Financial decision making

Corporate finance is the division of a firm concerned with the financial operation of a company (Investorwords, . The finance department deals with the financing of projects, selling of stock of the firm, and performing analysis about the current financial situation of the firm among other duties. 2. The capital structure of a company is the combination of debt and equity used by the firm. Debt and equity are the two primary components of the capital structure of a company. The balance sheet reflects the balance of these two accounts. Two financial securities that are sold on the market are common stocks and bonds. 3. The fundamental role of the financial market is to enable companies to raise money. a) The money markets deal with bonds, while the capital markets deal with stocks. b) The primary market occurs when a company issues a stock for the first time in an initial public offering (IPO). The selling and buying of stocks on Wall Street by investors represents the secondary market c) A spot market is a market in which commodities and securities are sold for cash and are delivered immediately, while a future market deals with contracts that give the buyer the right to a buy a predetermined amount of stocks or bonds at a future point in time (Altiusdirectory, 2011). 4. Capital budgeting deals with the financing of company projects. For example if a company wants to open a second manufacturing facility the financing for such a venture would be consider a capital budgeting project. 5. One of the goals of a company's governance system is to maximize shareholder wealth. The particular financial incentives offered by a firm are not consider a part of its governance system. Usually all financial incentives are known by the employees, but at times companies pay the employees special bonuses which are not a part of the traditional incentive system. This occurs when a company has a very good accounting period. 6. When starting a business a person can choose individual ownership, partnership, or corporation. The corporation has the advantages of being the best business form to raise capital, it limits the liability of the investor, and it is best suited to receive governmental incentives. The cons of the corporate form of business includes double taxation, less control over the decision making of the firm, and the possibility of devaluation in the value of the equity based on market activity. Joint and several liabilities apply only to partnerships. The most prevalent business structure utilized on today's economy is the corporation. 7. An S corporation is a type of corporation that elects to pass corporate income, losses, deductions, and credit through to their shareholders for federal tax purposes (Irs, 2010). 8. Double taxation refers to a situation in which the owner of a company pays tax twice. The company pays taxes on the earnings and the stockholders pay taxes once again on these earnings whey they are paid dividends. Bondholders are not subject to double taxation because they are not owners of the firm. 9. Strategy A: 100 million shares; $400 million profits Strategy B: 200 million shares; $100 million profits The first alternative is more profitable, but in the long run the second strategy might be best because it will provide the company with two ways to earn income instead of one. 10. The goal of all publicly traded organizations is to maximize shareholder's wealth. A company can go bankrupt even if they generate a positive net income. This special situation occurs if the firm faces cash flow problems. 11. Agency problems occur when there is a conflict of interest between the managers and the organizational goals. An example of a case in which agency problems impacted a corporation is the Enron case. The managerial staff got rich by selling off its stocks, while the stockholder and employees took the entire fall as the stocks of the firm became worthless. 12. Compensation contracts can impact agency problems. For instance if a CEO is offered a bonus for sales growth, the manager might be inclined to falsify the accounting numbers in order to get paid more. Agency problems can have a negative impact on a company. 13. Ethics involves decisions between right and wrong. In the corporate world companies are often faced with ethical decisions. Some decisions made a company can be legal, but unethical at the same time. For example if a company decides to shutdown an operation to move to a foreign location to save money the firm is within its rights to perform that decision. Despite being legal the decision might be perceived as unethical because the decision cost the community hundreds of jobs. It is not ethical for a CEO to sell the company's stock when they think it might be going down due to the fact that the CEO may base his decision on insider information. It is illegal to use insider's information to earn a financial gain. References Altiusdirectory. com (2011). Spot Market vs Future Market. Retrieved March 22, 2011 from http://www. altiusdirectory. com/Finance/spot-market-vs-future-market. html Investorwords. com (2011). Corporate Finance. Retrieved March 22, 2011 from http://www. investorwords. com/6773/corporate_finance. html Irs. gov (2010). S Corporations. Internal Revenue Service. Retrieved March 22, 2011 from http://www. irs. gov/businesses/small/article/0,, id= 98263, 00. html