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Enhancing shareholder wealth: *while the overall aim of all listed firms is to maximise shareholder wealth, specific financial aims in a firm's annual report would not normally make reference to this*

- Decrease cash for bonuses
- Increase brand reputation and recognition
- Invest in projects with positive NPV
- Decrease average cost of capital
  - If entity is all-equity financed, raising debt finance will decrease its cost of capital
- Moving profitable operations to low tax regimes

NOT FOR-PROFIT (NFP) ENTITIES: primary objective is provision of an acceptable level of service to key stakeholders; since services provided are limited by available funds, secondary objective is to raise maximum funds and to use such funds efficiently to maximise benefited generated

- **Public sector entities**: *ie hospitals, nationalised industry, government*; generally run to the benefit of society overall and often regulated; but major problem is obtaining a measurable objective:
  - Budgetary compliance: usually set by government
  - Risk exposure: risk averse due to political repercussions of failure
  - Profitability: largely absent as a concept in its truest form, but may be used to relate inputs to outputs
  - Cash generation
  - Value added
  - Return on Assets (RoA): interpretation impacted in the public sector as concept of profit is largely absent
  - Market share: increasingly relevant
  - Competitive position: increasingly relevant

Value for money (VFM) / 3Es: useful means of appraising NFP performance under the umbrella term 'cost-effectiveness'; the optimal use of resources to achieve the intended outcome

1. **Economy** (input measure): minimise the cost of resources (inputs) used; spend less
2. **Efficiency** (links input to output): relationship between products (outputs) and resources (inputs) used to produce them; spend well
3. **Effectiveness** (output measure): relationship between inputs and actual results of public spending (outcomes); spend wisely

...a fourth E is suggested: 4. **Equity**: extent to which services reach all people intended; spend fairly

- **VFM audit**: investigating whether arrangements have been made for securing 3Es in use of resources; focuses on specific area of expenditure to conclude if VFM has been achieved
  - Purpose: independent analysis on the way money has been spent to achieve policy objectives

For profit entity	Not for profit entity
Aim to maximise shareholder wealth	Aim to provide an acceptable level of service to key stakeholders and are concerned with VFM
Aim to satisfy a wide range of stakeholders	Aim to satisfy a wide range of stakeholders
Have financial and profit objectives	Do not have profit orientated objectives, but may have financial objectives

INTERNATIONAL OPERATIONS: entities are increasingly expanding across national boundaries in the modern business environment, resulting in some additional considerations:

Strategic considerations of international expansion	Financial considerations of international expansion
Risk management: interest rates, foreign exchange rates, government policy Competition: foreign markets may have weaker/stronger competition	Maximisation of shareholder wealth: by undertaking positive NPV projects internationally
Customers: may enhance/worsen customer relationships by moving closer/further away; while also exposing the firm to pool of potential new customers Economies of scale Costs: higher distribution costs; possibly lower raw materials and labour costs	Impact on financial statements: assets/transactions denominated in a foreign currency must be converted to the domestic (functional) currency, thus exposing the entity to translation risk as exchange rates fluctuate
Ethical issues: taking advantage of less developed labour laws Cultural issues: differences in language, customs, and advertising	Impact on cost of capital: likely to change to reflect increased associated risk

FINANCIAL PERFORMANCE APPRAISAL: investors (shareholders and lenders) appraise entity performance to asses whether it represents a good investment, necessitating ratio analysis:

- **Gross profit** = Revenue / sales - Cost of goods sold (COGS)
- **Operating profit** / Profit before interest and tax (PBIT) = Gross profit - Operating expenses
- **Profit before tax** = Operating profit - Finance costs (interest payable)
- **Earnings** / Net income / Profit after tax (PAT) = Profit before tax - Tax

PROFITABILITY RATIOS: ideal value varies; important to compare over time and between entities

- **Gross profit margin**: % of revenue retained after cost of goods sold (COGS) are deducted

$$Gross\ profit = Revenue - Cost\ of\ goods\ sold\ (COGS)$$

$$Gross\ profit\ margin = \frac{Gross\ profit}{Revenue} \times 100\%$$

- **Operating profit margin**: profit after operating expenses (indirect costs such as administration and distribution costs) but before interest (finance costs) and tax are deducted

$$Operating\ profit = Gross\ profit - Operating\ expenses = Profit\ before\ interest\ and\ tax\ (PBIT)$$

$$Operating\ profit\ margin = \frac{Operating\ profit}{Revenue} \times 100\%$$

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CIMAPRA19-F03-1 exam covers a wide range of topics, including risk management, investment decisions, business valuation, and capital structure. F3 Exam is three hours long and consists of a mix of multiple-choice questions and scenarios-based and objective testing. The level of difficulty of the exam is relatively high, which makes it important for candidates to be adequately prepared before attempting to take it.

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CIMA F3 (Financial Strategy) certification exam is an essential qualification for those seeking a career in financial management. It covers a range of topics that are critical to effective financial management, and passing it can provide significant career benefits. Candidates should be prepared to invest significant time and effort into preparing for the exam, but the rewards of becoming certified can be substantial.

