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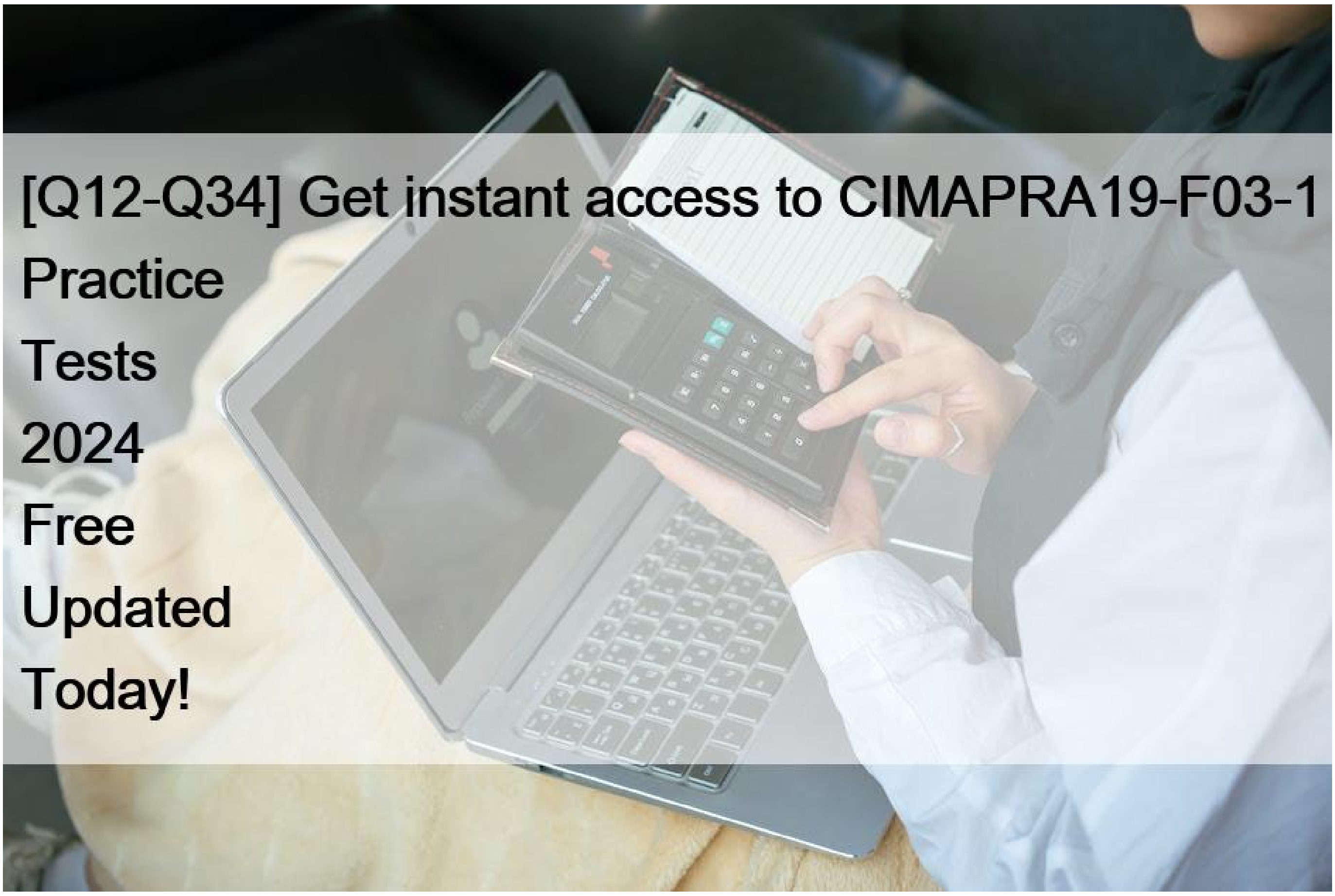

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To prepare for the CIMA F3 exam, candidates must have a good understanding of financial management and accounting principles. They should also have a thorough understanding of the topics covered in the syllabus, including financial strategy, financial risk management, and financial performance monitoring. Candidates can prepare for the exam by taking online courses, attending study groups, and practicing past exam papers.

NO.12 A company is considering the issue of a convertible bond compared to a straight bond issue (non-convertible bond).

Director A is concerned that issuing a convertible bond will upset the shareholders for the following reasons:

* it will dilute their control

* the interest payments will be higher therefore reducing liquidity

* it will increase the gearing ratio therefore increasing financial risk

Director B disagrees, and is preparing a board paper to promote the issue of the convertible bond rather than a non-convertible.

Advise the Director B which THREE of the following statements should be included in his board paper to promote the issue of the convertible bond?
* The convertible bond may not dilute control as the bond holder has an option to choose conversion.
* The coupon rate on the convertible bond will be lower than that on a non-convertible bond.
* When converted into shares, the company will receive a cash inflow which can be used for future investments.
* Issuing a convertible bond will have a more favourable impact on the gearing ratio than a non-convertible bond.
* Over the life of the bond, a convertible will be more expensive than a non-convertible.

