

# CIMA

## CIMAPRO19-CS3-1

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## Question: 1

Reference Material:

### Business Weekly

#### **US President refuses to be drawn on weak USD**

The USD remains weak after a succession of disappointing economic indicators, with leading economists warning that a further decline may be on the way.

At a press conference yesterday, the US President claimed that there was no cause for alarm and that the US economy remains fundamentally strong.

The President refused to indicate whether the US Government would act to sustain the USD, stating that any such action would be premature.

You have received the following email from Marcus Svenson, Finance Director:

From: Marcus Svenson, Finance Director

To: Senior Finance Manager

FW: Pricing

Hi,

I am forwarding an email from Sarah Johns.

Sarah has not been with us for very long and this is her first experience of dealing with a currency price movement.

I am really busy, so I need you to respond to her requests. Please email her as soon as possible.

Marcus

From: Sarah Johns, Marketing Director

To: Marcus Svenson, Finance Director

Subject: USD movement

Hi Marcus,

A lot of our biggest customers are threatening to cancel orders unless we reduce our selling prices.

Timber and associated products are commodity items that are priced in USD, so I thought that our prices would automatically remain competitive regardless of what happened to the USD. I am particularly confused over domestic sales, because many of the customers who have threatened to cancel are based in this country and we invoice them in M\$.

Please help me to understand why the M\$/USD exchange rate can affect our competitive position in this way.

I also wish to know why you have chosen to do nothing to hedge against this risk. If you look at the attached article you will see that the USD is an issue in the business news.

Sarah

**Answer: Complete your answer and submit.**

Explanation:

## Question: 2

Reference Material:



**Analyst blog entry, dated 28 June 2013**

**What makes a good analyst briefing?**

I attend at least two briefings a week. The good ones can be excellent and help me to really understand a company. The bad ones are a complete waste of my time.

Good briefings tend to last 30 minutes to an hour. They need to be long enough to offer meaningful content, but not so long as to waste my time.

The briefing should focus on a specific message that the company wishes to communicate. I am delighted to be briefed on a forthcoming new product, especially if little is known about it in the public domain and I appreciate being briefed on a recovery plan that addresses a specific concern. I always feel cheated by briefings that cover company history or industry background because I often feel that I know more about those than the managers conducting the briefing.

My biggest hate is when the briefing team starts by asking me what I would like to know. My hope is that they have called the briefing in order to tell me something useful, and that generally means that they have a specific agenda to cover.

Woddy's Chief Executive, Peter Sorchi has stopped you in the corridor:

"This weak USD is really causing us some serious problems. I think that it is only a matter of time before the stock market starts to get nervous and I am worried that our share price will fall in the near future. Thank goodness it does not appear to have fallen by much so far.

I would like to brief the Board on two main issues tomorrow. Firstly, what can we do as a Board in order to minimise the negative impact of the weak USD on our share price? Secondly, we know the identities of the key investment analysts who deal with our industry. Would it be a good idea for us to brief them? Please also consider the ethical issues arising from both of these topics as well as the more technical matters.

Please let me have a copy of your briefing notes in advance. I need to be able to sound convincing at the meeting. I'll also have my secretary refer you to a really helpful blog."

**Answer: Complete your answer and submit.**

Explanation:

### Question: 3

You are sitting in your office when you hear Marcus Svenson, the Finance Director, speaking on the telephone. You can hear only Marcus' side of the conversation:

"Hello, I would like to speak to Sally Walker please. It is Marcus Svenson here. (pause)

Hi Sally, you contacted me six months ago to discuss a job opportunity that you thought I'd be suitable for. I said that I didn't wish to pursue it at that time because I was committed to Wodd. Things have changed since then and I would like to be considered for a finance directorship in another company. (pause)

Yes, I'm still with Wodd. (pause)

Yes, I realise that there was an unfortunate story in the business press about the problems that the weak

USD is causing us, but there was very little that I could do to prevent that. (pause)

I am sorry to hear that. I had hoped to move on." (sound of telephone hanging up and door opening)

Marcus discovers that you are sitting at your desk and realises that you would have heard his side of the call.

"Please don't tell anybody what you heard. Would you regard it as unethical to respect my privacy?

I suspect that the CEO knows that I am thinking of leaving. He commented on the need for Board members to be loyal to Wodd at the last Board meeting. But don't you agree that the shareholders can better protect themselves against currency fluctuations than the directors?