CIMA F3 Financial Strategy Sample Questions (Q387-Q392):

NEW QUESTION # 387
STU has relatively few tangible assets and is dependent for profits and growth on the high-value individuals it employs. Which of the following statements best explains why the net asset valuator method's considered unstable for TU?

- A. STU accounts for its intangible assets at historical value.
- B. STU does not account for its intangible assets.
- C. STU does not account for its tangible assets
- D. STU accounts for its intangible assets at net realisable value.

Answer: B

Explanation:
STU's value is mainly in its people (human capital) and has few tangible assets. Net asset valuation relies on balance sheet assets, but internally generated intangibles like human capital are not recognised under normal accounting rules. So the accounts understate the real value of the business.

NEW QUESTION # 388
A company has forecast the following results for the next financial year:
The following is also relevant:
* Profit after tax for the year can be assumed to be equivalent to free cash flow for the year.
* Debt finance comprises a $10 million floating rate loan which currently carries an interest rate of 5%.
* $400,000 investment in non-current assets is required to achieve required growth, all of which is to financed from next year's free cash flow.
* The company plans to pay a dividend of $150,000 next year, financed from next year's free cash flow.
The company is concerned that interest rates could rise next year to 6% which could then affect their investment plans.

CIMA	$'000
Operating Profit	1,300
Interest	(500)
Profit before tax	800
Taxation (25%)	(200)
Profit after tax	600

If interest rates were to rise to 6% and the company wishes to maintain its dividend amount, the planned investment expenditure will decrease by:

- A. $50,000
- B. $25,000
- C. $75,000
- D. $100,000

Answer: B

NEW QUESTION # 389
Company C invests heavily in Research and Development an need to raise $45 million to finance future projects. It has decided to use equity finance raised by a tender offer, The following tender offers have been received from potential investors:

Maximum price offered ($ per share)	Number of shares requested at the price (million)
$4.25	12.0
$4.50	3.0
$4.75	2.0
$5.00	5.0

Company C wishes to select an offer price that will project shareholders from a significant dilution of control but still raise the required amount of finance.
What offer price should Company C's select?

- A. $4.50
- B. $4.00
- C. $4.75
- D. $4.25

Answer: A

Explanation:
We need to raise $45m with minimum dilution, so choose the highest price at which there is sufficient demand.
Demand at or above each possible offer price:

$5.00 # 5m shares # $25m (insufficient)
$4.75 # (2 + 5) = 7m shares # 7 × 4.75 = $33.25m (insufficient)
$4.50 # (3 + 2 + 5) = 10m shares # 10 × 4.50 = $45m (exactly enough)
$4.25 or $4.00 would raise more than $45m but require issuing more shares # more dilution.
So the best price that still raises $45m is $4.50.

NEW QUESTION # 390
An unlisted software development company has recently reported disappointing results. This was partly due to weak economic conditions but also because of its poor competitive position. The company has a number of exciting development opportunities which would enable it to achieve significant future growth. The company's growth potential has been hindered by its inability to secure sufficient new finance.
To enable the company raise new finance the Directors are considering working forwards an IPO in 10 years and accepting finance from a venture capitalist in order support in the intervening period.
The directors are keen to retain a controlling stake in the company and full representation on the board. They therefore require venture capitalists to provide funds as a mix of debt and equity and not soley equity finance.
Which THREE of the following are most likely to disrupt the directors' plans to use venture capital finance?

- A. The venture capital finance offered is much more expensive than expected.
- B. Venture capitalists only provide equity finance and will therefore not be interested in providing a combination of debt and equity finance.
- C. Venture capitalists always require ownership of more than 50% of the shares in a company to ensure control.
- D. Venture capitalists normally expect an exit strategy sooner than the planned IPO in 10 years'time.
- E. Venture capitalists normally expect at least one seat on the board.

Answer: A,D,E

NEW QUESTION # 391
A listed company in the retail sector has accumulated excess cash.
In recent years, it has experienced uncertainly with forecasting the required level of cash for capital expenditure due to unpredictable economic cycles.
Its excess cash is on deposit earning negligible returns.
The Board of Directors is considering the company's dividend policy, and the need to retain cash in the company.
Which THREE of the following are advantages of retaining excess cash in the company?

- A. Retaining excess cash may make the company vulnerable to hostile takeover.
- B. The company will be in a position to respond promptly to unexpected investment opportunities.
- C. Liquidity problems are less likely to be experienced if there is a downturn in business.
- D. The excess cash is earning a negligible return.
- E. The market may interpret the return of excess cash as a sign of weak growth prospects.

Answer: B,C,E

Explanation:
C - More cash = able to react quickly to unexpected investment opportunities.
D - Cash buffer reduces the likelihood of liquidity problems in a downturn.
E - If excess cash were returned, markets might read it as "no good growth opportunities", so retaining avoids that negative signal.

NEW QUESTION # 392
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