NO.13 Company W is a manufacturing company with three divisions, all of which are making profits:

* Division A which manufactures cars

* Division B which manufactures trucks

* Division C which manufactures agricultural machinery

Company W is facing severe competitive pressure in all of its markets, and is currently operating with a high level of gearing Company W’s latest forecasts suggest that it needs to raise cash to avoid breaching loan covenants on its existing debt finance in 6 months’ time

In a recent strategy review. Divisions A and B were identified as being the core divisions of Company W

The management of Division C is known to be interested in the possibility of a management buy-out. Company Z is known to be interested in making a takeover bid for Company W’s truck manufacturing division

A rival to Company W has recently successfully demerged its business, this was well received by the Financial markets

Which of the following exit strategies will be most suitable for company W?
* Sale of Division B to Company Z
* Closure of Division
* Management buy-out of Division C
* Demerger of Division C

NO.14 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.15 Company J is in negotiations to acquire Company K and believes it can turn around Company K’s performance to match its own.

The following information is available for the two companies:

Company	J	K
Earnings for year ended 31 December 20X5	$80 million	$50 million
Price/earnings ratio	15	10
Current share price	$3.45	$2.00

Select the maximum price for each share that Company J should place on Company K during negotiations.
* $1.7
* $2.0
* $3.0
* $3.2

NO.16 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.17 Company AEE has a 10 year 6% corporate bond in issue which has a nominal value of $400 million, which is currently trading at 95%. The bond is secured on the company’s property The Board of Directors has calculated the equity value of Company AEE as follows;

1. Calculated the company's cash flows to equity (after replacement capital expenditure).
3. Used the company's weighted average cost of capital to discount the cash flows to equity.
4. Added the retained earnings from the Statement of Financial Position.
5. Deducted $400 million for the value of the company's corporate bond.

Which THREE of the following are errors in the valuation?
* Including retained earnings from the Statement of Financial Position.
* Deducting $400 million for the value of the company’s corporate bond.
* Using the company’s weighted average cost of capital to discount cash flows attributable to shareholders.
* Using cash flows to equity rather than expected dividends as the initial cash flows.
* Deducting replacement capital expenditure

NO.18 A listed company is considering either a one-off special divided or a share repurchase scheme to reduce its surplus cash level.

Identify TWO advantages that a one-off special payment has over a share repurchase scheme.
* It will change balance of share owners.
* It will reduce the possibility of a hostile takeholder
* It allows shareholder a choice of option in or out of the payment.
* It is easier to arrange than a share repurchase
* It would result in a transfer of wealth back to the shareholder

NO.19 Company P is a large unlisted food-processing company.

Its current profit before interest and taxation is $4 million, which it expects to be maintainable in the future.

It has a $10 million long-term loan on which it pays interest of 10%.

Corporate tax is paid at the rate of 20%.

The following information on P/E multiples is available:

	Overall Stock Market	Food-Processing sector
P/E multiple	20.0 times	10.0 times

Which of the following is the best indication of the equity value of Company P?
* $80 million
* $40 million
* $48 million
* $24 million

NO.20 A company’s Board of Directors is assessing the likely impact of financing future new projects using either equity or debt.

The directors are uncertain of the effects on key variables.

Which THREE of the following statements are true?
* The choice between using either equity or debt will have no impact on the amount of corporate income tax payable.
* Retained earnings has no cost, and is therefore the cheapest form of equity finance.
* Debt finance is always preferable to equity finance.
* Debt finance will increase the cost of equity.
* Equity finance will reduce the overall financial risk.
* Equity finance will increase pressure to pay a higher total future dividend.

NO.21 A company has two divisions.

A is the manufacturing division and supplies only to B, the retail division.

The Board of Directors has been approached by another company to acquire Division B as part of their retail expansion programme.

Division A will continue to supply to Division B as a retail customer as well as source and supply to other retail customers.

Which is the main risk faced by the company based on the above proposal?
* Suppliers to Division A will be opposed to the divestment and stop the acquisition.
* The level of quality of the product will not be maintained by the acquired company.
* Division A’s going concern is highly dependent on its relationship with Division B as a retail customer.
* Shareholders will be opposed to the divestment and stop the acquisition.

NO.22 The following information relates to Company A’s current capital structure:

Company A is considering a change in the capital structure that will increase gearing to 30:70 (Debt:Equity).

The risk -free rate is 3% and the return on the market portfolio is expected to be 10%.

The rate of corporate tax is 25%

Using the Capital Asset Pricing Model, calculate the cost of equity resulting from the proposed change to the capital structure.
* 11.4%
* 12.3%
* 9.3%
* 10.1%

NO.23 If a company’s bonds are currently yielding 8% in the marketplace, why would the entity’s cost of debt be lower than this?

* There should be no difference; the cost of debt is the same as the bond’s market yield.
* Interest is deductible for tax purposes.
* The company’s credit rating has changed.
* Market interest rates have decreased.

NO.24 A company has announced a rights issue of 1 new share for every 4 existing shares.

Relevant data:

* The current market price per share is $10.00.

* Rights are to be issued at a 20% discount to the current price.

* The rate of return on the new funds raised is expected to be 10%.

