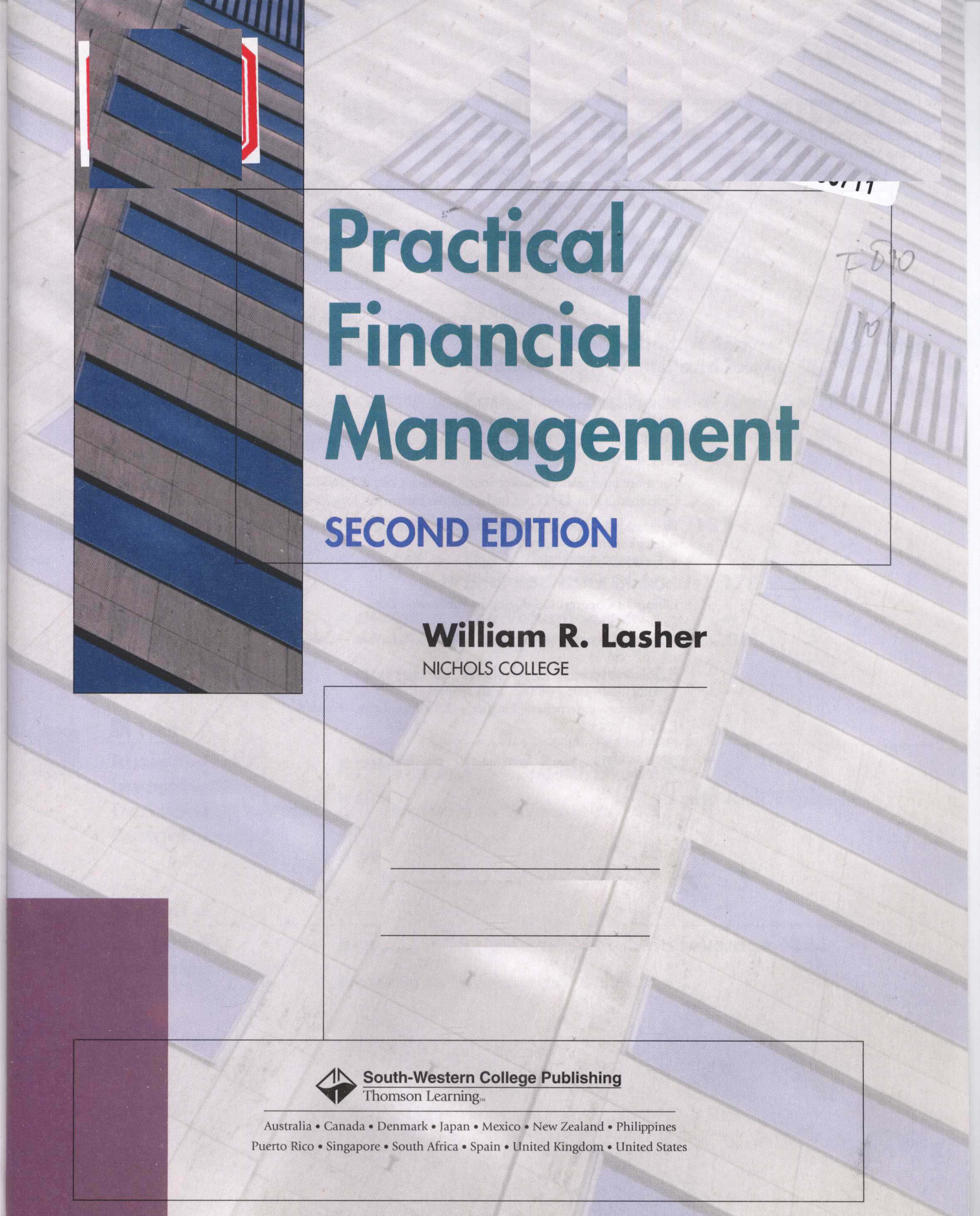


Practical Financial Management

2nd
edition

WILLIAM R. LASHER





Practical Financial Management

SECOND EDITION

William R. Lasher

NICHOLS COLLEGE



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PREFACE

The second edition of *Practical Financial Management* is the latest milestone in a 25-year journey in education that began when I was still a corporate executive teaching finance as an adjunct professor.

Not long after starting down that road I realized that I didn't agree with the approach taken by most finance texts. It was true then, and it's still true today, that most finance texts are harder for students to understand than they should be. The problem is relatively unique to the field. No other business discipline seems to have finance's reputation for unfathomable reading material.

