# CONTENTS

<table>
<thead>
<tr>
<th>Acknowledgements</th>
<th>xvii</th>
</tr>
</thead>
<tbody>
<tr>
<td>Teaching students the logic of finance</td>
<td>xviii</td>
</tr>
<tr>
<td>Preface</td>
<td>xx</td>
</tr>
<tr>
<td>Making the most of your resources</td>
<td>xxviii</td>
</tr>
</tbody>
</table>

## PART 1
Introduction to financial management 1

### CHAPTER 1
Getting started—Principles of finance 2

- **P1** Principle 1: Money has a time value 2
- **P2** Principle 2: There is a risk–return trade-off 2
- **P3** Principle 3: Cash flows are the source of value 2
- **P4** Principle 4: Market prices reflect information 2
- **P5** Principle 5: Individuals respond to incentives 2

Finance Spotlight
Welcome to the world of finance 3

1.1 Finance: an overview 3
- What is finance? 3
- Why study finance? 4

1.2 Three types of business organisation 5
- Sole proprietorship 5
- Partnership 5
- Corporation 6
- How does finance fit into a firm’s organisational structure? 7

1.3 The goal of the financial manager 8
- Maximising shareholder wealth 9
- Ethical considerations in corporate finance 9

Finance Spotlight
Ethical considerations arising from Bond issues 11

1.4 The five basic principles of finance 12
- Principle 1: Money has a time value 12
- Principle 2: There is a risk–return trade-off 12
- Principle 3: Cash flows are the source of value 12
- Principle 4: Market prices reflect information 13
- Principle 5: Individuals respond to incentives 14

Chapter summary 15
Study questions 17
Endnotes 18

### CHAPTER 2
Firms and the financial market 19

- **P2** Principle 2: There is a risk–return trade-off 19
- **P4** Principle 4: Market prices reflect information 19
- **P5** Principle 5: Individuals respond to incentives 19

Finance Spotlight
Superannuation—defined benefit versus defined contribution 20

2.1 The basic structure of the Australian financial markets 21

2.2 The financial marketplace: financial institutions 21
- Commercial banks: everyone’s financial marketplace 22
- Non-bank financial intermediaries 22
- Investment companies 24

Finance Spotlight
Controlling costs in managed funds 25

2.3 The financial marketplace: securities markets 26
- How securities markets bring corporations and investors together 27
- Types of security 28
- Stock markets 29

Finance Spotlight
Where’s the money around the world? 33
- Financial markets and the Global Financial Crisis (GFC) 34

Chapter summary 36
Study questions 39
Endnotes 40
CHAPTER 3
Understanding financial statements, taxes and cash flows 41

P1 PRINCIPLE 1: Money has a time value 41
P3 PRINCIPLE 3: Cash flows are the source of value 41
P4 PRINCIPLE 4: Market prices reflect information 41
P5 PRINCIPLE 5: Individuals respond to incentives 41

3.1 An overview of the firm’s financial statements 42
Finance Spotlight
Accounting is the language of business 43
Basic financial statements 43
Why study financial statements? 43
What are the accounting principles used to prepare financial statements? 44

3.2 The income statement 45
Income statement of H. J. Boswell Ltd 45
Connecting the income statement and the balance sheet 47
Interpreting firm profitability using the income statement 47
IFRS and earnings management 48

Checkpoint 3.1
Constructing an income statement 49

3.3 Corporate tax, personal tax and dividend imputation 50
Calculating taxable income and company tax payable 50
Personal income tax and capital gains tax 51

Checkpoint 3.2
Calculation of personal income tax and capital gains tax 52
Dividend imputation 53

Checkpoint 3.3
Comparison between a classical tax system and a dividend imputation tax system 55

3.4 The balance sheet 57
The balance sheet of H. J. Boswell Ltd 57
Firm liquidity and net working capital 60
Debt and equity financing 61

Checkpoint 3.4
Constructing a balance sheet 62

Book values, historical costs and market values 63

Finance Spotlight
Your personal balance sheet and income statement 64

3.5 The cash flow statement 65
Sources and uses of cash 66
H. J. Boswell’s cash flow statement 68

Finance Spotlight
IFRS versus GAAP 70

Checkpoint 3.5
Interpreting the statement of cash flows 73

Chapter summary 75
Study questions 79
Study problems 80
Mini-case 84
Endnotes 85

CHAPTER 4
Financial analysis: sizing up firm performance 86

P3 PRINCIPLE 3: Cash flows are the source of value 86
P4 PRINCIPLE 4: Market prices reflect information 86
P5 PRINCIPLE 5: Individuals respond to incentives 86

Finance Spotlight
Financial ratios and business 87
4.1 Why do we analyse financial statements? 88

4.2 Common-size statements: standardising financial information 88
The common-size income statement: H. J. Boswell Ltd 88
The common-size balance sheet: H. J. Boswell Ltd 89

4.3 Using financial ratios 91
Liquidity ratios 91

Checkpoint 4.1
Evaluating James Hardie Industries PLC’s liquidity 95
Capital structure ratios 97
Asset management efficiency ratios 98

Checkpoint 4.2
Comparing the financing decisions of Wesfarmers Ltd and Woolworths Ltd 99

Profitability ratios 102

Checkpoint 4.3
Evaluating the return on assets for Wesfarmers Ltd and Woolworths Ltd 105
Market value ratios 109

Finance Spotlight
Your cash budget and personal savings ratio 110

Checkpoint 4.4
Comparing Treasury Wine Estates with Australian Vintage using market value ratios 111