* The rate of return on existing funds is 5%.

What is the yield-adjusted theoretical ex-rights price?

Give your answer to two decimal places.

$?
* 11.20, 11.2
* 11.20, 11.3

NO.25 Companies L. M N and O:

* are based in a country that uses the RS as its currency

* have an objective to grow operating profit year on year

* have the same total levels of revenue and cost

* trade with companies or individuals in the United States. All import and export trade with companies or individuals in the United States is priced in US$.

Typical import/export trade for each company in a year are as follows:

Company	L	M	N	O
Imports in US$ millions	10	-	25	15
Exports in US$ millions	20	18	21	-

Which company’s growth objective is most sensitive to a movement in the USS / RS exchange rate?
* Company L
* Company M
* Company N
* Company O

NO.26 NNN is a company financed by both equity and debt. The directors of NNN wish to calculate a valuation of the company’s equity and at a recent board meeting discussed various methods of business valuation.

Which THREE of the following are appropriate methods for the directors of NNN to use in this instance?
* Total earnings multiplied by a suitable price-earnings ratio.
* Cash flow to all investors discounted at WACC less the value of debt.
* Cash flow to all investors discounted at WACC.
* Cash flow to equity discounted at the cost of equity less the value of debt.
* Cash flow to equity discounted at the cost of equity.

NO.27 A venture capitalist is most likely to take which THREE of the following exit routes?
* Liquidation of the company.
* Flotation via a stock market listing.
* Trade sale to another company.
* Selling back to the original owners.
* Raising long-term debt from the company.

NO.28 An unlisted company has the following data:

Earnings in the last financial year	$6 million
Share price	$2
Number of $1 shares in issue	40 million
Retained earnings	$20 million
Share capital	$40 million
Revaluation reserve	$4 million

A listed company in the same industry has a P/E of 11.

The value of the unlisted company based on the P/E of this listed company is:

11 x $ [ ] million

Give your answer to the nearest whole number.
6

NO.29 A company plans to cut its dividend but is concerned that the share price will fall. This demonstrates the _____________ effect
* A
* B

NO.30 Which TIIRCC of the following are most likely to reduce the long term credit rating co a company?
* The issue of new shares where the funds raised are invested in a project that has an NPV of nil.
* The issue of a new bond where the funds raised are invested in a project that has an NPV of nil.
* The issue of new shares where the funds raised are invested in expanding into a new nigh risk market.
* Loss of a major customer that contributed 30% of sales revenue.
* Disposal of a loss-making division where the funds raised will be used to pay a special dividend to shareholders.

NO.31 RR has agreed to sell goods to XX for S20.000 XX will pay when the goods are delivered in 6 months time. RR’s home currency is the £- The current exchange rate is 4.3 £/S. The projected inflation rate for the S is 2.8%, and for the E 4 6%.

When RR receives payment for its goods, what will the value be to the nearest pound?
* £87.506
* £85,243
* £86 760
* £84.520

NO.32 A company raised fixed rate bank finance together with an interest rate swap for the same term and same principal value to pay floating receive fixed rate interest on an annual basis.

Which THREE of the following statements are correct?
* The company has effectively obtained floating rate debt.
* On the first day of this arrangement, the company receives the principal borrowed from the bank and pays this across to the swap counterparty.
* LIBID (London Interbank Bid Rate) is normally used as the reference rate for determining interest due under the swap.
* Under the swap, interest is exchanged every year.
* The swap contract is normally a contract between a company and a bank.

NO.33 A company with 4 million shares in issue wishes to raise $4 million by means of a rights issue

The share price prior to the rights issue is $5.00.

Under the rights issue, 1 million new shares will be issued at $4.00.

When the rights issue is announced it is expected that the Theoretical Ex-rights Price (TERP) will be $4.80

The directors of the company are considering offering any shareholder who does not wish to take up the rights the opportunity to sell the rights back to the company for $1.00.

Which of the following is the most likely consequence of the directors offer?
* It will have no effect on the take up of the rights because shareholder wealth will be the same whether the rights are taken up or sold back to the company
* The directors offer will increase demand for the shares and as a consequence the share price will rise above the theoretical ex-rights price.
* It will encourage more shareholders to sell their lights on the open market.
* It will result in fewer shareholders taking up the rights and as a consequence less cash will be raised from the rights issue

NO.34 A company’s statement of financial position includes non-current assets which are leased, the tax regime follows the accounting treatment.

Which cash flows should be discounted when evaluating the cost of lease finance?
* Lease payments, implied interested and straight-line accounting deprediation.
* Lease payments and straight-line accounting depreciation.
* Lease payments and implied interest.
* Lease payments, tax relief on implied interest and tax relief on straight-line account depreciation.

CIMA CIMAPRA19-F03-1 (F3 Financial Strategy) Certification Exam is a computer-based test that consists of objective-type questions. CIMAPRA19-F03-1 exam is divided into two sections, each containing 50 questions. The first section of the exam covers the development of financial strategies, while the second section covers the implementation of those strategies. CIMAPRA19-F03-1 exam is designed to assess the candidate's knowledge and understanding of financial strategy development and implementation.

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