I eventually came to the conclusion that the problem lies in the fact that textbook presentations are inconsistent with the abilities and background knowledge of typical business students. That isn't to say that the texts are poorly done. By and large, finance texts are good books. They're logical, well written, and comprehensive. But they're consistently off target in several key areas with respect to the students who read them.

The first problem has to do with background. Texts tend to introduce topics using a voice that assumes the student already has some grounding in the area to be studied. Even bright students are confused and intimidated by this practice, because most don't know *anything* about a subject area when they start a chapter.

Then there is the huge issue of quantitative material. A great deal of finance is grounded in math and statistics so students have to take prerequisite courses in those areas. But most business students aren't really comfortable with quantitative methods, even after they've had the courses. This leads to the biggest single pedagogical problem we have. Textbooks assume business students are inherently more facile with math than they really are, but most readers can't follow the presentations without an inordinate amount of time and study.

Finally, there is a troubling lack of reality in many areas of this literature. For example, texts present financial techniques such as capital budgeting in ways that imply a hair-splitting accuracy that doesn't exist in the real world where the results often depend on biased and uncertain inputs. Textbooks are also silent on the behavioral problems that financial managers deal with every day. For example, the conflict between sales and finance over receivables can tear a company apart, but it is rarely mentioned in textbooks.

The result of all this has been that finance professors don't get much help from textbooks in teaching introductory courses. We develop classroom approaches that get the ideas across, but spend a great deal of time explaining what the text is trying to say rather than using it to support our teaching.

Over a period of years, I developed ways around these problems that eventually evolved into *Practical Financial Management*. I began by writing expositions on subjects that gave students the most trouble, starting with time value and portfolio theory. Those explanations really worked! Time value is a good example.

Students have a hard time even though they've generally seen it before. After reading my material students would come in saying, "I never really understood time value when I had it in accounting and math, but now I do!" As you can imagine, that felt pretty good.

Fifteen years later, after serving in a number of corporate financial positions including CFO, I changed careers, becoming a full time educator in order to pursue my first loves, teaching and writing. One of the results is *Practical Financial Management (PFM)*, now in its second edition. *PFM* is unique because of its *approach* to teaching finance. That approach is the result of a combination of classroom and practical experience. The theme is easy to summarize.

We begin every area of study by presenting the business problem or issue at its heart. We start this motivation from scratch, assuming students know nothing about the area. That's critical—we bring readers up from ground zero so there is no confusion and they know exactly where they are going and why. Look at the beginning of Chapter 8 on portfolio theory for an example. Key theories are explained clearly and are quickly backed up with practical examples.

Next, wherever math is involved we explain the physical and business relationships between variables verbally before developing or using equations. We spend time talking about what each piece of a relationship means as we put it together. That gives the equations substance and meaning to students who are less than comfortable in quantitative areas. See the development of IRR in Chapter 9 as an example.

Then, when we do use math or complex procedures we carefully explain what we're doing step by step. We assume students have the basic tools of algebra or accounting or statistics, but we don't assume they know that material well. This is another crucial point. Most students aren't really skilled in those areas. But because our systematic presentation recognizes that, they don't get lost or stuck. *PFM* is a resource students can use by themselves as well as under supervision. They can read whole chapters on their own and come to class better prepared than ever before. Look at the first pages in the development of the time value of money in Chapter 5 as an example. Also see the development of the statement of cash flows in Chapter 3 for the same idea in the context of difficult accounting material rather than math.

Finally, I've drawn on my years of experience as a financial executive, including time in the CFO's chair, to present some insights into how things *really* work. You'll find these explanations throughout the book. The best example deals with the problems associated with estimating cash flows for capital budgeting projects, which is found in Chapter 10. *PFM*'s end-of-chapter discussion questions are an important feature with respect to reality. A few in each chapter are mini-cases designed to open students' eyes to the realities of applying financial principles in actual business. The questions at the end of Chapter 10 on cash flow estimation provide some good examples.

Throughout, I've tried to write this book in a way that's easy to read, enjoyable, and unimimidating. The word that sums that up is "accessible." I think I've been successful, because reviewers have been unanimous in their praise of the work's conversational style and easy readability.

Thank you for adopting *Practical Financial Management*. I'm absolutely sure you and your students will be pleased with the learning experience they'll have as a result.

Changes to this Edition

Content Changes

- Ethics coverage has been expanded throughout.
- Coverage of MVA (market value added) and EVA (economic value added) has been added to Chapters 3 and 11.
- Financial calculator instructions and solutions to all time value problems have been added to Chapters 5 and 6.
- A section on cash budgeting has been added to Chapter 15.
- Coverage of statistics in Chapter 8 has been expanded.
- EU currency topics have been updated in Chapter 17.