Summing up the financial analysis of H. J. Boswell Ltd 113

Finance Spotlight
Ratios and international accounting standards 113

4.4 Selecting a performance benchmark 115
Trend analysis 115
Peer-firm comparisons 116
## CONTENTS

### PART 2
Valuation of financial assets 137

### CHAPTER 5
The time value of money—The basics 138

- **PRINCIPLE 1:** Money has a time value 138
- **Finance Spotlight**
  - A dollar saved is two dollars earned 139
- 5.1 Using timelines to visualise cash flows
- Checkpoint 5.1 140
- Creating a timeline 140
- 5.2 Compounding and future value 141
  - Compound interest and time 143
  - Compound interest and the interest rate 143
  - Techniques for valuing cash flows at different points in time 143
  - Applying compounding to things other than money 145
- Checkpoint 5.2 145
- Calculating the future value of a cash flow 145
  - Compound interest with shorter compounding periods 146
- Checkpoint 5.3 147
- Calculating future values using non-annual compounding periods 147
- **Finance Spotlight**
  - Saving for your first house 148
- 5.3 Discounting and present value 149
  - The mechanics of discounting future cash flows 149
- Checkpoint 5.4 150
- Solving for the present value of a future cash flow 150
  - Discounting with shorter discounting periods 151
  - Two additional types of discounting problem 152
  - The Rule of 72 154
- Checkpoint 5.5 155
- Solving for the number of periods, \( n \) 155
- Checkpoint 5.6 156
- Solving for the interest rate, \( i \) 156
- 5.4 Making interest rates comparable 156
  - Calculating the interest rate and converting it to an EAR 158

### CHAPTER 6
The time value of money—Annuities and other topics 168

- **Checkpoint 5.7**
  - Calculating an effective annual rate (EAR) 158
  - To the extreme: continuous compounding 159
- **Chapter summary** 159
- **Study questions** 163
- **Study problems** 163
- **Mini-case** 167

- **PRINCIPLE 1:** Money has a time value 168
- **PRINCIPLE 3:** Cash flows are the source of value 168
- **Finance Spotlight**
  - Annuities we all know 169
  - Ordinary annuities 170
- 6.1 Annuities 169
- Checkpoint 6.1 170
- Solving for an ordinary annuity payment 173
- Checkpoint 6.2 176
- The present value of an ordinary annuity 176
  - Amortised loans 177
- Checkpoint 6.3 177
- Determining the outstanding balance of a loan 179
  - Annuities due 181
- **Finance spotlight**
  - Saving for retirement 182
- 6.2 Perpetuities 183
  - Calculating the present value of a level perpetuity 183
- Checkpoint 6.4 183
- The present value of a level perpetuity 183
  - Calculating the present value of a growing perpetuity 184
- Checkpoint 6.5 184
- The present value of a growing perpetuity 184
- 6.3 Complex cash-flow streams 185
- Checkpoint 6.6 185
- The present value of a complex cash-flow stream 187
- **Chapter summary** 189
- **Study questions** 190
- **Study problems** 191
- **Mini-case** 199
9.2 Valuing bonds
Valuing bonds by discounting future cash flows
Step 1: Determine bondholder cash flows
Step 2: Estimate the appropriate discount rate
Checkpoint 9.2
Calculating the yield to maturity on a corporate bond
Step 3: Calculate the present value using the discounted cash flow
Checkpoint 9.3
Valuing a bond issue
Checkpoint 9.4
Valuing a bond issue that pays semi-annual interest
9.3 Bond valuation: four key relationships
First relationship
Second relationship
Third relationship
Fourth relationship
9.4 Types of bond
Secured versus unsecured
Priority of claims
Initial offering market
Abnormal risk
Coupon level
Amortising or non-amortising
Convertible
Finance Spotlight
International bonds
9.5 Determinants of interest rates
Inflation and real versus nominal interest rates
Checkpoint 9.5
Solving for the real rate of interest
Interest rate determinants: breaking it down
Checkpoint 9.6
Solving for the nominal rate of interest
The maturity-risk premium and the term structure of interest rates
Chapter summary
Study questions
Study problems
Mini-case
Endnotes

CHAPTER 10
Share valuation

Google

PRINCIPLE 1: Money has a time value
PRINCIPLE 2: There is a risk–return trade-off
PRINCIPLE 3: Cash flows are the source of value
PRINCIPLE 4: Market prices reflect information
PRINCIPLE 5: Individuals respond to incentives

10.1 Ordinary shares
Characteristics of ordinary shares
Finance Spotlight
Does a share by any other name smell as sweet?
Agency costs and ordinary shares
Valuing ordinary shares using the discounted dividend model
Checkpoint 10.1
Valuing ordinary shares
10.2 The comparables approach to valuing ordinary shares
Defining the price–earnings (P/E) ratio valuation model
What determines the P/E ratio for a share?
Checkpoint 10.2
Valuing ordinary shares using the P/E ratio
An aside on managing for shareholder value
A word of caution about P/E ratios
10.3 Preference shares
Features of preference shares
Valuing preference shares
Checkpoint 10.3
Valuing preference shares
A quick review: valuing bonds, preference shares and ordinary shares
Part 3
Capital budgeting

CHAPTER 11
Investment decision criteria

PRINCIPLE 1: Money has a time value
PRINCIPLE 2: There is a risk–return trade-off
PRINCIPLE 3: Cash flows are the source of value
PRINCIPLE 5: Individuals respond to incentives
Finance Spotlight
Making personal investment decisions

