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Lecture 1 - Introduction to Financial Management

1. What are the five principles of finance? Define them and give the explanation to all of them
2. What are the four primary disadvantages of the sole proprietorship and partnership forms of business organization?
3. Define the corporate forms of business organizations
4. What goal should always motivate the actions of a firm’s financial manager?
5. Explain the net working capital. Why is important

Lecture 2 - Financial Statements, Taxes, and Cash Flows

1. A firm has current assets of $300, net fixed assets $650 short-term debt of $120, and long-term debt of $350. What does the balance sheet look like? What is shareholders’ equity? What is net working capital?
2. Based on the income statement in the table, what was EPS? What were dividends per share?

Suppose U.S. had 200 million shares outstanding at the end of 2015

|  |
| --- |
| Corporation2015 Income Statement($ in million) |
| Net sales | $1,509 |
| Cost of goods sold | 750 |
| Depreciation | 65 |
| Earnings before interest and taxes | $ 694 |
| Interest paid | 70 |
| Taxable income | $ 624 |
| Taxes (34%) | 212 |
| Net income | $ 412 |
| Dividends | $103 |
| Addition to retained earnings | 309 |

1. Explain the concept of Cash Flow
2. What is the difference between a marginal and an average tax rate?
3. What are the components of operating cash flow

Lecture 3 - Analysis financial statements

1. Why is it often necessary to standardize financial statements?
2. What are the five groups of ratios?
3. What are some problems that can come up with financial statement analysis?
4. SDJ, Inc., has net working capital of $2,710, current liabilities of $3,950, and inventory of $3,420. Calculate the current and quick ratio
5. According to the Prufrock Corporation Balance sheet evaluate the Total Debt Ratio.



Lecture 4 - Time Value of Money

1. What does it mean to compound interest? How does compound interest differ from simple interest?
2. Suppose you need $5050 to buy textbooks next year. You can earn 7 percent on your money. How much do you have to put up today? Evaluate the PV
3. Assume you deposit $10,000 today in an account that pays 6 percent interest. How much will you have in five years?
4. For each of the following, compute the present value:

|  |  |  |  |
| --- | --- | --- | --- |
| Present value  | Years | Interest rate % | Future value $ |
|  | 10 | 8 | 12500 |
|  | 3 | 5 | 32000 |
|  | 8 | 6 | 45000 |
|  | 7 | 3 | 25,125 |

1. You are looking at an investment that will pay $1560 in 4 years if you invest $1000 today. What is the implied rate of interest?

Lecture 5 - Discounted cash flow valuation

1. You are offered an investment that will pay you $200 in one year, $400 the next year, $600 the next year, and $800 at the end of the fourth year. You can earn 12 percent on very similar investments. What is the most you should pay for this one?
2. Describe how to calculate the future value of a series of cash flows.
3. What is the APR if the monthly rate is .5%?
4. What does it mean to amortize a loan?
5. You are offered an investment that will pay 100 in year 1; $200 the next year; $350 the following year; and $500 at the end of the 4th year. You can earn 9% on similar investments. What is the most you should pay for this one?

Lecture 6 - Interest Rates and Bond Valuation

1. You think you will be able to deposit $2000 at the end of each of the next 3 years in a bank account paying 8% interest. You currently have $4000 in the account. How much will you have in 3 years? How much in 4 years?
2. You can afford $332 per month. Going rate = 1%/month for 12 months. How much can you borrow?
3. Suppose a borrower was able to repay $25,000 in five years. If we, acting as the lender, wanted a 12 percent interest rate on the loan, how much would we be willing to lend?
4. What is the APR if the semi-annual rate is .8%?
5. Consider a bond with a coupon rate of 10% and coupons paid annually. The par value is $5000 and the bond has 4 years to maturity. The yield to maturity is 8%. What is the value of the bond?

Lecture 7 - Equity markets and stock valuation

1. If we require a 12% real return and we expect inflation to be 5%, what is the nominal rate?
2. What does a bond rating say about the risk of fluctuations in a bond’s value resulting from interest rate changes?
3. Suppose you are thinking of purchasing the stock of Moore Oil, Inc. You expect it to pay a $3 dividend in one year, and you believe that you can sell the stock for $12 at that time. If you require a return of 20% on investments of this risk, what is the maximum you would be willing to pay?
4. The X Corporation has just paid a dividend of $2 per share. The dividend of this company grows at a steady rate of 8 percent per year. Based on this information, what will the dividend be in five years?
5. Which is bigger, the bid price or the ask price? Why?