The crazy thing is that I suspect that the Chairman will dismiss me next month. If that happens, I get a year's salary as a severance package. That will really annoy the shareholders. How can I justify accepting the severance package if I am effectively being dismissed for failing to manage Wodd's finances properly?

I need to explain at the next Board meeting why it would have been difficult to evaluate the risk of the USD weakening. According to an article I read, it has been picked up as a serious problem for us. How would you advise me to explain that?"

Reference Material:

# Business Weekly

## Wodd's Dollar blues

Wodd's Chief Executive warned shareholders that the company was struggling to maintain sales volume, even with a reduced profit margin. The weak USD is making it difficult for the company to compete with US forestry companies.

The position of several key Board members is thought to be under threat.

We await developments with interest.

**Answer: Complete your answer and submit.**

Explanation:

## Question: 4

You have received the following email from Marcus Svenson, Finance Director:

From: Marcus Svenson, Finance Director

To: Senior Finance Manager

Subject: Investment opportunity

Hi,

The Board is considering an investment opportunity to buy a forest in Bravador, a country in South America. This will be a major expansion and will also enable us to diversify into new lines. For example, the forest contains lots of hardwood varieties that we could sell to companies in the double glazing industry or to furniture manufacturers. I downloaded the attached extract from an online encyclopaedia for your information.

The forest that we are planning to buy has not been used for commercial purposes until now. The land belonged to the Government for many years and it has been left to grow naturally. The Government is now keen to sell the land and has agreed that it may be used for commercial forestry purposes.

This investment will enable us to increase our output of softwoods by up to 20% per year, in addition to enabling us to enter the hardwood market.

I need two things from you. I need you to recommend a suitable approach to managing our relationship with the Bravadorian Government. I also need you to identify and explain the political risks that will remain even if we succeed in creating a sound relationship with the Government.

Marcus

Reference Material:

# Encyclopaedia of Trees (extract)

## Hardwood



Hardwood is derived from trees that reproduce from flowers and have broad leaves.

The wood from these trees tends to be harder than from softwood varieties although this is not always the case, with hardness varying considerably between species.

Commercially, hardwood is used in a variety of applications including boat building, furniture making and flooring. Hardwood tends to cost more than softwood. Some species of hardwood trees are becoming scarce because of over-exploitation.

## Softwood



Softwood trees develop seeds on the surface of scales or leaves, often in the form of cones.

Softwood trees tend to grow much more quickly than hardwood and are generally better suited to commercial forestry applications.

The wood is generally less expensive. It is often used for construction, either as planks or beams or pulped and reconstituted as medium density fibreboard (MDF) or chipped and pressed into chipboard.

Pulp from softwood trees is also used in the manufacture of paper.

**Answer: Complete your answer and submit.**

Explanation:

## Question: 5

Peter Sorchi, Wodd's Chief Executive has stopped you in the corridor:

"We signed a memorandum of understanding with the Bravadorian Government last night. Effectively, we are now the new owners of a forest in a new continent for us. It has already made it onto the business pages in the press.

Once the formalities are completed, we will be entering into new commercial territory. Our surveyors have looked at the first area that we intend to develop and there is a lot more hardwood than we first expected. That is good news in a way because it can be sold at a premium, but we don't have any experience of selling hardwood and we are hardly going to pulp it for MDF or paper. I need you to identify the changes that we will have to make and to recommend how best to manage them.

The funding arrangements are still being worked out. Bravador's banks are not in a position to fund a transaction of this size and none of the other banks that we have approached are prepared to lend to us.

We will need to raise additional equity. I realise that we would normally make a rights issue, but I think that it would be simpler and cheaper to suspend the dividend for a year, which would cover most of the purchase price in itself. Please advise me on the advantages and disadvantages of doing that.

It would be ideal if you could let me have a briefing paper on both of these matters urgently."

Reference Material:

### Business Weekly

#### Wodd's jungle adventure

Wodd announced the purchase of a major forest in South America. This will further consolidate the company's position in the market for wood pulp. It will also create some interesting new opportunities because the forest contains significant untapped hardwood resources.

It will be interesting to see how Wodd responds to the challenges associated with this investment. There are significant profits to be made, but there are also significant pitfalls to be avoided.

**Answer: Complete your answer and submit.**

Explanation:

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