11.1 An overview of capital budgeting
The typical capital budgeting process
What are the sources of good investment projects?
Types of capital investment project
CONTENTS

11.2 Net present value 338
   Why is NPV the right criterion? 338
   Calculating an investment's NPV 339
   Independent versus mutually exclusive investment projects 340

Checkpoint 11.1 338
Calculating the NPV for Project Long 341

Checkpoint 11.2 344
Calculating the equivalent annual cost (EAC) 346

11.3 Other investment criteria 347
   Profitability index 347

Checkpoint 11.3 348
Calculating the profitability index for Project Long 348
   Internal rate of return 349

Checkpoint 11.4 350
Calculating the IRR for Project Long 350

Checkpoint 11.5 354
The problem of multiple IRRs for projects 354
   Modified internal rate of return 357

Checkpoint 11.6 357
Calculating the modified internal rate of return (MIRR) 357

Finance Spotlight 359
Higher education as an investment in yourself 359
   Payback period 360
   Discounted payback period 361
   Summarising the alternative decision rules 363

11.4 A glance at actual capital budgeting practices 364
   Chapter summary 366
   Study questions 369
   Study problems 370
   Mini-cases 377

CHAPTER 12 379
Analysing project cash flows

PRINCIPLE 3: Cash flows are the source of value 379
PRINCIPLE 5: Individuals respond to incentives 379

Finance Spotlight 380
The Internet on airline flights—making it happen

12.1 Project cash flows 381
   Incremental cash flows are what matters 381
   Guidelines for forecasting incremental cash flows 382

12.2 Forecasting project cash flows 384
   Dealing with depreciation expense, tax and cash flow 384
   Four-step procedure for calculating project cash flows 384

Checkpoint 12.1 385
Forecasting a project's operating cash flow 385
   Calculating project NPV 389

12.3 Inflation and capital budgeting 390
   Estimating nominal cash flows 391

12.4 Replacement project cash flows 392
   Category 1: initial outlay, CF0 392
   Category 2: annual cash flows 392
   Changes in depreciation and tax 392
   Changes in working capital 393
   Changes in capital spending 393
   Replacement example 393

Checkpoint 12.2 393
Calculating free cash flows for a replacement investment

Finance Spotlight 397
Entering new markets

Chapter summary 397
Study questions 400
Study problems 401
Mini-cases 411
Appendix: The diminishing value depreciation method 413
Study problems 414
Endnotes 414

CHAPTER 13 415
Risk analysis and project evaluation

PRINCIPLE 1: Money has a time value 415
PRINCIPLE 2: There is a risk–return trade-off 415
PRINCIPLE 3: Cash flows are the source of value 415

Finance Spotlight 416
Project risk for entrepreneurs

13.1 The importance of risk analysis 416

13.2 Relevant measures of risk in capital budgeting 417
   Measuring risk for capital budgeting purposes, and a
dose of reality—is systematic risk all there is? 418

Finance Spotlight 419
Global strategies to reduce risk

13.3 Incorporating risk into the capital-budgeting process 420
   Risk-adjusted discount rates 420

Checkpoint 13.1 421
Risk-adjusted discount rate
   Certainty-equivalent approach 423

Checkpoint 13.2 424
Certainty equivalents in capital budgeting
   Certainty-equivalent versus risk-adjusted discount rate
   methods 426
   Risk-adjusted discount rate and measurement
   of a project’s systematic risk 427
14.3 Estimating the cost of individual sources of capital

The cost of debt
- The cost of preference shares
- The cost of ordinary shares

Checkpoint 14.2
Estimating the cost of ordinary shares for Qantas Airways Ltd [QAN] using the dividend growth model

Checkpoint 14.3
Estimating the cost of ordinary shares for Qantas Airways Ltd [QAN] using the CAPM

14.4 Summing up: calculating the firm’s weighted average cost of capital

Use market-based weights
Use forward-looking weights and opportunity costs

14.5 Estimating project costs of capital

The rationale for using multiple discount rates
Why don’t firms typically use project costs of capital?
Estimating divisional WACCs

Finance Spotlight
Why do interest rates differ between countries?

14.6 Flotation costs and project NPV

WACC, flotation costs and NPV

Checkpoint 14.4
Incorporating flotation costs into the calculation of NPV

CHAPTER 14
The cost of capital

- Market prices reflect information
- Money has a time value
- Cash flows are the source of value
- There is a risk–return trade-off
- Individuals respond to incentives

Finance Spotlight
Understanding the role of the cost of capital

14.2 Determining the firm’s capital-structure weights

Checkpoint 14.1
Calculating the WACC for Templeton Extended Care Facilities Ltd
### Chapter 16: Capital-structure policy

**16.1 A glance at capital-structure choices in practice**
- Defining a firm’s capital structure
- Financial leverage
- How do firms in different industries finance their assets?

