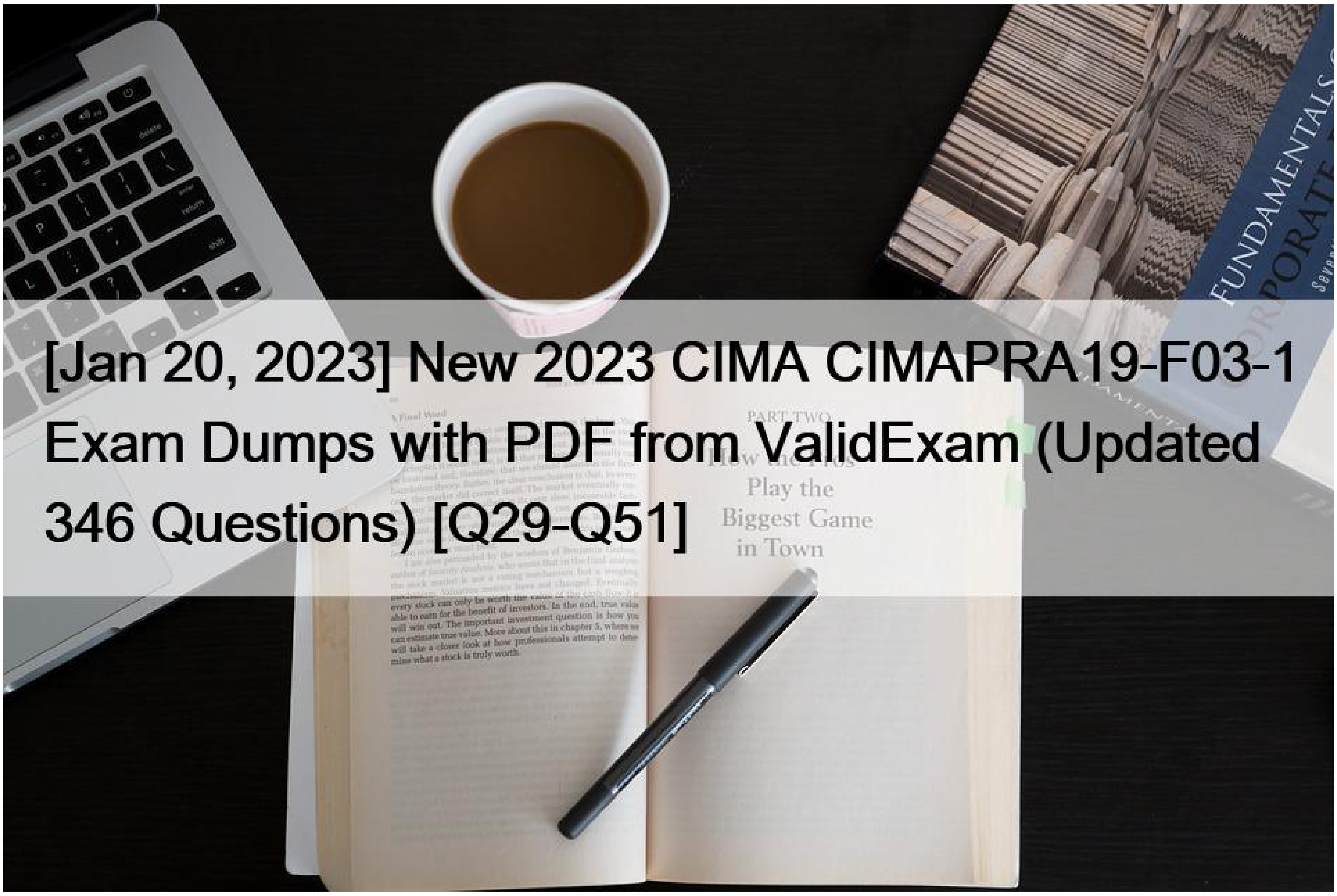
[Jan 20, 2023 New 2023 CIMA CIMAPRA19-F03-1 Exam Dumps with PDF from ValidExam (Updated 346 Questions) [Q29-Q51



New 2023 CIMAPRA19-F03-1 exam questions Welcome to download the newest ValidExam CIMAPRA19-F03-1 PDF dumps (346 Q&As) P.S. Free 2023 CIMA Strategic level CIMAPRA19-F03-1 dumps are available on Google Drive shared by ValidExam NO.29 A company has a financial objective of maintaining a gearing ratio of between 30% and 40%, where gearing is defined as debt/equity at market values.

The company has been affected by a recent economic downturn leading to a shortage of liquidity and a fall in the share price during 20X1.

On 31 December 20X1 the company was funded by:

* Share capital of 4 million $1 shares trading at $4.0 per share.

