

P r e f a c e

The financial management field continues to experience exciting change and growth. Financial practitioners are increasingly employing new financial management techniques and sophisticated computer resources to aid in their decision making. “Financial engineers” have created new derivative financial instruments and transactions, such as options, financial futures contracts, foreign currency swaps, and interest rate swaps, to help managers manage risk and increase shareholder wealth. Many domestic industries have been restructured because of the pressures of foreign competition. Leveraged buyout transactions also have forced managers to make more careful use of their firm’s resources. Corporate reformers have focused attention on the structure of corporate governance relationships and the impact of alternative managerial compensation packages on performance.

Access to and content of the Internet have greatly expanded, making timely financial information increasingly available to customers, investors, and managers. The Internet is transforming the way securities are bought and sold and the way companies access new capital. At the same time, financial researchers have made important advances in valuation, cost of capital, capital structure theory and practice, option valuation (including “real” options associated with capital investments), hedging strategies, and dividend policy.

The future promises to be an even more exiting time for finance professionals. Financial managers have refocused their attention on the basic objective of maximizing shareholder wealth. Managers who act contrary to the interests of shareholders face the prospect of an unfriendly takeover, a corporate restructuring, pressure from foreign competitors, or pressures from shareholder groups and institutional investors. Firms increasingly must find operating savings necessary to remain competitive, as managers continue to struggle to find the optimal capital structure of their firm. The central importance of cash flows in the financial management of a firm has never been more

apparent. Firms carrying significantly more debt than in the past faced new challenges during the recession of 2001–2002. With the economic unification of Europe and the rise of capitalism in Eastern Europe, the former Soviet Union, and China, contemporary financial managers must possess greater knowledge of the important aspects of doing business in a global marketplace. In addition, the standards of ethical behaviour adopted by managers of business enterprises becomes ever more important. Finally, the impact of the Internet on all areas of business practice continues to revolutionize the financial arena due to the lifting of barriers to timely information access and the increase of competitive pressures on business managers.

Contemporary Financial Management, First Canadian Edition, incorporates these changes—the increased focus on shareholder wealth maximization and cash flow management, an emphasis on the global aspects of financial management, a concern for ethical behaviour of managers, and the new information available on the Internet—into a textbook designed for an introductory course in financial management. The book is also suitable for management development programs.

We recognize that students enter the introductory course with a wide variety of backgrounds in accounting, economics, mathematics, and statistics.

Organization and Intended Use

The book is organized in seven major parts. Part One defines the finance function, examines the goals of the firm, considers the role of the financial manager, reviews the structure and functioning of the domestic and global financial marketplaces, and reviews accounting fundamentals, including the forecasting and evaluation of financial performance. The role of investment dealers/bankers in the issuance of securities is discussed. The importance of tax considerations to the practice of financial management is also analyzed. The basic concepts of shareholder wealth maximization, cash flows, and net present value are presented. Part Two develops the theory of valuation, including a comprehensive treatment of time value of money concepts, the valuation of fixed income securities, and the valuation of equity securities. Risk and return analysis concepts are presented. Part Three covers the firm's cost of capital and its capital investment decisions. Both the theoretical and the practical aspects of capital budgeting are emphasized, including the role played by real options in the capital budgeting process. Part Four deals with the capital structure and dividend policy decisions, including the determinants of the optimal capital structure of the firm. Part Five considers working capital management decisions in the management and financing of the current assets—cash, marketable securities, accounts receivable and inventories—and the sources of short- and intermediate-term funds. Part Six covers the important aspects of domestic and international financial risk management. Part Seven covers leasing and corporate restructuring.

Instructors who wish to cover topics in an order different than that provided in the book will find it very easy to do so. The book is designed for use in a one-term introductory course in financial management. Typically, within the constraints of this time limit, it is very often not possible to fully cover all of the topics. The book is organized to make it very flexible. Instructors will find it easy to defer more advanced or specialized topics to a later course.

Distinctive Features

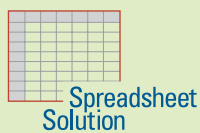
Contemporary Financial Management, First Canadian Edition, has been carefully designed to assist the student in learning and to stimulate student interest. Distinctive pedagogical features include:



- **Foundation Concepts** These important concepts are introduced early in the book and are highlighted.
- **Learning Objectives** Each chapter begins with a listing of learning objectives.
- **Financial Challenges** Each chapter begins with a real-life financial management problem. These challenges are revisited at the end of each chapter.
- **International Issues** To emphasize and reinforce the global nature of financial decision making, we have included “International Issues” sections throughout the book. In these sections, the global issues in financial decision making are illustrated.
- **Ethical Issues** “Ethical Issues” sections are integrated throughout the book to present some of the ethical dilemmas facing financial managers and raise sensitivities to these issues.
- **Entrepreneurial Issues** In recognition of the important role of small and medium-sized enterprises in the contemporary Canadian business environment, we have included “Entrepreneurial Issues” sections throughout the book to emphasize unique financial problems and concerns of entrepreneurs.