**16.2 Capital-structure theory**
- A first look at the Modigliani and Miller capital-structure theorem
- Yogi Berra and the M&M capital-structure theorem
- Capital structure, the cost of equity and the weighted average cost of capital
- Why capital structure matters in reality
- The trade-off theory and the optimal capital structure
- Capital-structure decisions and agency costs
- Making financing choices when managers are better informed than shareholders
- Managerial implications

**16.3 Why do capital structures differ across industries?**

**16.4 Making financing decisions**
- Benchmarking the firm’s capital structure

**Checkpoint 16.1**
- Benchmarking a financing decision
- Can the firm afford more debt?
- Survey evidence: factors that influence CFO debt policy

**Finance Spotlight**
- Capital structures around the world
- Chapter summary
- Study questions
- Study problems
- Mini-case
- Appendix: Demonstrating the Modigliani and Miller Theorem
- Endnotes

---

### Chapter 17: Dividend and share-buyback policy

**17.1 How do firms distribute cash to their shareholders?**
- Cash dividends
- Share buybacks
- Personal tax considerations: dividend versus capital gains income
- Non-cash distributions: bonus shares and share splits

**17.2 Does dividend policy matter?**
- The irrelevance of the distribution choice

**Finance Spotlight**
- Firms rarely decrease their dividend

**Checkpoint 17.1**
- Share price and the timing of dividend payments
- Why dividend policy is important

**Finance Spotlight**
- The importance of dividends

**17.3 Cash-distribution policies in practice**
- Stable payout
- Residual dividend payout policy
- Other factors playing a role in how much to distribute

**Finance Spotlight**
- Dividends at home and abroad

---

**Contents**

<table>
<thead>
<tr>
<th>Page</th>
</tr>
</thead>
<tbody>
<tr>
<td>532</td>
</tr>
</tbody>
</table>

**PRINCIPLE 1:** Money has a time value

**PRINCIPLE 3:** Cash flows are the source of value

**PRINCIPLE 4:** Market prices reflect information

**Finance Spotlight**
- Capital structure matters to you!
- How do firms distribute cash to their shareholders?
- Firms rarely decrease their dividend
- Share price and the timing of dividend payments
- Why dividend policy is important

**Checkpoint 17.1**
- The importance of dividends

**Finance Spotlight**
- Dividends at home and abroad

---

**PRINCIPLE 2:** There is a risk–return trade-off

**PRINCIPLE 3:** Cash flows are the source of value

**PRINCIPLE 5:** Individuals respond to incentives

**Chapter summary**

**Study questions**

**Study problems**

**Mini-case**

**Endnote**
PART 5  
Liquidity management and special topics in finance  

CHAPTER 18  
Financial forecasting and planning  

Finance Spotlight  
Developing a financial plan for the firm engages everyone  

18.1 An overview of financial planning  
18.2 Developing a long-term financial plan  
Financial forecasting example: Ziegen Ltd  

Finance Spotlight  
Your personal budget  

Checkpoint 18.1  
Estimating discretionary financing needed  

18.3 Developing a short-term financial plan  
Example cash budget: Melco Furniture Ltd  
Uses of the cash budget  

Chapter summary  
Study questions  
Study problems  
Mini-case  

CHAPTER 19  
Working capital management  

Finance Spotlight  
Conflicting objectives lead to problems in managing a firm's working capital  

19.1 Working capital management and the risk–return trade-off  
Measuring firm liquidity  
Managing firm liquidity  
Risk–return trade-off  

Checkpoint 19.1  
Measuring firm liquidity  

19.2 Working capital policy  
The principle of self-liquidating debt  
A graphic illustration of the principle of self-liquidating debt  

19.3 Operating cycle and cash conversion cycle  
Measuring working capital efficiency  
Calculating the operating cycle and cash conversion cycle  

Checkpoint 19.2  
Analysing the cash conversion cycle  

19.4 Managing current liabilities  
Calculating the cost of short-term financing  
Evaluating the cost of trade credit  
Evaluating the cost of bank loans  

Checkpoint 19.3  
Calculating the APR for a line of credit  

19.5 Managing the firm's investment in current assets  
Cash and marketable securities  
Managing accounts receivable  

Finance Spotlight  
Credit scoring  
Managing inventories  

Chapter summary  
Study questions  
Study problems  
Mini-case  
Endnotes  

CHAPTER 20  
International business finance  

Finance Spotlight  
Working in a flat world  

20.1 Foreign exchange markets and currency exchange rates  
What does a change in the exchange rate mean for business?  
Foreign exchange rates  

Checkpoint 20.1  
Exchanging currencies  
Types of foreign exchange transaction  

P2: principle 2: There is a risk–return trade-off  
P3: principle 3: Cash flows are the source of value
Checklists   665

Checkpoint 20.3  670
International capital budgeting
  Foreign investment risks

Chapter summary  677
Study questions  679
Study problems  680
Mini-case  683
Endnotes  684

CHAPTER 21
Corporate risk management

685

PRINCIPLE 1: Money has a time value  685
PRINCIPLE 2: There is a risk–return trade-off  688

Finance Spotlight
Welcome to a risky world  688

21.1 Five-step corporate risk-management process
  Step 1: Identify and understand the firm’s major risks
  Step 2: Decide which types of risk to keep and which to transfer
  Step 3: Decide how much risk to assume

Step 4: Incorporate risk into all the firm’s decisions and processes  689
Step 5: Monitor and manage the risks the firm assumes  690

21.2 Managing risk with insurance contracts
  21.2.1 Types of insurance contract  690
  21.2.2 Why purchase insurance?  690

Finance Spotlight
Do you need life insurance?  691

21.3 Managing risk by hedging with forward contracts
  21.3.1 Hedging commodity-price risk using forward contracts  692
  21.3.2 Hedging currency risk using forward contracts  692

Checkpoint 21.1
Hedging crude-oil price risk using forward contracts  694

21.4 Managing risk with exchange-traded financial derivatives
  21.4.1 Futures contracts  697
  21.4.2 Options contracts  699

Checkpoint 21.2
Determining the break-even point and profit or loss on a call option  703

21.5 Valuing options and swaps
  21.5.1 The Black–Scholes option pricing model  705

Checkpoint 21.3
Valuing a call option using the Black–Scholes model  708
  Swap contracts  710
  Credit default swaps  711

Chapter summary  712
Study questions  715
Study problems  716
Mini-case  719
Endnotes  719

Glossary  720
Organisation Index  730
Subject Index  732
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As a final word, I express my sincere thanks to those who are using Financial Management: Principles and Applications in the classroom. Thank you for making this eighth edition a part of your teaching/learning experience. Please feel free to contact me, Tony Martin, should you have questions or needs. You can email me at t.martin@latrobe.edu.au or contact me via Pearson Australia.