* Debt of $7 million floating rate borrowings.

The directors plan to raise $2 million additional borrowings in order to improve liquidity.

They expect this to reassure investors about the company’s liquidity position and result in a rise in the share price to $4.2 per share.

Is the planned increase in borrowings expected to help the company meet its gearing objective?
* No, gearing would increase but the gearing objective would be met both before and after the announcement.
* No, gearing would increase and the gearing objective would be exceeded both before and after the announcement.
* No, gearing would increase and the gearing objective would be met before the announcement but exceeded after the announcement.
* Yes, gearing would fall and the gearing objective would be exceeded before the announcement but met after the announcement.

NO.30 A company is considering taking out $10.000,000 of floating rate bank borrowings to finance a new project.

The current rate available to the company on floating rate barrowings is 8%. The borrowings contain a covenant based on an interested cover of 5 times.

The project is expected to generate the following results:

	$'000
Revenue	10,500
Costs	(5,000)
Profit before interest and tax	5,500
Interest on borrowings at 8%	(800)
Profit before tax	4,700
Tax at 20%	(940)
Profit after tax	3,760

At what interest rate on the floating rate borrowings is the bank covenant first breached?
* 10.0%
* 11.0%
* 8.0%
* 9.4%

NO.31 Using the CAPM, the expected return for a company is 10%. The market return is 7% and the risk free rate is 1%.

What does the beta factor used in this calculation indicate about the risk of the company?
* It has greater risk than the average market risk.
* It has lower risk than the average market risk.
* It has the same risk as the average market risk.
* It is not possible to tell from CAPM.

NO.32 Company Z has identified four potential acquisition targets: companies A, B, C and D.

Company Z has a current equity market value of $580 million.

The price it would have to pay for the equity of each company is as follows:

	Z+A	Z+B	Z+C	Z+D
Equity market value ($ million)	625	643	640	655

Only one of the target companies can be acquired and the consideration will be paid in cash.

The following estimations of the new combined value of Company Z have been prepared for each acquisition before deduction of the cash consideration:

Ignoring any premium paid on acquisition, which acquisition should the directors pursue?
* A
* B
* C
* D

NO.33 Company B is an all equity financed company with a cost of equity of 10%.

It is considering issuing bonds in order to achieve a gearing level of 20% debt and 80% equity.

These bonds will pay a coupon rate of 5% and have an interest yield of 6%.

Company B pays corporate tax at the rate of 25%.

According to Modigliani and Miller’s theory of capital structure with tax, what will be Company B’s new cost of equity?

A)

$$11.25\% = 10\% + [(10\% - 5\%) \times (20/80)]$$

B)

$$10.75\% = 10\% + [(10\% - 6\%) \times (15/80)]$$

C)

$$10.94\% = 10\% + [(10\% - 5\%) \times (15/80)]$$

D)

$$11.00\% = 10\% + [(10\% - 6\%) \times (20/80)]$$

* Option A
* Option B
* Option C
* Option D

NO.34 XYZ has a variable rate loan of $200 million on which it is paying interest of Liber ‘ 3%.

XYZ entered into a swap with AG bank to convert this to a fixed rate 8% loan. AB bank charges an annual commission of 0.4% for making this arrangement Calculate the net payment from KYZ to AB bank at the end of the first year if Libor was 2% throughout the year.

Give your answer in $ million, to one decimal place.

$ [ ] million 22.8

$ [22.8] million

NO.35 A company has:

* A price/earnings (P/E) ratio of 10.

* Earnings of $10 million.

* A market equity value of $100 million.

The directors forecast that the company’s P/E ratio will fall to 8 and earnings fall to $9 million.

Which of the following calculations gives the best estimate of new company equity value in $ million following such a change?

A)

9×8

B)

$$\frac{100 \times 8}{9}$$

C)

$$\frac{100 \times 10}{8}$$

D)

$$\frac{100 \times 8}{10}$$

* Option A
* Option B
* Option C
* Option D

NO.36 An entity prepares financial statements to 30 June.

During the year ended 30 June 20X2 the following events occurred:

1 July 20X1

* The entitiy borrowed $100 million at a variable rate of interest.

* In order to protect itself against the variability of its interest cashflows, the entity entered into a pay-fixed-receive-variable interest swap with annual settlements. The fair value of the swap on this date was zero.

30 June 20X2

* The entity received a net settlement of $2 million under the swap. After this net settlement, the fair value of the swap was $5 million – a financial asset.

The entity decides to use hedge accounting for this arrangement and has designated it as a cash flow hedge.

The swap is a perfect hedge of the variability of the cash interest payments.

