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Subject Advance Corporate Finanse

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Assigment Summary of 6 chapters

Summary chapter 1

Corporate finance has three main areas of concern ⓐ capital budgeting what long-term investment should the firm take? ⓑ Capital structure where will the firm get the longterm financing to pay for its investments Also what mixture of debt and equity should it use to fund operations.

ⓒ working Capital managment How should the firm manage its every day financial activities

The goal of financial mangment in a for profit business is to make decisions that increase the value of the stock or more generally increase the market value of equity

③ the Corporate form of organization is superior to other form when it comes to raised money and transferring ownership interests but it has the significant disadvantage of double taxation.

④ there is the possibility of conflicts between stockholders and mangment in a large Corporation

Conclusion

The advantage of the Corporate form are enhanced by the existance of financial markets financial markets function as both primary and secondary markets for Corporate securities and can be organized as either dealer or auctions.

Of the above discussion thus far the most important is the goal of financial management maximizing the value of the stock throughout the next we will analyzing many different financial decesions but we will always ask the same questions How does the decesions under Consideration affect the value of stock?

Chapter No 2 Summary ③

Besides introducing to corporate accounting the purpose of the above explanation has to learn how to determine Cash flow from the accounting statement of a typical Company

Cash flow is generated by the firm and paid to creditors and shareholders it can be classified Cash flow from operations

Cash flow from changes in fixed assets

Cash flow from changes in working Capital

Cash flow Calculations are not difficult but they required care and particular attention to detail in properly accounting for noncash expenses such as depreciations and deffered taxes. it is especially important that you do not confuse cash flow with changes in net working Capital and net income. the income statement usually includes several sections. the operations sections reports the firm revenue and expenses from principle operations. The income statement is like video recording what the people did between two snaphots.

Summary Chapter No 3

This chapter focuses on working with information contained in financial statements specifically we studied standardized financial statements ratio analysis and long term financial planing. we explained that difference in firm size make it difficult to compare financial statements and we discussed how to form common size statements to make comparisons easier and more meaningful.

Evaluating ratios of accounting number is another way of comparing financial statements information we defined a number of the most commonly used ratios and we discussed the famous Du point identity we should how pro forma financial statements can be generated and used to plan for future finacing needs

In this chapter we have studied we hope that we have some perspective on the uses and abuses of financial statement information you should also find that your vocabulary of business and financial terms has grown substantially.

Chapter No 4 Summary (5)

Two basic concepts future value and present value were introduced in the begining of this chapter with a 10 percent interest rate an investors with $1 today can generate a future value of $1.10 in a year $1.21 = $ $1 \times (1.10)^2$ in two years and so on. Conversely present value analysis places a current value on future cash flow. With the same 10 percent interest rate a dollar to be received in one year has a present value of 0.826 $[= \$1 (1.10)^2]$

(2) We commonly express an interest rate as say 12 percent per year. However we can speak of interest rate as 3 percent per quarter. Although the stated annual interest rate remain 12 percent (= 3 percent × 4) the effective annual interest rate is 12.55 percent $[= (1.03)^4 - 1]$ In other words the compounding process increase the future value of an investment. The limiting case is continues compounding where funds are assumed to be reinvested every infinitestional instant.

Frequently the actual calculation of present value is long and tedious. The computation of the present value of long term mortgage with

(6)

with monthly payment is good example of this we presented fewr simplifying formulas.

perpetuity $PV = C/r$

Cash flow are generally irregular in practice to avoid unwieldy problems assumptions to create more regular cash flow are made both in this textbook and in the real world. A number of present value problems involves annuities begning a few periods hence. Annuities and perpetues may have periods of every two or every n years rather than once a year.

we frequently encounter problems where the present value of one annuity most be equated with the present value of another annuity.

Summary chap No 5 ⑦

Finance is a subject that builds understanding from the ground up whenever you come up against a new problem or issue in finance you can always return to the basic the basic principles of this chapter for guidance. Financial markets exist because people want to adjust their consumption over time. They do this by borrowing and lending. Financial markets provide the key test for investment decision making whether a particular investment decisions should or should not be taken depends only on this test. If there is a superior alternative in the financial markets the investment should be rejected if not the investment worth making.

This most important thing about this principle is that the investor need not use personal preference for consumption this year veruses the next regardless of the individual preference for consumption this year veruses the next year. The net present value of an investment help us compare the investment and the finacial market. If the NPV is positive our rule tells us to undertake the investment.

P.T.O

The NPV rule can be applied to Corporatio as well as to individuals. The separation theorm developed in this appendix conveys that all of the owner of the firm would agree that the firm should used the NPV rule even though each might differ in personal tastes for consumptions and savings

Chapter No 6 Summary ⑨ ⑧

In this chapter we used general present value formulas from the previous chapter to price bonds and stocks

① pure discount bond and perpetuities can be viewed as the polar cases of bonds. the value of a pure discount bond (also called a zero copon bond or simply zero) is

$$PV = \frac{F}{(1+R)^T}$$

The value of a perpetuity (also called $PV = C/R$

② Level payment bond can be viewed as an intermediate case. The copon payment form an annuity and the principal repayment is a lump sum. The value of this type of bond is simply the sum of the value of its two parts

③ The yield to maturity on a bond is the single rate that discounts the payment on the bond to its purchase price. A stock can be valued by discounting its ~~individuals~~ dividends we mentioned three types of situation

(a) The Case of zero growth of dividends
(b) The Case of Constant growth of dividends
(c) the Case of different growth.

(5) An estimate of the growth rate of a stock is needed for the formula for situations 4(b) or 4(c) A useful estimate of the growth rate is

g = Retention ratio × Return on retained earning

we suggested that a firms price earning ratio is a functional of three factors

(a) The per-share amount of the firm valuable growth opportunities
(b) The risk of the stock
(c) The Type of accounting method used by the firm.

End