Topical Review for Final Exam in Corporation Finance – Fall 2012

Fundamental Concepts in Finance – Financial Statements, Financial Markets, Financial Ratios, Taxes and Time Value of Money

Differences between an Income Statement versus a Balance Sheet

Advantages and disadvantages related to the three different forms of business organizations:

Proprietorship, Partnership, Corporation

Differences between a progressive tax versus a regressive tax

Difference between a marginal tax rate versus an average tax rate

Calculation of a tax equivalent yield on a tax exempt security, and an after tax yield on a corporate bond

Differences between a primary market transaction versus a secondary market transaction

The role of the specialist in an exchange traded market such as the NYSE

The role finance plays in helping to facilitate business decision making that is subservient to making a good business management decision

The way a Federal Reserve Open Market transaction may lead to either an increase or decrease in short term interest rates through the sale or purchase of US Treasury Bonds.

Applications of Financial Ratios --- Liquidity, Leverage, Activity and Profitability Ratios

How might you either increase or decrease a firm’s current ratio, quick ratio or debt ratio.

The Du Pont Equation – how to use it to determine ROE [return on equity]

Calculation of Accounts Receivable from information on DSO, or finding PMOS when given NI and Sales for the year

Use of Balance Sheet Information, Accounting Equation, and ROE to calculate a target level of NI for a start up business

Differences between the Income Statement and Balance sheet

Depreciation as noncash item on a firm’s financial statements

Differences between various financial ratios: liquidity, leverage, activity and profitability ratios

Use of Daily Sales Outstanding to calculate a short term financing need in the form of annual accounts receivables

Du Pont Equation Calculation

US Treasury Semi-Annual Bond Calculation

Calculation of the payment on a mortgage loan

Number of years to double your money

Whether you are buying a bond at a discount or premium based on the difference between the coupon rate versus the current yield to maturity

Differences between US Government bonds versus municipal or corporate bonds

Present value of a lump sum; Future Value of a Lump Sum

Present value of an annuity Immediate [payments at ends of years]

Future value of an annuity immediate [payments at ends of years]

Valuation of Cash flows, Statistical measures in Finance, Stand-Alone Vs. Portfolio Risk

Valuation of cash flows as a means of determining the worth of both financial and real assets

Calculation and meaning of average rate of return, standard deviation of returns, and coefficient of variation when looking at stand-alone risks of holding stocks

Use of coefficient of variation to compare two different stocks

Use of beta to measure the required rate of return on a stock

How beta may be used to measure the risk of a stock relative to the market:

e.g. Beta = 1, Beta > 1, 0< Beta <1

Calculation of the stand-alone measures of stock risk given various states of the economy, probability of their occurrence and resulting returns

Difference between a defensive stock with say a beta = .8 versus a growth stock that has a beta = 1.2

How historical information is used in portfolio analysis and the qualifications of this type of analysis

Calculation of a portfolio beta

Determination of a revised required rate of return on a stock given a change in the market risk premium

Calculation of a new portfolio beta when you replace one stock for another

Differences between choosing a stock held in isolation versus holding the stock within a portfolio of other stocks

Calculating the required rate of return on a fund that holds a set of sub-portfolio stocks

Calculation of a market risk premium

Determination of the overall rate of return on a stock holding where there are projected dividends, and an estimated stock price over a given holding period, along with a purchase price for the stock

Component costs, CAPM, Evaluation Methods in Capital Budgeting

Component costs of capital as market-determined variables, as investor perceptions of risk

Three sources of financing for the firm

Costs associated with each component cost of capital

Relationship between the cost of debt versus cost of retained earnings versus weighted average cost of capital versus cost of new equity

Calculation of the intrinsic value of a stock

The various methods for determining the cost of retained earnings [required cost of capital]

Calculation of the weighted average cost of capital

Calculation of the cost of common stock

Differences in the various capital budgeting methods – Payback, Internal Rate of Return, Net Present Value, Modified Internal Rate of Return

NPV assumption of the WACC on reinvested funds versus IRR's assumption that funds are reinvested at the IRR

Which method to use when there is a conflict in ranking capital budgeting methods

Calculation of NPV

Calculation of crossover point when considering two different capital projects