

# Credit for Prior Learning Examination

## FIN 305 - Principles of Finance

### Course Description

Basic concepts in finance including security markets, interest rates, taxes, risk analysis, time value of money, security valuation, short term financial planning, capital budgeting, and capital structure.

### Exam Details

This outline summarizes the basic terms and concepts covered in the typical FIN 305 Principles of Finance course at Northern Kentucky University. We recommend that you consult one of the popular principles of finance texts such as Fundamentals of Financial Management by Eugene Brigham and Joel Houston before you take the exam. You will have 120 minutes to score a 70% or better on 65 multiple-choice questions to earn CPLE credit. You will be allowed to use a financial calculator such as the Texas Instruments BA-II, but cell phones and other types of calculators will not be allowed.

### Study Areas

#### Stocks and Their Valuation

Common stocks  
Legal rights and privileges of common stockholders  
Types of common stock  
Stock price vs. intrinsic value  
The discounted dividend model  
Constant dividend growth stocks  
Valuing non-constant growth stocks  
Preferred stocks  
Legal rights and privileges of preferred shareholders  
Valuation of preferred shares

#### Capital budgeting

The cost of capital concept  
The Weighted Average Cost of Capital (WACC)  
Cost of debt  
Cost of preferred stock  
Cost of retained earnings  
Cost of new common stock  
Factors affecting the WACC  
Adjusting for risk  
Approaches to Capital Budgeting  
The Payback period  
Net Present Value (NPV)  
Internal Rate of Return (IRR)  
Multiple Internal Rates of Return  
Reinvestment rate assumptions  
Modified internal rates of return (MIRR)  
NPV profiles & crossover rates  
Risk Analysis  
Free cash flows vs. accounting income  
Incremental cash flows  
Replacement project analysis  
Treatment of sunk costs  
Variations in capital structures

#### Dividends and Dividend Policies

Investor Preferences: dividends vs. capital gains  
Information Content or Signaling Hypothesis  
Clientele effect  
Establishing the dividend policy  
Target payout ratios  
Earnings, cash flows and dividends  
Payment procedures  
Factors influencing dividend policy

#### Working Capital Management Issues and Policies

Current asset financing policies  
Maturity matching or "self-liquidating" approach  
Aggressive vs. conservative approaches  
Calculating the Cash Conversion Cycle CCC  
The cash budget  
Cash and marketable securities  
Inventories  
Accounts receivable

### Study Areas Cont.

#### Financial Markets and Institutions

Types of markets  
Types of institutions  
Stock markets  
Over-the-counter markets  
Stock market efficiency

#### Financial Statements, Cash Flows and Taxes

The balance sheet  
The income statement  
Statement of cash flows  
Statement of stockholder's equity  
Free cash flows  
MVA and EVA  
Income taxes  
Individual taxes  
Corporate taxes

#### Analysis of Financial Statements

Liquidity ratios  
Current ratio  
Quick or acid test ratio  
Asset management ratios  
Inventory turnover ratio  
Days sales outstanding ratio  
Fixed asset turnover ratio  
Total asset turnover ratio  
Debt management ratios  
Total asset to total capital  
Times interest earned ratio  
Profitability ratios  
Operating margin  
Profit margin  
Return on total assets

Return on common equity  
Return on invested capital  
Basic earning power ratio  
Market value ratios  
Price-earnings ratio  
Market to book ratio  
ROE – uses and misuses  
Assessing a firm's performance  
Industry averages  
Benchmarking  
Trend analysis

#### Time Value of Money

The basic Time Value of Money equation  
Single Sums  
Present value  
Future value  
Discounted rate of return  
Discount period  
Semiannual/other compounding  
Present and future value tables  
Annuities

Ordinary annuities  
Annuities due  
Present values vs Future values  
Annuity payment  
Discount rate of return  
Discount period  
Semiannual/other compounding  
Present and future value tables

Annuities  
Ordinary annuities  
Annuities due  
Present values vs Future values  
Annuity payment  
Discount rate of return  
Discount period  
Semiannual/other compounding  
Present and future value tables  
Uneven cash flows  
Present vs Future values  
Discounted rate of return  
Discount period  
Perpetual annuities  
Present values  
Discounted rate of return  
Annuity payments

#### Bonds and their Valuations

Advantages of bonds  
Key characteristics of bonds  
Par values  
Coupon interest rate  
Maturity date  
Call provisions  
Sinking funds  
Other features  
Bond valuation  
Yield to maturity  
Yield to call  
Changes in bond values over time  
Risk analysis  
Price risk  
Reinvestment risk  
Default risk  
Bond markets

#### Risk and Rates of Return

The risk return trade-off  
Standalone risk  
Portfolio risk: the CAPM model  
Portfolio risk

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