REVISION CARDS

F3

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1. Strategic financial objectives

Financial Performance Evaluation

- **Financial ratios are calculated in order to assess the health and performance of the organization. This will be a key evaluation point of investors to gauge whether their investment is performing well.**
- **Three main types of ratios are : Profitability / Lender / Investor ratios.**

**** Main requirement here is the ability to interpret the result of the ratio rather than carrying out the calculations.**

Profitability Ratios	Lender Ratios	Investor Ratios
Gross Profit Margin	*Capital Gearing Ratio*	*Earnings Per Share*
Net Profit Margin	*P/E*	*Price/Earnings Ratio (P/E)*
ROCE		*Earnings Yield*
ROE		*Dividend Payout Ratio*
		Dividend Yield
		Dividend Cover

*** Use of EBITDA**

*** Use of market vs book values.**

2. Development of Financial Strategy.

The key decisions of financial strategy

- **Investment : What projects need to be undertaken**
- **Financing : How should the funds be raised**
- **Dividend : How much you be allocated to be paid each year as a return to the investors and re-invested.**

- **Financial managers have responsibility for the allocation of financial resources to achieve the organization's objectives. An important part of their job is to understand the short, medium and long-term capital requirements for investment in fixed assets and working capital that fits with the overall strategy and the return that needs to be paid out back to shareholders in order to satisfy them of the investment they've made.**

Factors to consider when considering an investment;

1. **The liquidity of the company**
2. **The reported profits and earnings**
3. **The variability of cashflows and earnings.**

3. Development of Financial Strategy.

The key decisions of financial strategy

Factors to consider when considering **Financing** an investment ;

1. Extent to which the investment can be funded internally
2. Should externally raised debt be in the form of debt or equity.
3. The extent to which working capital should be financed by long term – finance or short term – credit.
4. Liquidity Implications.
5. The optimum level of cash to hold.
6. Currency of the finance that is required.

** Main two sources of finance: Debt & Equity.

Matching Investment with the right type of funding;

- The matching approach to financing is where the profile of the of the entity's financing matches the profile of the assets being funded.
- This principle can be applied to the matching of maturities.
- For example, using long-term finance to fund both non-current assets and permanent current assets, and financing fluctuating current assets by short-term borrowings.

3. Development of Financial Strategy.

The key decisions of financial strategy

Factors to consider when considering paying **dividends** from the returns of the investment ;

1. The amount to be paid out
2. The amount to be retained to be re-invested in the organization.

- When deciding on the type of investment and level of finance needed, the financial manager must have regard for the potential effects on the risk and level of dividends payable to shareholders. If the shareholders are not happy with their return, they will be reluctant to invest further, which in turn will affect the funding available for future investment. However, the cash needs of the business must also be considered.