

ICSA Professional Level  
Corporate  
Financial Management

Exam Buster cards

# Corporate Financial Management

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# Preface

We hope you enjoy your Onestudy “On The Move” pocket cards.

We feel that they will assist you in completing your goal because:

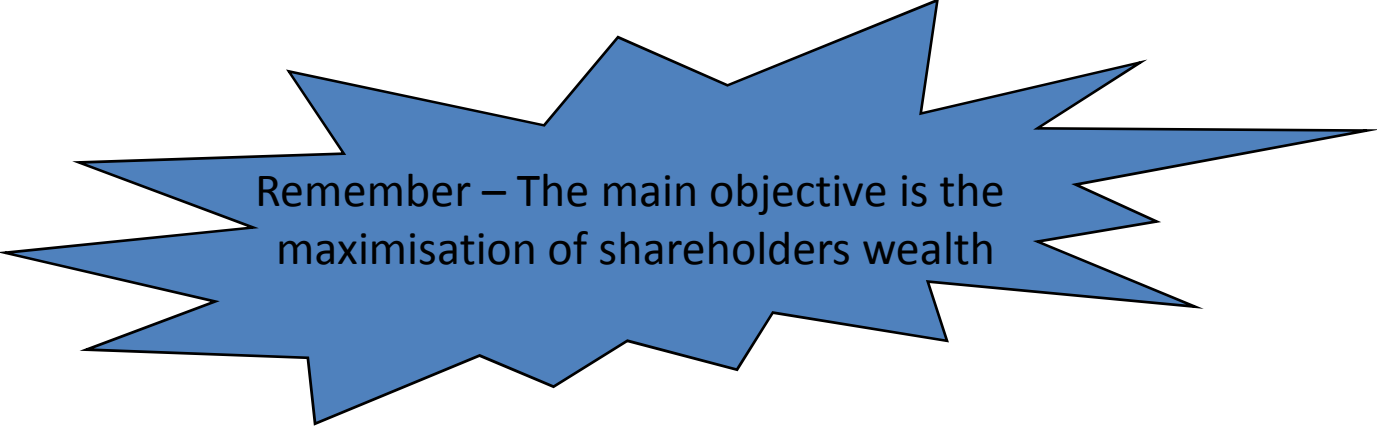
- They are just the size for pockets or bags, enabling you to study whilst travelling;
- The chapters are summarised, enabling you to revise and recall your knowledge of each area in bite size chunks;
- They provide space for you to jot down any valuable notes;
- They contain exam guidance.

*Use the cards as often as you can, to ensure you have all the information in your memory ready to transfer to the exam paper!*

# CHAPTER 1 - Financial Objectives

## Decisions a Company Must Make

- The investment decision – Which projects?
- The financing decision – Loans, shares or earnings?
- The dividend decision – Increase or reduce?



Remember – The main objective is the maximisation of shareholders wealth

## Other Company Objectives

- Maximise profits
- Good corporate citizen
- Growth
- Innovation
- Environment issues

# Types of Company

Company	Characteristics
Public	May be listed – AIM or full; Can issue shares to the public; Must have 2 members; £50,000 share capital; Associated with corporate growth; Shares more marketable; Risk of takeover.
Private	Cannot offer shares to the public; Can be single member; More control for owners; Agency problem reduced due to owner-managers.
Guarantee	Undertake to pay an agreed amount if company is wound up; No shares; Used for charities and clubs.

# Stakeholders

## Definition –

A person or a body that has some kind of interest in the success of the company.

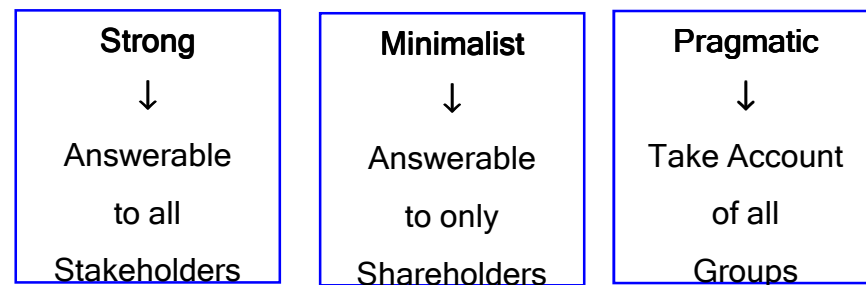
## Examples –

Shareholders, employees, directors, creditors, bank, community

## Stakeholder theory

A model which analyses the ways in which management can take account of and satisfy the needs of the different stakeholders.

### 3 Forms:



## Agency Theory and the Agency Problem

- Agency theory definition - Agent acts on behalf of principle.
- Example – Management/shareholder relationship.
- Agency problem – Management may not act in the best interests as they are focused on their own financial reward.
- Goal congruence – Achieved when objectives of agents match those of principles.

## How can Goal Congruence be Achieved?

Stock Option schemes	Give senior managers a right to buy shares at fixed price at a specified time in the future	May lead to share price volatility. Exercise price may be manipulated.
Profit related incentives	Bonus based on earnings per share.	Accounts can be manipulated. <b>Satisficing</b> – Managers only do enough to provide an adequate return, rather than maximising return.
General forces	If managers fail to maximise return, they may be penalised in the job market	The less buoyant the job market, the less managers have to do to secure lucrative jobs.