Preface

Financial Management and Analysis is an introduction to the concepts, tools, and applications of finance. The purpose of this textbook is to communicate the fundamentals of financial management and financial analysis. This textbook is written in a way that will enable students who are just beginning their study of finance to understand financial decision-making and its role in the decision-making process of the entire firm.

Throughout the textbook, you'll see how we view finance. We see financial decision-making as an integral part of the firm's decision-making, not as a separate function. Financial decision-making involves coordination among personnel specializing in accounting, marketing, and production aspects of the firm.

The principles and tools of finance are applicable to all forms and sizes of business enterprises, not only to large corporations. Just as there are special problems and opportunities for small family-owned businesses (such as where to obtain financing), there are special problems and opportunities for large corporations (such as agency problems that arise when management of the firm is separated from the firm's owners). But the fundamentals of financial management are the same regardless of the size or form of the business. For example, a dollar today is worth more than a dollar one year from today, whether you are making decisions for a sole proprietorship or a large corporation.

We view the principles and tools of finance as applicable to firms around the globe, not just to U.S. business enterprises. While customs and laws may differ among nations, the principles, theories, and tools of financial management do not. For example, in evaluating whether to buy a particular piece of equipment, you must evaluate what happens to the firm's future cash flows (How much will they be? When will they occur? How uncertain are they?), whether the firm is located in the United States, Great Britain, or elsewhere.

In addition, we believe that a strong foundation in finance principles and the related mathematical tools are necessary for you to understand how investing and financing decisions are made. But building that foundation need not be strenuous. One way that we try to help you build that foundation is to present the principles and theories of finance using intuition, instead of with proofs and theorems. For example, we walk you through the intuition of capital structure theory with numerical and real world examples, not equations and proofs. Another way we try to assist you is to approach the tools of finance using careful, step-by-step examples and numerous graphs.

ORGANIZATION

Financial Management and Analysis is presented in seven parts. The first two parts (Parts One and Two) cover the basics, including the objective of financial management, valuation principles, and the relation between risk and return. Financial decision-making is covered in Parts Three, Four, and Five where we present long-term investment management (commonly referred to as capital budgeting), the management of long-term sources of funds, and working capital management. Part Six covers financial statement analysis which includes financial ratio analysis, earnings analysis, and cash flow analysis. The last part (Part Seven) covers several specialized topics: international financial management, borrowing via structured financial transactions (i.e., asset securitization), project financing, equipment leasing, and financial planning and strategy.

DISTINGUISHING FEATURES OF THE TEXTBOOK

Logical structure. The text begins with the basic principles and tools, followed by long-term investment and financing decisions. The first two parts lay out the basics; Part Three then focuses on the “left side” of the balance sheet (the assets) and the Part Four is the “right side” of the balance sheet (the liabilities and equity). Working capital decisions, which are made to support the day-to-day operations of the firm, are discussed in Part Five. Part Six provides the tools for analyzing a firm’s financial statements. In the last chapter of the book, you are brought back full-circle to the objective of financial management: the maximization of owners’ wealth.

Graphical illustrations. Graphs and illustrations have been carefully and deliberately developed to depict and provide visual reinforcement of mathematical concepts. For example, we show the growth of a bank balance through compound interest several ways: mathematically, in a time-line, and with a bar graph.

Applications. As much as possible, we develop concepts and mathematics using examples of actual practice. For example, we first present financial analysis using a simplified set of financial statements for a fictitious company. After you've learned the basics using the fictitious company, we demonstrate financial analysis tools using data from Wal-Mart Stores, Inc. Actual examples help you better grasp and retain major concepts and tools. We integrate over 100 actual company examples throughout the text, so you're not apt to miss them. Considering both the examples throughout the text and the research questions and problems, you are exposed to hundreds of actual companies.

Extensive coverage of financial statement analysis. While most textbooks provide some coverage of financial statement analysis, we have provided you with much more detail in Part Six of the textbook. Chapter 6 and the three chapters in Part Six allow an instructor to focus on financial statement analysis.

Extensive coverage of alternative debt instruments. Because of the innovations in the debt market, alternative forms debt instruments can be issued by a corporation. In Chapter 15, you are introduced to these instruments. We then devote one chapter to the most popular alternative to corporate bond issuance, the creation and issuance of asset-backed securities.

Coverage of leasing and project financing. We provide in-depth coverage of leasing in Chapter 27, demystifying the claims about the advantages and disadvantages of leasing you too often read about in some textbooks and professional articles. Project financing has grown in importance for not only corporations but for countries seeking to develop infrastructure facilities. Chapter 28 provides the basic principles for understanding project financing.

Early introduction to derivative instruments. Derivative instruments (futures, swaps, and options) play an important role in finance. You are introduced to these instruments in Chapter 4. While derivative instruments are viewed as complex instruments, you are provided with an introduction that makes clear their basic investment characteristics. By the early introduction of derivative instruments, you will be able to appreciate the difficulties of evaluating securities that have embedded options (Chapter 9), how there are real options embedded in capital budgeting decisions (Chapter14), and how derivative instruments can be used to reduce or to hedge the cost of borrowing (Chapter 15).

Stand-alone nature of the chapters. Each chapter is written so that chapters may easily be rearranged to fit different course structures. Concepts, terminology, and notation are presented in each chapter so that no chapter is dependent upon another. This means that instructors can tailor the use of this book to fit their particular time frame for the course and their students' preparation (for example, if students enter the course with sufficient background in accounting and taxation, Chapters 5 and 6 can be skipped).

We believe that our approach to the subject matter of financial management and analysis will help you understand the key issues and provide the foundation for developing a skill set necessary to deal with real world financial problems.

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