Margin Notes

- Summarizing margin notes have been added throughout the text.

Internet Notes and Problems

- Internet addresses and descriptions are included in the margin material directing students to Web sites that expand upon the material being presented. Internet problems are also included in the end of chapter materials.

From the CFO

- The **from the CFO** feature highlights material that's based on the author's experience as a CFO. These comments deal with finance in actual practice, and offer tips and insights that are grounded in real-world experience.

INSIGHTS: Practical Finance

- **INSIGHTS: Practical Finance** boxed features provide information, analysis, and commentary on current topics in the real financial world.

INSIGHTS: Ethics

- **INSIGHTS: Ethics** boxes delve into ethical issues faced by financial managers in their professional lives, that are relevant to the topics being discussed, or that pertain to high-interest issues.

Supplements

Practical Financial Management comes with a full set of supplements, available in print and on the text web site.

STUDY GUIDE The study guide, prepared by Jenna J. Johannpeter of Belleville Area Community College, has been expanded in the second edition. It contains learning objectives for each chapter along with chapter summaries and detailed reviews that encapsulate relevant points and concepts. In addition, each chapter is reinforced with a generous number of self-test questions including true/false, multiple choice, fill-in, and problems. Answers are provided for all.

INTERNET SITE PFM's web site at <http://lasher.swcollege.com> contains Student Resources, Instructor's Resources, Internet updates and links, spreadsheet software, PowerPoint slides, and other useful features. Students can go directly to the text web site to link to the Internet addresses in the text margins and to work the end-of-chapter exercises.

INSTRUCTOR'S MANUAL The instructor's manual contains chapter-by-chapter focus statements, pedagogical tips, and teaching objectives. All of the Discussion Questions are answered in detail, and solutions to the Problems are fully worked out. In addition, the Instructor's Manual includes a disk containing the student spreadsheet templates, which may be copied for students or placed on a network, and the template solutions for the instructor. The disk also includes PowerPoint slides of solutions to end of chapter problems.

SOFTWARE PFM contains two types of computer problems in the end of chapter material. Some problems use spreadsheet templates, and others require students to create their own spreadsheets. The templates, developed by the author and Leonard W. Gajewski of Nichols College, are available on the text web site to both students and instructors.

POWERPOINT SOLUTIONS SLIDES The Instructor's Manual disk contains black-and-white PowerPoint Solutions slides with solutions to all numerical problems at the end of each chapter that can be used in class either as electronic slides or printed as transparency masters.

POWERPOINT LECTURE SLIDES A PowerPoint slide package for PFM is available on the text web site at <http://lasher.swcollege.com>. These color slides are particularly unique and complete. The entire text is broken into summarizing phrases and paragraphs along with graphics. The slides are essentially a detailed and highlighted outline that instructors can work from in front of a class, and that can also be downloaded by students for use in note-taking. Each illustrative example is summarized and provides a useful lecture and study tool.

TRANSPARENCY ACETATES Transparency acetates containing the most important figures from the text are available to adopters for use as lecture aids.

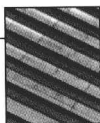
TEST BANK Revised and prepared by Lee McClain of Western Washington University, the test bank contains more than a thousand insightful questions categorized by topic area. The questions include multiple choice, true/false, fill-in, and problems.

THOMSON WORLD CLASS TESTING The *Thomson World Class Testing Tools*™ computerized testing program contains all of the questions in the printed test bank. *Thomson World Class Testing Tools*™ is an easy-to-use test creation software compatible with Microsoft Windows. Instructors can add or edit questions, instructions, and answers, and select questions by previewing them on the screen, selecting them randomly, or selecting them by number. Instructors can also create and administer quizzes online, whether over the Internet, a local-area network (LAN), or a wide-area network (WAN).

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William R. Lasher

ABOUT THE AUTHOR

The author has a unique background spanning both education and practice in finance. Prior to entering full-time academics, he worked for Texas Instruments, Harris Corporation, and the Pacific Telesis organization. He has held positions as a planner, a controller, and a subsidiary CFO. While working in industry he served as an adjunct professor at the University of Dallas, the University of Texas at Dallas, and Golden Gate University in San Francisco. He moved into education full time in 1988 by joining the faculty at Nichols College.

Professor Lasher has a BS and an MBA from Columbia University, received his PhD from Southern Methodist University, and is a certified public accountant. He has also published books on business planning, franchising, and the strategic management of small firms.

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