



## **Finance: Applications and Theory, 5<sup>th</sup> Edition**

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### **Changes in the Fifth Edition:**

The 2018 Tax Cuts and Jobs Act significantly impacts a firm's cost of capital, estimation of project cash flows, and more. As capital budgeting is an important part of this book, we have quickly incorporated the new environment into our theory and applications. In addition, we have updated every chapter. Below are the changes we made for this fifth edition, broken out by chapter.

### **Overall Changes:**

- Simplified figures where appropriate and added captions to emphasize the main “takeaways”
- Updated data, company names, and scenarios to reflect latest available data and real-world changes
- Cross-referenced numbered examples with similar end-of-chapter problems and self-test problems so students can easily model their homework
- Updated the numbers in the end-of-chapter problems to provide variety and limit the transfer of answers from previous classes

## **Chapter-by-Chapter Changes:**

### **Chapter 1: Introduction to Financial Management**

- Updated the Personal Application with information on firms that have filed for bankruptcy more recently
- Changed Learning Goal 1-9 to address the new tax law change and its ramifications on businesses
- Updated the data in Example 1-2 on executive compensation
- Replaced Section 1.7 on the financial crisis with a new Section 1.7: Big Picture Environment, to discuss the ramifications of the Tax Cuts and Jobs Act of 2017

### **Chapter 2: Reviewing Financial Statements**

- Added discussion of changes to recording of bonus depreciation under TCJA
- Added new TCJA corporate tax rate throughout the chapter, in-chapter examples, self-test problems, end-of-chapter questions and problems
- Added new TCJA cap on tax deductibility of interest
- Added a new Finance at Work box
- Added updated financial examples

### **Chapter 3: Analyzing Financial Statements**

- Added more discussion of how TCJA affects tax deductibility of interest and, thus once the tax deductible limit is reached, the attractiveness of debt as a source of financing
- Updated all in-chapter examples, end-of-chapter problems, and Integrated Mini-Case to reflect new tax law

### **Chapter 4: Time Value of Money 1: Analyzing Single Cash Flows**

- Updated the data in Figure 4.5 on gold prices
- Updated the gold return data in the Mini-Case

### **Chapter 5: Time Value of Money 2: Analyzing Annuity Cash Flows**

- Updated discussions to current events

### **Chapter 6: Understanding Financial Markets and Institutions**

- Updated figures and tables throughout the chapter
- Noted that the TCJA has put a \$10,000 limit on tax relief on interest on municipal bonds

### **Chapter 7: Valuing Bonds**

- Updated Figures 7.1–7.5 on bond issuance, interest rate path, yield to maturities, new bond quotes, and a summary of the bond market
- Updated Marginal Tax Brackets in Self-Test Problem #3
- Changed problem answers in Connect to reflect previous change in Treasury bond quote format

## **Chapter 8: Valuing Stocks**

- Updated all table and figure values in the body of the chapter
- Updated the coverage of the stock market exchange in Section 8.2 to discuss the changes that have occurred in the NYSE and elsewhere
- Revised examples to include new firm data and solution figures

## **Chapter 9: Characterizing Risk and Return**

- Revised the example that runs throughout the chapter to replace Staples with Boeing
- Updated all table and figure values in the body of the chapter
- Updated Timeout 9-2 and 9-4
- Revised Example 9-1 to discuss the failed Broadcom takeover of Qualcomm
- Revised Example 9-2 to include Boeing and Bank of America
- Revised the data for the end-of-chapter Excel problem
- Updated the data in the Mini-Case problem

## **Chapter 10: Estimating Risk and Return**

- Updated values and data in Tables 10.1–10.4
- Changed discuss and Figure 10.2 to be about Disney
- Updated the Mini-Case data
- Updated data for end-of-chapter Excel problem

## **Chapter 11: Calculating the Cost of Capital**

- Added new TCJA corporate tax rate throughout the chapter, in-chapter examples, self-test problems, and end-of-chapter questions and problems
- Updated Viewpoints to reflect revised corporate and personal tax rates
- Revised conceptual material throughout chapter to reflect the fact that, under TCJA, some interest on debt may not be fully tax deductible, while at the same time more capital expenditures are now immediately expensable using bonus depreciation or increased Section 179 deductions
- Updated Equation 11-1 and added Equation 11-2 to reflect two possible cases for the deductibility of debt interest
- Revised discussion of corporate tax rates in calculation of project WACC

## **Chapter 12: Estimating Cash Flows on Capital Budgeting Projects**

- Added new TCJA corporate tax rate throughout the chapter, in-chapter examples, self-test problems, and end-of-chapter questions and problems
- Updated Viewpoints to reflect revised corporate tax rates
- Revised discussion of calculation of OCF and total cash flows to reflect updated corporate tax rates
- Added discussion of bonus depreciation revised discussion of Section 170 deductions to reflect TCJA

### **Chapter 13: Weighing Net Present Value and Other Capital Budgeting Criteria**

- Clarified the discussions of discounted payback and internal rate of return
- Refined the discussion of why using rate-based and time-based decision statistics to choose across projects can be misleading with regards to NPV

### **Chapter 14: Working Capital Management and Policies**

- Refined discussion of the rationale for NWC and the tradeoffs inherent in having too little or too much

### **Chapter 15: Financial Planning and Forecasting**

- Added new TCJA corporate tax rate throughout the chapter, in-chapter examples, self-test problems, and end-of-chapter questions and problems

### **Chapter 16: Assessing Long-Term Debt, Equity, and Capital Structure**

- Added new TCJA corporate tax rate throughout the chapter, in-chapter examples, self-test problems, and end-of-chapter questions and problems
- Updated Viewpoints to reflect revised personal tax rates

### **Chapter 17: Sharing Firm Wealth: Dividends, Share Repurchases, and Other Payouts**

- Revised discussion of investors' preferences for dividends or capital gains in light of TCJA changes
- Updated illustration of GE's dividend policy to reflect revised corporate dividend policy

### **Chapter 18: Issuing Capital and the Investment Banking Process**

- Updated all figures, tables, and values throughout the chapter
- Added discussion of large bank versus small bank business loan activity
- Added discussion of impact of rising interest rates on debt and equity issuance

### **Chapter 19: International Corporate Finance**

- Revised the chapter introduction to include new data about Starbucks
- Updated all table and figure values and data in the body of the chapter
- Updated Example 19-1 to include new exchange rate data

### **Chapter 20: Mergers and Acquisitions and Financial Distress**

- Updated all figures, tables, and values throughout the chapter
- Added discussion of ATT/Time-Warner merger
- Added defaults of investment grade versus speculative grade debt
- Added a new Finance at Work box