TONY MARTIN
Teaching students the Logic of Finance

The five principles of finance

Many finance books show students only the mechanics of finance problem solving, but students learn better when given the intuition behind complex concepts. Financial Management shows students the reasoning behind financial decisions and connects all topics in the book to five key principles—the **five principles of finance**.
Tools for developing study skills

To be successful, finance students need hands-on opportunities to apply what they have learned in ways that go beyond rote memorisation of formulae. By focusing on basic principles of finance, students develop the skills needed to extend their understanding of finance tools beyond formulae and canned answers. The authors’ objective is to equip students, no matter what their major or business responsibility might be, to contribute to an analysis of the financial implications of practical business decisions.

Checkpoints provide a consistent problem-solving technique that walks through each problem in five steps, including an analysis of the solution reached. Each Checkpoint concludes with an additional practice problem (and its solution) on the same topic so that students can test their mastery of the problem-solving approach. Then students can put their knowledge to the test by completing the linked end-of-chapter study problem(s).
The eighth edition of *Financial Management: Principles and Applications* updates our material and further refines our pedagogical approach in ways that make the material much more engaging to all undergraduate students, regardless of their major.

**Our approach to financial management**

First-time students of finance will find that financial management builds on both economics and accounting. Economics provides much of the theory that underlies our techniques, whereas accounting provides the input or data on which decision making is based. Unfortunately, it is all too easy for students to lose sight of the logic that drives finance and to focus instead on memorising formulae and procedures. As a result, they have a difficult time understanding how the various topics covered in an introductory course tie together, and they do not appreciate how the financial insights might be useful for them personally. More importantly, later in life when students encounter problems that do not fit neatly into the textbook presentation, they may not be able to apply what they have learned.

Our book is designed to overcome these problems. The opening chapter presents five basic principles of finance which are woven throughout the book, creating a text that is tightly bound around these guiding principles. In essence, students are presented with a cohesive, inter-related subject that they can use when approaching future, as yet unknown, problems. We also recognise that most students taking introductory financial management are not majoring in finance, and we include two features that help keep them engaged. At the beginning of each chapter, we include a ‘Finance Spotlight’ feature box which explains why the issues raised in the chapter are relevant to those students who are not majoring in finance. In addition, throughout the book we have additional ‘Finance Spotlight – Your Money’ feature boxes that address issues like how to construct a personal investment plan and illustrate how students will be using the tools of financial analysis for personal decisions throughout their lives.

Teaching an introductory finance class while faced with an ever-expanding discipline puts additional pressures on the instructor. What to cover, what to omit, and how to make these decisions while maintaining a cohesive presentation are inescapable questions. In dealing with these questions, we have attempted to present the chapters in a stand-alone fashion so that they can easily be rearranged to fit almost any desired course structure and course length. Because the principles are woven into every chapter, the presentation of the text remains tight, regardless of whether or not the chapters are rearranged. Again, our goal is to provide an enduring understanding of the basic tools and fundamental principles on which finance is based. This foundation will give students beginning their studies in finance a strong base on which to build future studies, and will give students who take only one finance subject a lasting understanding of the basics of finance.

Although historical developments, like the 2008 financial crisis, influence the topics that are included in an introductory finance class, the underlying principles that guide financial analysis remain the same. These principles are presented in an intuitively appealing manner in Chapter 1 and thereafter are tied to all that follows. With a focus on these principles, we provide an introduction to financial decision making that is rooted in financial theory. This focus can be seen in a number of ways, perhaps the most obvious being the attention paid both to valuation and to the capital
markets as well as their influence on corporate financial decisions. What results is an introductory treatment of a discipline rather than the treatment of a series of isolated finance problems. Our goal is to go beyond teaching the tools of financial analysis and help students gain a complete understanding of the subject so that they will be able to apply what they have learned to new and unforeseen problems—in short, to educate students in finance.

For this eighth edition, Tony Martin has carefully updated and refined the seventh edition, which was the original adaptation of the US version of the Titman textbook for Australian students. The local adaptation retains the basic structure and pedagogical approach of the US text but uses recent Australian research and cites real-life Australian examples throughout, drawing on Australian content from previous local editions of this book, and revising the content as needed to reflect an evolving Australian legal and business context.