- **Calculator Application Illustrations** Many chapters have easy-to-follow, step-by-step calculator keystrokes to solve many of the time value of money examples in the book. These sections are set up in a generic manner and can be used with virtually any financial calculator.



- **Spreadsheets** In addition to spreadsheets in selected chapters, some chapters have appendices that explain how spreadsheets can be used to help solve financial problems. MS Excel templates to solve many of the problems in the book are available on the book’s Web site.



- **Internet Applications** There are numerous references throughout the book to Internet resources, and more are available on the book’s Web site.

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- **Problem Sets** The end-of-chapter problem sets have been organized into three degrees of difficulty: basic, intermediate, and challenge. The problem sets provide students and instructors with a greater breadth and depth of problem coverage than is the case with many competing textbooks. Even more problems are available on the book’s Web site.
- **Self-Test Problems** Each chapter includes end-of-chapter self-test problems that students can use for practice and enhanced understanding of the concepts developed in the chapters. Detailed solutions to these problems appear at the back of the book.

- **Check Answers** In addition, there are check answers to selected problems at the back of the book so students can see if they have correctly solved the selected problems in the problem sets.

Organizational Design

Contemporary Financial Management is organized around the objective of maximizing the value of the firm for its shareholders. This objective is introduced early in the book, and each major financial decision is linked to the impact it has on the value of the firm. The distinctive content features are designed to complement this objective:

1. **Emphasis on the fundamental concepts of cash flow, net present value, and risk-return relationships** There are three concepts that are central to a complete understanding of most financial management decisions:
 - The importance of cash flows as the relevant source of value to a firm
 - The significance of the net present value rule for valuing cash flows
 - The relationship between risk and return in the valuation process
2. **Unique treatment of problems of international financial management** In a business world that is increasingly global, it is important that finance students be aware of the most important dimensions of international finance. Important international finance relationships, including the operation of foreign currency markets, exchange rate determination, and the role of multinational firms in the global economy, are covered in Chapter 2 (“The Domestic and Global Financial Marketplace”). More advanced international topics, such as international parity relationships, the management of foreign exchange risk, and hedging exchange rate risk are introduced in Chapter 18, “Managing International Risk.” In addition, international viewpoints are covered in other chapters where appropriate. This treatment of the international dimensions of financial management is consistent with the AACSB’s recommendations for coverage of these issues.
3. **Comprehensive and integrated coverage of ethical issues facing financial managers** Financial managers seeking to maximize shareholder wealth must also confront difficult ethical dilemmas. “Ethical Issues” sections are integrated throughout and present some of the ethical dilemmas facing financial managers. This treatment of the ethical dimensions of financial management is consistent with the AACSB’s recommendations for coverage of these issues.
4. **Attention to unique problems of financial management in entrepreneurial finance** In recognition of the important and growing role of small- and medium-sized firms in the Canadian business environment, “Entrepreneurial Finance Issues” sections emphasize unique finance-related problems and concerns of entrepreneurs (small businesses).

