Financial Management Study Guide
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Financial Management is the first course in the two-course sequence of Financial Management and Corporate Finance. It is designed to introduce students to the basic, yet fundamental, issues of modern finance. The goal of this introductory course is to provide students with the basic tools needed to successfully complete more advanced finance courses.

The course can be thought of as divided into four parts with each section devoted to a basic concept of finance.

I. Basic Tools For Financial Management
   a) Time Value of Money
   b) Risk and Returns
   c) Portfolio Theory and Asset Pricing Models

II. Securities And Their Valuation
   a) Bond Valuation
   b) Stock Valuation

III. Corporate Evaluation
   a) Analysis of Financial Statements
   b) Financial Planning and Forecasting

IV. Working Capital Management

Upon successful completion of this course, a student should be able to:
1) Understand the basic concepts of finance,
2) Master their mathematical calculations and
3) Know how to use a financial calculator.

These three elements of successful completion of this course are interrelated and complementary. Students should know the meaning and the interpretation of the basic tools in financial management - this is done in points 1) and 2). Lastly, students should know how to use a financial calculator. Consequentially, the emphasis of this course is on both theory and practice.

The textbook for Financial Management I course is *Financial Management, Theory and Practice*, 11th Edition, by Brigham, Eugene F., and Michael C. Ehrhardt, published by Thomson South-Western, 2004. However, you are not required to study this book to prepare the exam. All the basic concepts and tools listed in this study guide are standard,
so studying any introductory finance book should be fine to prepare the exam.

1. **Time Value of Money**

   Student should know the concept of time value of money, and using a financial calculator they should be able to calculate:
   - **Single Payment**
     - Future value and present value
     - Solve for interest rate and time period
   - **Annuity**
     - Future value and present value
     - Solve for interest rate, number of periods, or payment
   - Present value of uneven cash flow
   - Present value of perpetuity
   - Present value of growing annuity
   - Effective interest rate

2. **Bonds and Their Valuation**

   Students should understand basic characteristics of bonds, bond contract provisions, various types of bonds, and bond ratings.

   Students should know the fundamental valuation model, the Discounted Cash Flow model.

   Students should be able to calculate the following using a financial calculator:
   - Bond price
   - Yield to maturity

3. **Stocks and Their Valuation**

   Students should be able to calculate value of stocks that have a constant or nonconstant growth rate.

   Students should know the concept of undervaluation and overvaluation.

   Students should know the efficient market hypothesis.

4. **Risk and Return, Portfolio Theory, and Asset Pricing Models**

   Students should be able to calculate the following:
   - Return and risk (standard deviation) using historical data or future expected data with a known probability distribution for single assets and portfolios.
   - Covariance and correlation coefficient.
   - Beta
   - Required rate of return

   Students should know the following concepts:
   - Diversification
   - Efficient portfolios
   - CAPM and SML
5. Financial Statements, Cash Flow, and Taxes
   Students should understand the following:
   o Basic structure of financial statements
   o Free cash flow
   o NOPAT
   o Net operating working capital
   o Federal income tax system

6. Financial Statement Analysis
   Students should be able to calculate the following:
   o Various financial ratios
   o Du Pont equation
   Students should know uses and limitations of ratio analysis.

7. Financial Planning and Forecasting
   Students should know how to build pro forma statements using the percentage of sales method.

8. Working Capital Management
   Students should know the following concepts:
   o Cash conversion cycle
   o Cash management
   o Receivables management
   o Short-term financing