FINANCE FOR ACCOUNTING STUDENTS

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IUM Press
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PREFACE

This textbook of *Finance for Accounting Students* is designed for undergraduate courses in finance. The special feature of this textbook is the problem-based practice questions that are provided at the end of each chapter. The exposure to problem-based questions is important for accounting students in preparing them for their undergraduate finance courses, as well as preparing them for the accounting professional bodies examinations. Although this textbook is primarily intended for accounting students, it is also useful for undergraduate students from other majors who would benefit from understanding the various finance concepts.

ORGANISATION OF THE BOOK

The book is organized into three parts. Part One provides the introduction to financial management and introduces the fundamental finance concepts. Part Two deals with long-term investment and finance decision. Part Three deals with short-term finance decision. The chapters included in this book have been adjusted in order to obtain the essential topics the ideal corporate finance course. Therefore, the table of contents will include topics that are sensible to be covered in a typical semester-long class. Our goal, however, is to present the most valued material for this course and most applicable to this country.

PART ONE

Chapter 1 introduces the general background of business finance, its definition, major areas, and career opportunities. Along the way, it provides explanation of various types of market, a firm and its function, the scope of managerial finance and how it relates to economics and accounting. Chapter 1 also covers the concept of corporate governance, the role of ethics, and the agency issue in the context of financial management.

Chapter 2 focuses on the most fundamental concept in finance, that is the time value of money. It present the concepts of future value and the present value of three types of cash flows that are the signal amount, annuity, and mixed stream. The technique of using simple formulas, financial table, and financial calculator have been demonstrated in the book. The chapter also provides various real life applications of the time value of money concept with examples related to each application to reinforce the understanding of the concept.

Chapter 3 focuses on the risk and return that have been facing by the firm. Risk profile and the procedure for risk assessment for a single asset and a portfolio of investment have been explained, as well as the type of risk and the problem of risk and return have been analysed. The concept of capital asset pricing model and its limitation are also explained.
PART TWO

Chapter 4 covers the valuation of two main company's capital that are stock and bond. The chapter starts by explaining the characteristics of bond and stock. The formulae and models for each capital type are provided. Relevant examples are also given to ensure better understanding on how to value stock and bond. Current yield and yield to maturity are also covered in this chapter.

Chapter 5 explains the use of a firm's or a project's cost of capital to evaluate a proposed new capital budgeting project. The chapter explains how to calculate a firm's or a project's cost of capital as a weighted average of the components cost of each type of capital. The computations of the cost of capital for each capital type are provided with relevant examples. Adjustments for taxation and flotation costs in deriving at the cost of capital are also introduced.

Chapter 6 focuses on estimating relevant cash flows for a potential investment project. The concept of relevant cash flows is first emphasised, then the various components of cash inflows and out flows are provided. Examples of cash flow estimation are provided to ensure clarity on the computation of each cash flow component.

Chapter 7 covers the major capital budgeting decision techniques: payback period, discounted payback period, net present value, (NPV) internal rate of return (IRR), accounting rate of return and economic value added. Then chapter provides techniques of calculation and discussion of the strengths and weaknesses of each technique. The chapter provides a brief discussion of the conflict of decision between NPV and IRR. In addition, the chapter exposes students to the Lease-versus-Purchase decision.

Chapter 8 explores the question of the firm's optimal capital structure, detailing how the choice changes when we take a firm in a "perfect world" and add the existence of corporate taxes and the chance of default to the situation. A discussion of the capital structure, its theory, and optimal capital structure also has been presented. This chapter also includes EBIT-EPS approach to achieve optimal capital structure.

Chapter 9 covers the return for investors via dividends, share repurchases and other payouts. The chapter introduces the various types of dividend policies, factors affecting dividend payment and theoretical discussion of relevance and irrelevance of dividend on firm's value. In addition, the chapter covers stock dividends, stock splits, and stock repurchases.

PART THREE

Chapter 10 focuses on the working capital management. This topic discusses of the trade-off between profitability and

PART 2: LONG TERM INVESTMENT AND FINANCE DECISION
Chapter 4: Capital Valuation
Chapter 5: Cost of Capital
Chapter 6: Cash Flow
Chapter 7: Capital Budgeting Techniques
Chapter 8: Capital Structure and Leverage
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PART 3: SHORT-TERM FINANCE DECISION
Chapter 10: Working Capital Management 1
Management of Current Assets
Chapter 11: Working Capital Management 2
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risk, and cash conversion cycle, as well as other tools such as inventory, account receivables, receipts, and disbursement.

Chapter 11 analyses credit terms using the tools that have been discussed in the previous topic. We also compare types of unsecured sources of short-term loans by describing the characteristics of secured short-term loans and the function of accounts receivable as short-term loan collateral.

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FINANCE FOR ACCOUNTING STUDENTS

Finance for Accounting Students covers fundamental finance concepts as well as corporate finance topics. This book comprises of three parts with eleven chapters. The chapters include an overview to finance, time value of money, risk and return, stock and bond valuations, cost of capital, cash flow estimation, long-term capital budgeting, working capital management, capital structure and leverage and dividend policy. This book is expected to benefit students as it provides concise and reader-friendly explanation of each concept and topic. More importantly, this book provides several problem based questions with suggested answer schemes at the end of each chapter for the students to practice in order to acquire the skill of solving problem based questions.

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