5. **Early coverage of institutional characteristics and valuation models for financial instruments** We have provided separate chapters (Chapters 5 and 6) to deal with the valuation of fixed-income securities and common shares. These chapters also define all of the important characteristics of each of these security types and cover the institutional aspects of the markets for these securities, including the reading and understanding of security transaction information from sources like *The Globe and Mail*.
6. **Early coverage of time value of money concepts** Time value of money concepts are covered in depth in Chapter 4. This treatment provides students with the exposure needed to fully understand the valuation process that is central to the goal of shareholder wealth maximization. In addition, coverage of the time value of money involves students in useful practical applications early on in the course, setting an early tone of relevance for the course.
7. **The importance of cash flow analysis is introduced early and re-emphasized throughout the text** Chapter 1 introduces students to the importance of the cash flow concept. This concept is then applied extensively in the context of evaluating and forecasting financial performance (Chapter 3), valuation (Chapters 5 and 6), capital budgeting (Chapters 9, 10 and 11), dividend policy (Chapter 14), working capital management (Chapter 15), and corporate restructuring (Chapter 20).
8. **Extensive development of the cash flow estimation process in capital budgeting** Perhaps the most important step in the capital budgeting process is the estimation of cash flows for potential projects. An entire chapter (Chapter 9) is devoted to this topic and the effects of the Canadian capital cost allowance (CCA) system. The US modified accelerated cost recovery system (MACRS) is profiled in the “International Issues” section of the chapter.
9. **A detailed discussion of real options that are embedded in many capital investment projects** Finance scholars and practitioners have increasingly focused attention on “embedded options” in capital investment projects, such as the option to abandon, the option to expand, and the option to defer investments. These options add value to an investment project, above that normally identified in a net present value calculation. Chapter 10 includes an extensive and intuitive discussion of real options in capital budgeting.
10. **Coverage of the newest financial analysis and performance appraisal concepts** The increased attention given to the objective of shareholder wealth maximization has brought about the development of new performance appraisal models that can be used to judge a firm’s performance and motivate managers to create value. The “market value added” and “economic value added” concepts, developed by Stern-Stewart, are covered in detail in Chapter 3 (“Evaluating and Forecasting Financial Performance”) along with the Standard & Poor’s core earnings concept.
11. **Integrated treatment of working capital management** For many small and medium-sized companies, the management of working capital can present more challenges than any other area of financial management.

12. **Introduction to new financial instruments and strategies** Financial futures contracts, options, interest rate swaps, corporate restructuring, and leveraged buyouts, to name but a few, have become increasingly important to contemporary financial managers. These topics are introduced in an applied context that illustrates their value to financial managers.
13. **Frequent coverage of the impact of agency relationships in financial management** The impact of principal-agent relationships on decisions in the areas of goal setting, valuation, capital structure, dividend policy, and corporate restructuring are presented throughout the book.

Ancillary Materials for the Student

- *The Study Guide* contains detailed chapter outlines, multiple-choice questions, true/false questions, a large number of solved numerical problems, and more.



Excel

- *Microsoft® Excel* templates, available on the text Web site, are designed to solve a wide variety of financial management problems. Problems in the text that can be solved using these templates are indicated with an Excel logo next to the problem. The templates require absolutely no prior knowledge of Excel. All of the templates are designed so they can be used to solve actual business financial analysis problems, not just simplified textbook examples.
- A *Microsoft® PowerPoint®* slide presentation package is offered to enhance lecture materials, and presents the key topics in each chapter in an electronic format. This is available on the text Web site for both instructors and students.



- *CTV video* segments bring the “real world” right to your desktop. The CTV video exercises on the text Web site help to illustrate how finance is an important part of your daily life.



- <http://cyr.nelson.com> is the address of the Web site that supports this book. The site provides student resources, Internet application links, interactive quizzes, an interactive “Ask the Author” section, links to relevant finance sites, and many more features.

Ancillary Materials for the Instructor

A complete set of ancillary materials is available to instructors:

- An *Instructor’s Resource Manual (IRM)* is available to instructors. It contains detailed solutions to the end-of-chapter questions and problems, and documentation for the Excel templates is included in the back of the manual. The solutions to text questions and problems have been thoroughly checked to assure their accuracy. In addition, topical categories of the end-of-chapter questions and problems are listed in a new appendix. The IRM is available to instructors on the text Web site.

- An extensive *Test Bank*, offers over 1,500 multiple-choice questions and problems. This unique test bank is designed with the instructor in mind. Approximately 60 percent of the questions are “fact” questions, taken directly from the discussion in the text. Approximately 20 percent of the questions are “elementary problem” questions that closely parallel problem examples developed in the chapter and basic problems at the end of the chapter. Approximately 20 percent of the questions are “challenging problems” that require the student to apply concepts developed in the chapter to new problem situations.
 - Following each “fact” question, the instructor is provided with (1) the correct answer and (2) an identification of the question topic (that is, a reference to the major heading or subheading in the text where the correct answer is found).
 - Following each “elementary problem” and “challenging problem,” the instructor is provided with (1) the correct answer, (2) an identification of the question topic (that is, a reference to the major heading and subheading in the text where the procedure for calculating the correct answer is found), and (3) a detailed solution to the problem.
- A *Microsoft® PowerPoint®* slide presentation package is offered to enhance lecture materials, and presents the key topics in each chapter in an electronic format. This is available on the text Web site for both instructors and students.
- *http://cyr.nelson.com* is the address of the Web site that supports this book. The site provides instructor resources, student resources, Internet application links, interactive quizzes, an interactive “Ask the Author” section, links to relevant finance sites, and many more features.