Which of the following describes the treatment of the settlement and the change in the fair value of the swap in the statement of profit or loss and other comprehensive income for the year ended 30 June 20X2?
* $7 million is recognised in profit or loss.
* $7 million is recognised in other comprehensive income.
* $2 million is recognised in profit or loss and $5 million is recognised in other comprehensive income.
* $5 million is recognised in profit or loss and $2 million is recognised in other comprehensive income.

NO.37 A company is funded by:

* $40 million of debt (market value)

* $60 million of equity (market value)

The company plans to:

* Issue a bond and use the funds raised to buy back shares at their current market value.

* Structure the deal so that the market value of debt becomes equal to the market value of equity.

According to Modigliani and Miller’s theory with tax and assuming a corporate income tax rate of 20%, this plan would:
* increase the company’s asset beta.
* decrease the company’s equity beta.
* increase shareholder wealth.
* increase the market value of the company’s equity.

NO.38 A company based in Country A with the A$ as its functional currency requires A$500 million 20-year debt finance to finance a long-term investment The company has a high credit rating, but has not previously issued corporate bonds which are listed on the stock exchange Which THREE of the following are advantages of issuing 20 year bonds compared with simply borrowing for a 20 year period?
* Larger capital market
* Greater availability of debt of 20-year duration
* Lower arrangement costs
* Less administrative effort to arrange the new finance
* Lower interest rate

NO.39 A company has undertaken a transaction with its shareholders which has had the following impact on its financial statements:

* Retained earnings has decreased

* Share capital has increased

* Earnings per share has decreased

* The book value of equity is unchanged

The company has undertaken a:
* share repurchase.
* scrip dividend.
* rights issue.
* cash dividend.

NO.40 A listed publishing company owns a subsidiary company whose business activity is training.

It wishes to dispose of the subsidiary company.

The following information is available:

	Publishing company	Subsidiary company
Borrowings	$40 million	$60 million
Book value of equity	$60 million	$50 million

The board of the publishing company believe that the value of the subsidiary company, and hence the value of the equity invested in it, can be determined by calculating the present value of the subsidiary’s free cashflows.

Which of the following is the most appropriate discount rate to use when determining the enterprise value of the company?
* A WACC that reflects the gearing of the publishing company and the asset beta of a listed company that provides training activities.
* A cost of equity that reflects the asset beta of a listed company that provides training activities.
* A WACC that reflects the gearing of the subsidiary company and the asset beta of a listed company that provides training activities.
* A WACC that the reflects the gearing of the publishing company and the equity beta factor of the publishing company.

NO.41 A large, listed company in the food and household goods industry needs to raise $50 million for a period of up to 6 months.

It has an excellent credit rating and there is almost no risk of the company defaulting on the borrowings. The company already has a commercial paper programme in place and has a good relationship with its bank.

Which of the following is likely to be the most cost effective method of borrowing the money?
* Bank overdraft

* 6 month term loan
* Treasury Bills
* Commercial paper

NO.42 Company A is a large listed company, with a wide range of both institutional and private shareholders.

It is planning a takeover offer for Company B.

Company A has relatively low cash reserves and its gearing ratio of 40% is higher than most similar companies in its industry.

Which TWO of the following would be the most feasible ways of Company A structuring an offer for Company B?
* Cash offer, funded by borrowings.
* Share for share exchange.
* Cash offer, funded from existing cash resources.
* Cash offer, funded by a rights issue.
* Debt for share exchange.

NO.43 Company T has 1,000 million shares in issue with a current share price of $10 each.

Company V has 300 million shares in issue with a current share price of $5 each.

Company T is considering acquiring Company V.

Total synergy gains of $100 million have been estimated.

The purchase of Company V’s shares would be by cash at a 10% premium above the current share price.

In seeking approval for the acquisition, the likely reaction from T’s shareholders will be:
* accepted as there is $100 million of synergy which will all go to T’s shareholders.
* accepted as there will be an increase in the value of the business of $1,500 million.
* rejected as T’s shareholders will see a decrease in their wealth overall of $50 million.
* rejected as T’s shareholders will not be willing to pay more than $1,500 million for V.

NO.44 A listed publishing company owns a subsidiary company whose business activity is training.

It wishes to dispose of the subsidiary company.

The following information is available:

	Publishing company	Subsidiary company
Borrowings	$40 million	$60 million
Book value of equity	$60 million	$50 million

The board of the publishing company believe that the value of the subsidiary company, and hence the value of the equity invested in it, can be determined by calculating the present value of the subsidiary’s free cashflows.

Which of the following is the most appropriate discount rate to use when determining the enterprise value of the company?
* A WACC that reflects the gearing of the publishing company and the asset beta of a listed company that provides training activities.
* A cost of equity that reflects the asset beta of a listed company that provides training activities.
* A WACC that reflects the gearing of the subsidiary company and the asset beta of a listed company that provides training activities.
* A WACC that the reflects the gearing of the publishing company and the equity beta factor of the publishing company.