**New to this edition**

The eighth edition includes the following key updates:

- updated ‘Finance Spotlight’ feature boxes that analyse the text discussion of financial management using real-world examples
- updated end-of-chapter study problem sets
- examples that use actual Australian companies and reflect current conditions
- expanded coverage of the impact of changes in exchange rates
- a new chapter on the analysis and impact of leverage, which brings together all of the issues relating to the use of leverage
- data and current event updates throughout

**A total learning package**

*Financial Management* is not simply another introductory finance text. It is a total learning package that reflects the vitality of an ever-expanding discipline. Specifically, the eighth edition of *Financial Management: Principles and Applications* was revised to include features with benefits designed to address seven key criteria:

<table>
<thead>
<tr>
<th>Challenge</th>
<th>Solution</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Finance books often show the mechanics of finance but do not present the intuition.</td>
<td>The eighth edition utilises five key principles to help students understand financial management so that they can focus on the intuition behind the mechanics of solving problems.</td>
</tr>
<tr>
<td>2. Students learn best when they are actively engaged.</td>
<td>A five-step problem-solving technique is used in fully worked-out examples called Checkpoints. These Checkpoints give students an opportunity to pause and test their comprehension of the key quantitative concepts as they are presented. In the fifth step ('Check yourself'), students are given a practice problem similar to the preceding example to attempt on their own.</td>
</tr>
<tr>
<td>3. Student understanding and motivation are improved when concepts are applied to topics that have relevance to their lives.</td>
<td>The ‘Finance Spotlight – Your Money’ feature boxes link important finance concepts to personal finance decisions that will be relevant throughout students’ lives. The opening ‘Finance Spotlight’ feature boxes in each chapter illustrate that financial decision making often requires a team which includes not only financial analysts but also engineers, operations people, marketing people and accountants. Just as those majoring in finance need to know more than just finance, students pursuing these other disciplines need to know basic financial management to serve effectively on these teams. The ‘Finance Spotlight – International’ feature boxes highlight international examples of financial management concepts. End-of-chapter study questions are linked to these feature boxes to ensure that students have the opportunity to actively engage with the ideas presented.</td>
</tr>
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</table>
## Challenge | Solution
--- | ---
4 An undergraduate textbook should provide meaningful pedagogical aids to ensure student comprehension and retention. | • ‘Tools of financial analysis’ feature boxes are provided throughout the text; they name the tool being studied, provide its formula and then explain what it tells students.  
• Each pedagogical feature in the chapter has significance and relevance to the chapter topics, and students are held accountable for the information therein.  
• Designated end-of-chapter study questions key off the in-chapter feature boxes.  
• Company scenarios used in chapter-opening vignettes are woven into the chapter body itself.  
• The end-of-chapter study problems are grouped by major chapter section heads to guide students to the relevant chapter content.

5 Students often struggle with the mathematical rigour of the introductory finance course and need an accessible presentation of the mathematics. | • The ‘Tools of financial analysis’ feature boxes provide students with clearly stated descriptions of what the essential equations or formulae tell them.  
• We minimise the use of formulae when we spell things out in plain English.  
• We use a five-step procedure in our problem examples (called Checkpoints) which begins by visualising the problem graphically, describes a solution methodology, lays out all the necessary steps in the solution, and then interprets the solution by analysing the underlying content of the problem situation.  
• Financial management is a problem-solving course, so we provide lots of worked examples and have grouped the end-of-chapter materials by major chapter sections to guide students to the relevant segment of the chapter.  
• Figures are enhanced with notes and ‘talking boxes’ that step students through the graphs and highlight key points.

6 Instructors find assigning and grading homework too time-consuming. | • MyFinanceLab allows instructors to create and assign tests, quizzes or graded assignments with ease.  
• MyFinanceLab handles the grading.

7 Students often miss the big picture, viewing finance as a presentation of several loosely connected topics. | • The opening chapter presents five underlying principles of finance that serve as a springboard for the chapters and topics that follow. In essence, students are presented with a cohesive, inter-related perspective from which future problems can be approached.  
• The core of finance involves trying to assess the valuation consequences of business decisions in a wide variety of situations. Unfortunately, students often become so enmeshed in the details of a business problem that they have difficulty identifying the valuation consequences of its choices. To give students a context for their analysis, we use five guiding principles that underlie the valuation of any investment.  
• With a focus on the big picture, we provide an introduction to financial decision making that is rooted in current financial theory and in the current state of world economic conditions. What results is an introductory treatment of a discipline rather than the treatment of a series of isolated problems which face the financial manager. The goal of this text is not merely to teach the tools of a discipline or trade but also to enable students to apply what is learned to new and as yet unforeseen problems—in short, to educate students in finance.

### Learning aids in the text
**The five principles of finance**  
Together, the five principles—Money has a time value, There is a risk–return trade-off, Cash flows are the source of value, Market prices reflect information, and Individuals respond to incentives—represent the economic theory that makes up the foundation of financial decision making and are woven throughout the chapters of the book, providing the basis for focusing students on understanding the economic intuition rather than just the mechanics of solving problems. They are integrated throughout the text in the following ways:  
- The five principles are introduced in Chapter 1 using examples that students can relate to personally.
• They are revisited in the chapter openers with reference to their application to each chapter’s content.
• Specific reference is made throughout the text where the principles come to bear on the discussion.

A focus on valuation Although many instructors make valuation the central theme of their course, students often lose sight of this focus when reading their text. We have revised this edition to reinforce this focus in the content and organisation of our text in some very concrete ways:
• First, as we mentioned earlier, we have built our discussion around five finance principles which provide the foundation for the valuation of any investment.
• Second, we have introduced new topics in the context of ‘What is the value proposition?’ and ‘How is the value of the enterprise affected?’

Finance Spotlight – Your Money New feature boxes have been introduced to provide students with analysis that is parallel to the text discussion of financial management but uses examples that they are likely to experience in their personal lives. Once again, this pedagogical tool is designed to make the study of finance relevant to all students, regardless of their course.

