

Chapter 19 Lecture Notes

How is a business financed?

Its all about investing and financing money

Money is needed everywhere in the value chain. It takes money to make money: you can use debt/ liability or owner's equity/ which you are an agent for

Lenders and owners expect a return/ to be compensated for the risk they take to lend us money

Debt is cheaper than equity

Minimizing the WACC: the optimal blend of debt and equity. Debt/Equity is the point where the cost of debt increases

Debt ratio:

Trade credit:

- accounts payable
- accrued liabilities

Financial Intermediaries

- banks
- others

Capital Markets

- public or private

Types of Loans:

1. From Financial Intermediaries
 - a. Working capital loans
 - b. Line of credit
 - c. Mortgages
2. From Capital Markets
 - a. Commercial Paper
 - b. Bonds
 - i. Secured or collateralized
 - ii. Unsecured, subordination, debentures

The Types of Ownership:

Proprietorship- Capital

Partnership- Capital

Corporations- Stock

Contributed:

- Par (Don't worry about it for exam, but it is somewhat artificial)
- capital surplus or paid-in-excess of par

Issuing and managing stock:

- authorized
- issued
- outstanding
- treasuring stock
- retired

Types of Stock:

- common stock
 - o voting rights

- o common dividends
- Preferred Stock
 - o Voting rights
 - Typically no
 - o Preferred dividends

Capital Markets:

- public vs. Private capital markets
- regulations: US Securities and Exchange commission
- Private Placement
- Initial Public offering
- Secondary public offering
- Investment bankers