Lecture Material

Decisions of a Financial Manager

1. Investments (L/T)
   - What to spend your money on
   - Which projects to invest in (*capital budgeting*)
2. Financing (L/T)
   - How to pay for it
   - Debt and/or equity (*capital structure*)
3. Working Capital (S/T)
   - Optimising cash, receivables, payables and inventory
   - Called *treasury management*

Business Structures

- *Sole Trader*
  - Great flexibility
  - Personal assets ted up and at risk if something goes wrong
  - Hard to sell out or partly sell
  - Hard to raise capital
- *Partnership*
  - Assets at risk if something goes wrong with any partner
  - Hard to sell out
  - Hard to raise capital
- *Company*
  - Limited liability
    - Only companies assets at risk
    - Not owners/directors (unless they act beyond the law)
  - Can be:
    - Private
    - Public
      - Listed on stock exchange
  - Can sell shares relatively easy
  - Can sell a fraction of holding
  - Can raise capital in equity and debt markets

Agency

- Shareholders or owners (**principal**) of a company often employ managers (**agents**) to run their business
- Benefits include:
  - Better knowledge or experience
  - Owner not required to do day-to-day running

Terms

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- **Abnormal Returns:** differences between a single stock or portfolio's performance and the expected return over a set period of time
- **Agents:** someone who acts on behalf of another (i.e. manager)
- **Amortisation:** the practice of reducing the value of assets to reflect their reduced worth over time
- **Annuity:** a specified income payable at stated intervals for a fixed or a contingent period, often for the recipient's life, in consideration of a stipulated premium paid either in prior instalments or a single payment (we discount future CFs in finance)
- **Annual Percentage Rate (APR):** represents the actual yearly cost of funds over the term of a loan