Real-world examples To enhance the relevance of the topics discussed, we have made extensive use of real-world examples. In addition, stock symbols are provided in square brackets following the names of companies listed on Australian or overseas stock exchanges. This enables students to easily recognise examples that deal with actual listed companies, and to look up stock information themselves if they wish.

NEW! Expanded coverage of the impact of changes in exchange rates A new section titled ‘What does a change in the exchange rate mean for business?’ examines how exchange rate changes affect imports and exports and the profitability of multinational firms.

NEW! Chapter on the analysis and impact of leverage Content that relates to leverage has been reorganised into a single chapter in order to give a comprehensive analysis of the impact of leverage on a firm.

A multi-step approach to problem solving and analysis As anyone who has taught the core undergraduate finance course knows, students vary across a wide range in terms of their maths comprehension and skills. Students who do not have the maths skills needed to master the subject end up memorising formulae rather than focusing on the analysis of business decisions using maths as a tool. We address this problem in terms of both text content and pedagogy.
• First, we present maths only as a tool to help us analyse problems—and only when necessary. We do not present maths for its own sake.
• Second, finance is an analytical subject and requires that students be able to solve problems. To help with this process, numbered chapter examples called Checkpoints appear throughout the book. Each of these examples follows a very detailed, multi-step approach to problem solving that helps students develop their own problem-solving skills.

**Step 1: Picture the problem.** For example, if the problem involves a cash flow, we will first sketch the timeline. This step also entails writing down everything we know about the problem, which includes any relationships such as what fraction of the cash flow is to be distributed to each of the parties involved and when it is to be received or paid.

**Step 2: Decide on a solution strategy.** For example, what is the appropriate formula to apply? How can a calculator or spreadsheet be used to ‘crunch the numbers’?

**Step 3: Solve.** Here we provide a complete, step-by-step worked solution. We first present a description of the solution in prose and then provide a corresponding mathematical implementation.
Step 4: Analyse. We end each solution with an analysis of what the solution means. This emphasises the point that problem solving is about analysis and decision making. Moreover, at this step we emphasise the fact that decisions are often based on incomplete information, which requires the exercise of managerial judgment, a fact of life that is often learned on the job.

Step 5: Check yourself. Immediately following the presentation of each new problem type, we include a practice problem that gives students the opportunity to practise the type of calculation used in the example.

Content-enriched tables and figures  Students today are visual learners. They are used to scanning Internet sites to learn at a glance without the need to ferret out the meaning of a printed page. Rather than seeing this as a negative, we instead believe that students (and we) are all the beneficiaries of a media revolution that allows us to learn quickly and easily using graphic design and interactive software. Textbooks have been slow to respond to this new way of absorbing information. In this text, the key elements of each chapter in the book can quite literally be gleaned (reviewed) from the chapter tables, figures and examples. This means that all tables and figures are ‘content-enriched’. They are captioned, labelled in detail and carefully linked so as to make them useful as a stand-alone tool for reviewing the chapter content.

Finance Spotlight – Your Money  These feature boxes apply the chapter concepts to personal financial problems that students encounter in their daily lives.

Finance Spotlight – International  These feature boxes demonstrate how the chapter content applies to international business.

Figure call-outs  Many figures include floating call-outs with descriptive annotations designed to highlight key points in the figures and facilitate student learning.

Figure and table captions  Detailed captions describe the objective of each figure or table and provide necessary background information so that its content can be easily understood. This allows students to review the chapter content by scanning the figures and tables directly.

Equations  Equations are written in plain English with minimal use of acronyms and abbreviations. In addition, ‘Tools of financial analysis’ feature boxes are used throughout the book to provide a quick review and reference guide for critical equations used to support financial decision making.

Financial spreadsheets and calculators  The use of financial spreadsheets and calculators has been integrated throughout the text. Thus, students have access to both methods of problem solving.

Chapter summaries  The chapter summaries have been rewritten and are organised around the chapter objectives.

Study questions  These end-of-chapter questions review the main concepts in the chapter and are presented in the order in which these concepts were discussed in the chapter, for easy student reference.

NEW! Expanded study problem sets  Focusing on chapters with high problem usage, the end-of-chapter study problem sets have been strategically expanded to provide better problem choices for the instructor. As in the previous edition, all study problems are grouped by chapter section so that both instructors and students can readily align text and problem materials. Where actual company examples are used, problems have been updated to reflect current conditions. In most chapters, the problem set concludes with a ‘mini-case’ which brings together many of the themes covered in the chapter in a single, comprehensive, hypothetical or real-world example.
Content updating
In response to the continued development of financial thought, reviewer comments and the recent economic crisis, changes have been made in the text. The following list highlights some of the important changes that were made in each of the book’s 21 chapters.

Chapter 1
GETTING STARTED—PRINCIPLES OF FINANCE
• The discussion of the five principles of finance has been revised, increasing its currency.
• This chapter has been updated and revised to make it as intuitive as possible.
• New Australian examples have been added.

Chapter 2
FIRMS AND THE FINANCIAL MARKET
• This chapter has been revised to reflect the recent changes in interest rates and in the financial markets.
• The discussion of how securities markets bring corporations and investors together has been revised to reflect the current financial markets.
• The study questions have been updated and revised.

Chapter 3
UNDERSTANDING FINANCIAL STATEMENTS, TAXES AND CASH FLOWS
• Checkpoints within the chapter content have been updated to include current data and rewritten to reflect changing financial conditions.
• Company examples used in the problem exercises have been updated to reflect current information.
• The section on company tax has been augmented with a detailed discussion of the calculation of personal income tax and capital gains tax.

