Policy 687	
0	Dividend Policy Theories 688 Tests of Dividend Theories 691 Other	
Quit ?	Dividend Policy Issues 693 Dividend Policy in Practice 694	
Jane 3	Summary of Factors Influencing Dividend Policy 704 Stock Dividends	
	and Stock Splits 706 Stock Repurchases 710 Small Business: Dividend Policy for Small Business 714 Summary and Key Concepts 715	
	Dividend Policy for Small Business 714 Summary and Rey Concepts 713	
Part VI	Working Capital Management	725
Chapter 19 Day	Working Capital Policy and Short-Term Credit	72
Chapter 19 Day	After Riding the Wave of Short-Term Interest Rates, Transamerica's Debt	12
They are	Expenses Take A Refreshing Plunge 727 Working Capital	
1.10 Mo. 1	Terminology 728 Requirement for External Working Capital	
IMV.	Financing 729 The Working Capital Cash Flow Cycle 730 Working	
	Capital Investment and Financing Policies 733 Advantages and	
	Disadvantages of Short-Term Credit 738 Accruals 739 Accounts	

Payable, or Trade Credit 739 Short-Term Bank Loans 744
Commercial Paper 753 Use of Security in Short-Term
Financing 754 Growth and Working Capital Needs 755 Summary
and Key Concepts 756 Appendix 19A Secured Short-Term
Financing 768

Chapter 20

Cash and Marketable Securities

777

How Some Successful Firms Determine How Much Cash to Hold 777
Cash Management 778 The Cash Budget 780 Increasing the
Efficiency of Cash Management 785 Bank Relationships 789
Matching the Costs and Benefits of Cash Management 791 Marketable
Securities 792 The Baumol Model for Balancing Cash and Marketable
Securities 798 International: International Cash Management 801
Summary and Key Concepts 802

Chapter 21

Receivables and Inventory Management

813

How a Better Inventory Control System Can Improve a Firm's
Profitability 813 Receivables Management 814 Credit Policy 816
Monitoring the Receivables Position 824 Analyzing Changes in the Credit Policy Variables 826 Inventory Management 829 The Optimal Ordering Quantity 834 International: International Credit Management and Inventory Management 843 Summary and Key Concepts 844

Appendix A Mathematical Tables

Appendix B Answers to Selected End-of-Chapter Problems

Appendix C Selected Equations

Index