NO.45 An entity prepares financial statements to 31 December each year. The following data applies:

1 December 20X0

* The entity purchased some inventory for $400,000.

* In order to protect the inventory against adverse changes in fair value the entity entered into a futures contract to sell the inventory for a fixed price on 31 January 20X1.

* The entity designated this contract as a fair value hedge of the value of the inventory.

31 December 20X0

* The inventory had a fair value of $480,000 and the futures contract had a fair value of $75,000 (a financial liability).

What will be the impact on the statement of profit or loss and other comprehensive income for the year ended

31 December 20X0 in respect of the change in the value of the inventory and the futures contract?
* A loss of $75,000 will be recognised in profit or loss.
* A loss of $75,000 will be recognised in other comprehensive income.
* A net gain of $5,000 will be recognised in profit or loss.
* A net gain of $5,000 will be recognised in other comprehensive income.

NO.46 A company plans a four-year project which will be financed by either an operating lease or a bank loan.

Lease details:

* Four year lease contract.

* Annual lease rentals of $45,000, paid in advance on the 1st day of the year.

Other information:

* The interest rate payable on the bank borrowing is 10%.

* The capital cost of the project is $200,000 which would have to be paid at the beginning of the first year.

* A salvage or residual value of $100,000 is estimated at the end of the project’s life.

* Purchased assets attract straight line tax depreciation allowances.

* Corporate income tax is 20% and is payable at the end of the year following the year to which it relates.

A lease-or-buy appraisal is shown below:

Which THREE of the following items are errors within the appraisal?
* Lease payments are timed incorrectly
* Tax relief on lease payments have not been lagged correctly
* Using the 10% discount rate is incorrect
* The project’s operating cashflows should be included
* The bank loan repayments should be included
* The salvage value has been included within the lease option

NO.47 Which of the following is NOT an advantage of a share repurchase?
* To return surplus cash to shareholders by avoiding a one-off dividend
* To allow investors to sell shares if no active market currently exists
* To reduce the cost of capital of a company by increasing the gearing level.
* To enable the company to retain cash in the business for reinvestment

NO.48 Company X is based in Country A, whose currency is the A$.

It trades with customers in Country B, whose currency is the B$.

Company X aims to maintain its revenue from exports to Country B at 25% of total revenue.

Company A has the following forecast revenue:

Revenue generated in Country A	**A$75 million**
Revenue generated in Country B in A$	A$25 million

The forecast revenue from Country B has assumed an exchange rate of A$1/B$2, that is A$1 = B$2.

If the B$ depreciates against the A$ by 10%, the ratio of revenue generated from Country B as a percentage of total revenue will:

* fall to 23.3%.
* rise to 27.0%.
* rise to 30.3%.
* fall to 22.7%.

NO.49 A company’s dividend policy is to pay out 50% of its earnings.

Its most recent earnings per share was $0.50, and it has just paid a dividend per share of $0.25.

Currently, dividends are forecast to grow at 2% each year in perpetuity and the cost of equity is 10.5%.

In order to grow its earnings and dividends, the company is considering undertaking a new investment funded entirely by debt finance. If the investment is undertaken:

* Its cost of equity will immediately increase to 12% due to the increased finance risk.

* Its earnings and dividends will immediately commence growing at 4% each year in perpetuity.

Which of the following is the expected percentage change in the share price if the new investment is undertaken?
* Increase = 8.3%
* Increase = 2%
* Increase = 10.5%
* Decrease = 7.7%

NO.50 A listed company is planning a share repurchase.

The following data applies:

* There are 10 million shares in issue

* The share repurchase will involve buying back 20% of the shares at a price of $0.75

* The company is holding $2 million cash

* Earnings for the current year ended are $2 million

The Directors are concerned about the impact that this repurchase programme will have on the company’s cash balance and current year earnings per share (EPS) ratio.

Advise the directors which of the following statements is correct?
* The cash balance will decrease by 75% and EPS will decrease by 25%.
* The cash balance will decrease by 75% and EPS will increase by 25%.
* The cash balance will decrease by 20% and the EPS will decrease by 25%.
* The cash balance will decrease by 20% and the EPS will increase by 25%.

NO.51 Which of the following statements are true with regard to interest rate swaps?

Select ALL that apply.
* Some companies interest rate swap to deliberately increase their risks because they believe that they are better at predicting future interest rates than the market.

* Risk of default is high from the floating interest rate payer if interest rates rise.
* When interest rates are falling the risk of default by the fixed interest rate payer is low.
* An nicest rate swap is an internal hedging technique.
* An interest rate swap is an external hedging technique.