CONTENTS

1	Business as a Financial System
	A Dynamic Perspective of Business 7 Decision Context 7
	The Business System 12
	Investment Decisions 15
	Operations Decisions 17
	Financing Decisions 18
	Internal Assumptions 21
	Interrelationships of Key Strategic Areas 22
	The Nature of Financial Statements 23
	The Balance Sheet 24
	The Operating Statement 29

The Statement of Changes in Owners' (Shareholders')

The Funds Flow Statement 32

The Context of Financial Analysis 40

Equity 34

Introduction

J.

2	Managing Operating Funds	4
	Funds Flow Cycles 51 The Funds Cycle for Manufacturing 55 The Funds Cycle for Salex 59 The Funds Cycle for Salex 59 Ariability of Punds Flows 62 Grouth/Decline Variations 63 Seasonal Variations 67 Cycleal Variations 69 Generalized Funds Flow Model 72 Funds Flow Statement Refinements 73 Adjustments to Retained Earnings 78 Adjustments to Net Income 81 Adjustments to Net Fixed Assets 84	
3	Assessment of Business Performance	9
	Ratio Analysis and Performance 100 Management's Point of View 104 Operational Analysis 104 Resource Management 115 Profitability 122 Owners' Point of View 126	
	Profitability 126 Disposition of Earnings 133 Market Indicators 136	
	Lenders' Point of View 138 Liquidity 139 Financial Leverage 141 Debt Service 144	
	Ratios as a System 147 Elements of Return on Assets 148 Elements of Return on Equity 149 Selected Issues 150	
	Inventory Costing 152 Depreciation Methods 155 The Impact of Inflation 158	
4	Projection of Financial Requirements Pro Forma Financial Statements 174 Pro Forma Operating Statement 175 Pro Forma Relayer State 180	17

Pro Forma Funds Flow Statement 186

Cash Budgets 188

	Sales Budget 197 Factory Budget 199
	Interrelationship of Financial Projections 201 Financial Modeling and Sensitivity Analysis 203 Sensitivity Analysis 206
5	Dynamics of the Business System 217
	Leverage 218 Operating Leverage 218 Financial Leverage 232 Financial Growth Plans 237
	Basic Financial Growth Model 238 Sustainable Growth 242 Integrated Financial Plan 244
	Object-Oriented Financial Analysis 248
6	Analysis of Capital Investment Decisions 253
	Strategic Perspective 254 The Decisional Framework 258 Problem Definition 259 Nature of the Inextenter 259 Nature of the Inextenter 259 Estimates of Faiture Costs and Benefits 262 Estimates of Faiture Costs and Benefits 262 Sank Costs 265 The Time Value of Money 265 Components of Analysis 266 Net Operating Cash Inflows 268 Net Operating Cash Inflows 268 Economic Life 269
	Terminal Value 270 Methods of Analysis 270
	Simple Measures 271 Economic Investment Analysis 277
	Refinements of Investment Analysis 304 Example 1: A Machine Replacement 304 Example 2: Business Expansion 316 Mutually Exclusive Alternatives 319 Actual Results below Estimates 321 When to Use the Investment Measures 322
	Some Further Considerations 325

Operating Budgets 195

Accelerated Depreciation 326 Inflation and Investment Analysis 327

Accuracy 328

Key Issues 329	
Assessment of the Cost of Capital	341
Cost of Capital and Financial Decisions 342 Intestinent Decisions 343 Operational Decisions 344 Financing Decisions 345 Cost of Operating Funds 345 Cost of Long-Term Debt 351	
Weighted Cost of Capital 364	
Cost 365 Weighting 366 Market Value versus Book Value 367 Calcalation of Weighted Cost of Capital 368 Cost of Capital and Return Standards 371 Cost of Rail Standards 371 Risk Categories 374 Cost of Capital in Multibusiness Companies 377 Multiple Rate Analysis 378 Multiple Rate Analysis 378	
Key Issues 379	
Analysis of Financing Choices Framework for Analysis 356 Cost of Incremental Finds 387 Risk Expoure 388 Flexibility 389 Timing 390 Control 391 The Choice 392 Techniques of Calculation 392 Current Performance 393 Long. Term Debt in the Capital Structure 400 Common Stock in the Capital Structure 400 Common Stock in the Capital Structure 402 EBIT Break-Even Chart 405 Some Special Forms of Financing 414 Concertible Securities 414	385

Warrants						
Leasing 4						
Key Issues	119					
9 Valuation ar	nd Business Performance	425				
Defintions of	Value 426					
	Economic Value 426					
Market Val	ue 427					
Book Value						
Liquidation	Liquidation Value 429					
Breakup Ve	ilue 430					
Reproduction	on Value 430					
	Value 431					
Assessed Vi						
	Value 431					
	cern Value 432					
	Investor 433					
	Bond Values 433					
	Stock Values 442					
	tock Values 445					
	Specialized Valuation Issues 453					
	Valuing an Ongoing Business 454					
	Valuing Business Cash Flows 455					
Value in R	Value in Restructuring and Combinations 461 Managing for Shareholder Value 469					
Key Issues	472					
Appendix I	Glossary of Key Concepts	48				
Appendix II	Some International Issues in Business Analysis	50				
Appendix III	Basic Inflation Concepts	50				
Appendix IV	Object-Oriented Financial Analysis:					
	An Introduction	51				
Appendix V	Sources of Financial Information	52				
Appendix VI	Solutions to Self-Study Problems Plus					
	Questions for Discussion	54				
Index		59				

Rights Offerings 416