Lecture 8 - Net Present Value and other investment criteria

1. Suppose Outback Ltd just paid a dividend of $0.70. It is expected to increase its dividend by 5% per year. If the market requires a return of 19% on assets of this risk, how much should the share be selling for?
2. Suppose a firm is expected to increase dividends by 20% in one year and by 18% in two years. After that dividends will increase at a rate of 3% per year indefinitely. If the last dividend was $1 and the required return is 20%, what is the price of the share?
3. You are reviewing a new project and have estimated the following cash flows: Year 0: CF = -145,000, Year 1: CF = 55,150; Year 2: CF = 70,700; Year 3: CF = 85,080; Your required return for assets of this risk level is 12%. Do we accept or reject the project?
4. You are reviewing a new project and have estimated the following cash flows: Year 0: CF = -145,000, Year 1: CF = 55,150; Year 2: CF = 70,700; Year 3: CF = 85,080; Your required return for assets of this risk level is 12%. Assume we will accept the project if it pays back on a discounted basis in 2 years. Do we accept or reject the project?
5. Explain the advantages and disadvantages of Profitability Index

Lecture 9 - Making Capital Investment Decisions

1. What are the relevant incremental cash flows for project evaluation?
2. What are the different methods for computing operating cash flow and when are they important?
3. What is the definition of project operating cash flow? How does this differ from net income?
4. What are the conditions of constant growth model
5. Gordon Growth Company expected to pay a dividend of $3 next period and dividends expected to grow at 5% per year. The required return is 12%. What is the current price?

Lecture 10 - Capital Market History

1. What six components make up a bond’s yield?
2. What is the difference between a nominal and a real return? Which is more important to a typical investor?
3. What are the differences between debt and equity?
4. Gesto, Inc., has an issue of preferred stock outstanding that pays a $5 dividend every year, in perpetuity. If this issue currently sells for $84.12 per share, what is the required return?
5. The next dividend payment by Carroll, Inc., will be $1.90 per share. The dividends are anticipated to maintain a 5.5 percent growth rate, forever. If the stock currently sells for $47.00 per share, what is the dividend yield? What is the expected capital gains yield?

Lecture 11 - Risk and Return

1. You bought a bond for $950 one year ago. You have received two coupons of $30 each. You can sell the bond for $975 today. What is your total dollar return?
2. Calculating historical variance and standard deviation

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| (1) | (2) | (3) | (4) | (5) |
|   |   | Average | Difference: | Squared: |
| Year | Return | Return: | (2) - (3) | (4) x (4) |
| 1 | 0,19 |  |  |  |
| 2 | 0,17 |  |  |  |
| 3 | 0,13 |  |  |  |
| 4 | 0,11 |  |  |  |
| Sum: | 0.6 |   | Sum: |  |
|   |   |   |   |   |
| Average: |  |   | Variance: |  |
|   |   |   |   |   |
|   |   | Standard Deviation: |  |

1. Consider the following information:

State Probability ABC, Inc. (%)

Boom .25 15

Normal .50 8

Slowdown .15 4

Recession .10 -3

What is the expected return? What is the variance? What is the standard deviation?

1. Suppose you have predicted the following returns for stocks C and T in three possible states of the economy. What are the expected returns?

State Probability C T

Boom 0.3 15 25

Normal 0.5 10 20

Recession 0.2 2 1

1. Consider the portfolio weights computed previously. If the individual stocks have the following expected returns, what is the expected return for the portfolio?

DCLK: 19.69% KO: 5.25% INTC: 16.65% KEI: 18.24% - computed previously

DCLK: 2/15 = .133

KO: 3/15 = .2

INTC: 4/15 = .267

KEI: 6/15 = .4

Lecture 12 - The Cost of Capital

1. What are the differences between systematic and unsystematic risk?
2. What does beta tell us if a beta < 1?
3. Reno Co. recently paid a dividend of 15 cents per share. This dividend is expected to grow at a rate of 3 per cent per year into perpetuity. The current market price of Reno’s shares is $3.20 per share. Determine the cost of equity capital for Reno Co
4. What are the advantages and disadvantages of the Dividend Growth Model?
5. Ishta Co. sold a 20-year, 12 per cent bond 10 years ago at par (100$). The bond is currently priced at $86. What is our cost of debt?

Lecture 13 - Raising capital

1. Your company has preferred stock that has an annual dividend of $3. If the current price is $25, what is the cost of preferred stock?
2. The B.B. Lean Co. has 1.2 million shares of stock outstanding. The stock currently sells for $21 per share. The firm’s debt is publicly traded and was recently quoted at 90 percent of face value. It has a total face value of $4 million, and it is currently priced to yield 11 percent. The risk-free rate is 8 percent, and the market risk premium is 5 percent. You’ve estimated that Lean has a beta of .74. If the corporate tax rate is 34 percent, what is the WACC of Lean Co.?
3. How do you compute the cost of debt and the after-tax cost of debt?
4. Saddle Co. Ltd has a target capital structure of 70 per cent equity and 30 per cent debt. The flotation costs for equity issues are 15 per cent of the amount raised and the flotation costs for debt issues are 7 per cent. If Saddle Co. Ltd needs $30 million for a new project, what is the ‘true cost’ of this project?

Lecture 14 - Financial Leverage and Capital Structure Policy

1. What are the two approaches for computing the cost of equity?
2. What is venture capital?
3. Why is an initial public offering necessarily a cash offer?
4. What is the Green Shoe provision?
5. How do you compute the cost of debt and the after-tax cost of debt?
6. What are the different costs associated with security offerings?