Chapter 4
FINANCIAL ANALYSIS: SIZING UP FIRM PERFORMANCE
• Checkpoints within the chapter have been updated to include current data and rewritten to reflect changing conditions.

Chapter 5
THE TIME VALUE OF MONEY—THE BASICS
• The coverage of payday loans and of the equivalent annual return have been updated, reflecting a current example.
• This chapter has been revised with an eye towards making it more accessible to maths-phobic students.
• The study questions have been updated and revised.

Chapter 6
THE TIME VALUE OF MONEY—ANNUITIES AND OTHER TOPICS
• The chapter discussion has been reworked to make it more accessible to those students who are maths-phobic.

Chapter 7
RISK AND RETURN—AN INTRODUCTION: HISTORY OF FINANCIAL MARKET RETURNS
• All tables and figures have been updated to reflect historical rates of return that investors have earned for different types of security investment.
xxvi  

PREFACE

• The discussion of the geometric and arithmetic means has been revised to make the importance of the type of mean used in our analysis of historical returns more transparent.

• Selected study problems have been revised.

Chapter 8
RISK AND RETURN—CAPITAL MARKET THEORY

• The discussion of beta and its estimation from historical return data has been revised. The example company used for this discussion is now Woolworths Ltd [WOW].

• Selected study problems have been revised.

Chapter 9
DEBT VALUATION AND INTEREST RATES

• The examples have been updated and revised to reflect the current level of interest rates with new examples of borrowing.

• This chapter has been revised to incorporate the very low interest rate levels in the financial markets.

• The discussion of the bond valuation relationship has been revised.

Chapter 10
SHARE VALUATION

• The discussion of the stock market, which is covered in Chapter 2, has been dropped due to its redundancy.

• The study questions have been updated and revised.

Chapter 11
INVESTMENT DECISION CRITERIA

• The modified internal rate of return (MIRR) discussion has been revised to focus on the origins of the situations in which the analyst will find the MIRR helpful in making an investment decision.

• The study problem set has been substantially revised.

Chapter 12
ANALYSING PROJECT CASH FLOWS

• The ‘Quick Reference’ tool for free cash flow has been replaced with an expanded ‘Tools of financial analysis’ feature box.

• The study problem set has been substantially revised.

Chapter 13
RISK ANALYSIS AND PROJECT EVALUATION

• The study problem set has been substantially revised.

Chapter 14
THE COST OF CAPITAL

• The study problem set has been substantially revised.

Chapter 15
ANALYSIS AND IMPACT OF LEVERAGE

• This new chapter reorganises all content relating to leverage to give a comprehensive overview of the impact of leverage on a firm.
Chapter 16
CAPITAL-STRUCTURE POLICY
• The study problem set has been substantially revised.

Chapter 17
DIVIDEND AND SHARE-BUYBACK POLICY
• Figure 17.1, which looks at corporate earnings, cash dividends and share buybacks for a broad cross-section of Australian firms, has been updated and now covers the period between 2009 and 2015.
• A number of the chapter’s study problems have been revised.

Chapter 18
FINANCIAL FORECASTING AND PLANNING
• The study problem set has been substantially revised.

Chapter 19
WORKING CAPITAL MANAGEMENT
• The study problem set has been substantially revised.

Chapter 20
INTERNATIONAL BUSINESS FINANCE
• This chapter has been revised and updated to reflect dramatic changes in exchange rates and in the global financial markets in general.
• A new section titled ‘What does a change in the exchange rate mean for business?’ has been added.

Chapter 21
CORPORATE RISK MANAGEMENT
• This chapter has been revised to reflect changes in the area of corporate risk management and to allow for a more intuitive presentation.
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Study Plan

A Study Plan is generated from each student's results on a pre-test. Students can clearly see which topics they have mastered and, more importantly, which they need to work on.

Learning resources

To further reinforce understanding, Study Plan and Homework problems link to the following learning resources:

- the relevant section of the eText, so students can review key concepts
- Help Me Solve This, which walks students through the problem with step-by-step help and feedback without giving away the answer.
Assignable content
Educators can select content from the Study Plan and/or Test Bank and assign to students as homework or quizzes.

Dynamic Study Modules
Using a highly-personalised process, Dynamic Study Modules continuously assess students’ performance and provide additional practice in the areas where they struggle the most. Students can then review material and retest themselves until they ‘master’ the information. Each Dynamic Study Module, accessed by computer, smartphone or tablet, promotes fast learning and long-term retention.
Learning aids supplemental to the text

Financial Management integrates the most advanced technology available to assist students and instructors. Not only does this make Financial Management come alive with the most current information, but it also fosters total understanding of all the tools and concepts necessary to master the course. Financial Management’s complete support package for students and instructors includes the following essentials.


**Test Bank** The Test Bank provides a wealth of accuracy-verified testing material. Updated for the new edition, each chapter offers a wide variety of question types, arranged by learning objective and tagged by AACSB standards.

*Questions can be integrated into Blackboard, Canvas or Moodle Learning Management Systems.*

**Lecture slides** A comprehensive set of PowerPoint slides can be used by educators for class presentations or by students for lecture preview or review. They include key figures and tables, as well as a summary of key concepts and examples from the course content.

**Digital image PowerPoints** These slides include all the diagrams and tables from the course content for lecturer use.