

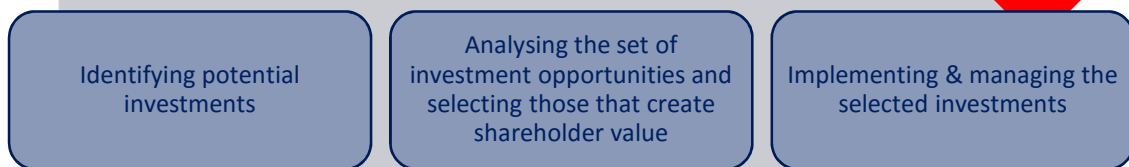
TOPIC 1 – SCOPE OF CORPORATE FINANCE

5 BASIC CORPORATE FINANCE FUNCTIONS



CAPITAL BUDGETING

- ✚ It is about selecting the best projects in which to invest the resources of the company, based on each project's perceived risk & expected return by:



NOTE: Select investment for which the marginal benefits exceed the marginal costs.

FINANCING

- ✚ Raising capital to support the company's operations and investment programs externally, from either:
 - Shareholders' (Equity)
 - Creditors (Debt)
- ✚ Firms can raise equity capital privately from professional investors (venture capitalists), or they may go public by conducting an *initial public offering (IPO)* of shares. Example: offer their shares for purchase by the general public.
- ✓ FACEBOOK EXAMPLE:
This company has gone through venture capitalists (individual investor – co-founder of PayPal and co-founder of LinkedIn) in order to raise funds. As the company grew investors were attracted, e.g. Microsoft.

FINANCIAL MANAGEMENT

- ✚ Managing a company's internal cash flows for day-to-day operations, and its mix of debt and equity financing, to maximise the value of the debt and equity claims on companies; and
- ✚ To ensure that the company can pay off its short term debts when they come due.
 - Involves obtaining seasonal financing (short term loan), managing inventories, paying suppliers, collecting from customers and investing surplus cash.