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 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 stockholders
- 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

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

Risk and Rates of Return
- The risk return trade-off
- Portfolio risk: the CAPM model
- Portfolio risk

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

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