FIN 360: PRINCIPLES OF FINANCIAL MANAGEMENT
LONG TERM FINANCIAL PLANNING AND GROWTH
CRITICAL THINKING & CONCEPTUAL QUESTIONS

1. List and describe the four major elements of a financial plan.
2. While long term financial planning is largely about making capital budgeting decisions, explain how capital structure and working capital decisions are important to financial planning.
3. Explain why maximizing *shareholder value*, not *growth*, is the ultimate goal of the financial manager.
4. Explain why a firm maximizing liquidity can be problematic.
5. Explain how a firm's high liquidity can be a good thing.
6. Using a simple mathematical example, show that a $1,000 investment that grows to $1,100 yields a greater return if half of the investment is paid for with a loan charging 5% than if the full $1,000 was paid for by an investor using no borrowing.
7. Considering the example you provide in the previous problem, explain why mega-millionaires like Beyoncé and Jay-Z, and billionaires like hedge fund manager Ken Griffin, take out mortgages to purchase homes even though they can afford to pay cash.
8. Considering the example you provide in the earlier problem, explain why firms with billions of dollars of cash still carry debt on their balance sheets.
9. Describe the percentage of sales approach and what a pro forma statement is used for.
10. Why are certain items, including notes payable, long term debt, and common stock not forecasted as a percentage of sales?
11. Why is retained earnings not forecast as a percentage of sales? How do we determine retained earnings in our pro forma statements?
12. Explain why the pro forma balance sheet may not balance when using the percentage of sales approach, and what the difference between "*assets*" and "*liabilities + equity*" tells the firm.
13. Is it possible for the pro forma balance sheet to balance?
14. What does a positive value for EFN imply? What does a negative value for EFN imply?
15. What do we know about the EFN if the firm's sales growth is exactly the internal growth rate?
16. What do we know about the EFN if the firm's sales growth is exactly the sustainable growth rate?
17. What is the important assumption that we need to make when we compute internal and sustainable growth rates? Why is this assumption important?
18. Assume we calculate a positive EFN for the firm, but that the firm is not operating at capacity. Is the EFN we computed accurate? Why or why not?