

# Principles of Finance

## Chapter 1: Introduction to Financial Principles

*Learning Objectives:* Define finance and its primary domains, as well as the opportunities it presents; elucidate the management finance role and its connection to accounting; and explain the principle of time value of money.

This chapter presents finance as both an art and a science dedicated to the management of money, including the processes, institutions, markets, and tools associated with monetary transmission. It emphasises the function of financial managers in supervising financial matters for various corporate entities. The primary difference between finance and accounting is highlighted, underscoring finance's emphasis on capital acquisition and investment to enhance owner wealth, as well as how financial comprehension facilitates the assessment of investment returns and dangers.

## Chapter 2: Techniques of Compounding and Discounting

*Learning Objectives:* Analyse the significance of time value in finance, computational tools, and cash flow patterns; comprehend and compute future and present values for singular amounts, ordinary annuities, annuity dues, and perpetuities; assess future and present values of mixed cash flow streams; and ascertain required deposits, interest/growth rates, and unknown periods.

This chapter explores the essential principle of the time value of money, elucidating how the value of money fluctuates over time owing to its earning potential. It encompasses diverse methodologies for determining future and present values for singular amounts and various forms of annuities, including ordinary annuities, annuities due, and perpetuities. The chapter also presents techniques for ascertaining unknown factors such as interest rates, number of periods, or necessary deposits, as well as for appraising mixed cash flow streams.

## Chapter 3: Assessment of Long-Term Securities

*Learning Objectives:* Differentiate among various types of bonds and their characteristics; articulate the concept of "value" and the determinants thereof; elucidate the processes of asset and bond valuation; Calculate the bondholder's anticipated rate of return and elucidate the linkages in bond valuation. Explain and compute the yield to maturity (YTM) for semi-annual bonds; delineate the properties of preferred stock and assess its worth; and define the qualities of common stock, evaluate it, and calculate its anticipated rate of return.

This chapter examines the value of long-term securities, namely bonds and stocks. It elucidates several categories of bonds and their characteristics, outlining the methodology for assessing bond value based on anticipated cash flows and requisite rates of return, while addressing terms such as yield to maturity (YTM). This chapter addresses the attributes and valuation techniques for preferred and common stocks, including the calculation of their anticipated rates of return.

## Chapter 4: Risk and Return

*Learning Objectives:* Comprehend risk and anticipated return, including the calculation of projected cash flow and return utilising probability distributions; delineate risk and its many

kinds; assess risk for individual assets (e.g., Coefficient of Variation); Comprehend portfolio risk and return, encompassing the computation of expected return, variance, and standard deviation for portfolios; elucidate risk mitigation via diversification, differentiating between systematic and non-systematic risk; and grasp the Capital Asset Pricing Model (CAPM) and its correlation with expected return and systematic risk (Beta).

This chapter delves into the basic ideas of risk and return in finance. It describes how to use probability distributions to figure out how much risk and return you may expect, and it groups managers into different clusters based on their willingness to take risks. The chapter explains how to figure out the risk of each investment, using the Coefficient of Variation, and then extends these ideas to portfolios, showing how diversification lowers overall risk by separating systematic risk from non-systematic risk. In the conclusion, it shows the Capital Asset Pricing Model (CAPM) to understand the link between expected return and systematic risk of each investment or for a portfolio.

### **Chapter 5: Capital Budgeting**

*Learning Goals:* Look at the problems that come up when trying to find profitable business opportunities and the need of investigation; using payback period, Net Present Value (NPV), Average Accounting Rate of Return (ARR), and Internal Rate of Return (IRR) to decide whether to approve or reject a project; Look at problems with project ranking and explain why ethical concerns are important in capital budgeting.

This chapter enlightens about capital budgeting, which is the process of deciding whether or not to invest in a project or asset. It illustrates about how hard it is to find good business opportunities in competitive markets and how important it is to evaluate the investment. The chapter talks about many ways to figure out if a project is doable, such the payback period, Net Present Value (NPV), Average Accounting Rate of Return (ARR), and Internal Rate of Return (IRR). It also talks about problems that come up while reviewing projects. It also stresses how important moral problems are while making capital budgeting choices.

### **Chapter 6: Sources of Finance**

*Learning Goals:* Differentiate between sources of finance, determine which ones are best for the situation, and look at the advantages and disadvantages of each source of finance.

This chapter talks about many ways that businesses might get money, such as common stock (equity), retained profits, preference shares, debentures, bank loans, bank overdrafts, factoring, hire purchase, venture capital, leasing, and trade credit. The chapter looks at the pros and cons of each source, as well as its characteristics and how well it meets the needs of businesses. This helps readers understand how businesses might get money for their operations and growth.