

E-workbook: Corporate Finance Edition 2

The purpose of this e-workbook is to introduce students to the models of risk and return, capital raising, optimal capital structures and project decision making. Students are immersed in the Corporate Finance Cycle, with comprehensive and varied practice opportunities covering the stages of analysis, acquisition, pricing, optimising, spending and planning. New topics to this edition include taxation in Australia, dividend policy and financial budgeting and forecasting.

Introduction to finance

- The financial goal of a company
- Decision making and risk/return relationships
- Legal forms, ethics & business environment

Taxation in Australia

- Income tax
- Income tax and business decision making
- Company and shareholder taxes
- Capital gains tax

Risk and return

- Risk, return and their relationship
- Expected return and standard deviation
- Systematic risk, unsystematic risk and beta
- Portfolio risk and diversification

Risk & return: Capital Asset Pricing Model

- Beta and the risk premium
- The Security Market Line (SML)
- The Capital Asset Pricing Model (CAPM)
- The CAPM and the cost of capital

Long term finance: debt

- Characteristics of long term debt
- Long term loans
- Long term marketable debt instruments
- Valuation of debt
- Leases
- Lease vs purchase

Long term finance: equity

- Characteristics of ordinary shares
- Venture capital
- IPOs and information disclosure
- Subsequent issues of ordinary shares
- Internal equity finance
- Managing equity structure
- Valuation of equity
- Hybrids

Dividend policy

- Introduction to dividend policy
- Dividend policy and share price relationships
- Dividend imputation in Australia
- Impact of bonus shares, buy-backs and splits

Cost of capital

- Cost of equity capital
- Cost of debt capital
- Weighted average cost of capital
- Tax and the cost of capital
- Alternate costs of capital

Capital structure

- Leverage - the debt and equity mix
- Modigliani and Miller propositions
- Taxes, agency costs and distress costs
- Trade-off theory of capital structure
- Break-even analysis
- Operating leverage and financial leverage
- Impact of leverage on EBIT and EPS

Capital budgeting methods

- Net Present Value (NPV)
- Internal Rate of Return (IRR)
- Payback period
- Accounting Rate of Return (ARR)
- Advanced discounted cash flow analysis
- Conflicts in project ranking

Capital budgeting issues

- Principles underlying capital budgeting
- Taxation implications in capital budgeting
- Incremental cash flows (costs and benefits)
- Allowing for risks in capital budgeting
- Capital rationing

Financial statements analysis

- Analysing basic financial statements
- Financial ratios and their limitations
- Financial analysis and profitability ratios

Financial budgeting and forecasting

- Introduction to forecasting and its limitations
- Planning and budgeting in financial analysis

Working capital management

- Current assets and current liabilities
- Working capital management
- Managing cash, inventory and receivables
- Creating a marketable securities portfolio
- Sources of short term financing