[Oct-2023 Free F3 Exam Dumps to Improve Exam Score [Q177-Q194

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2023 Realistic F3 Dumps Exam Tips Test Pdf Exam Material

CIMA F3 Certification Exam is divided into two sections. The first section focuses on financial analysis and risk management, while the second section covers investment appraisal and strategic planning. F3 exam is computer-based and consists of objective-type questions. Candidates are required to pass both sections of the exam to earn the certification. F3 exam is challenging, but with the right preparation, candidates can increase their chances of success.

CIMA CIMAPRA19-F03-1 (F3 Financial Strategy) Exam is a crucial component of the Chartered Institute of Management Accountants (CIMA) qualification. F3 exam assesses candidates' ability to analyze and evaluate financial information, make strategic decisions, and manage financial risks. It is one of the four exams that comprise the CIMA Professional Qualification, which is recognized globally and highly respected by employers in the finance industry.

NO.177 Listed Company A has prepared a valuation of an unlisted company. Company B.

to achieve vertical integration Company A is intending to acquire a controlling interest in the equity of Company B and therefore wants to value only the equity of Company B.

The assistant accountant of Company A has prepared the following valuation of Company B’s equity using the dividend valuation model (DVM):

Where:

* S2 million is Company B’s most recent dividend

* 5% is Company B’s average dividend growth rate over the last 5 years

* 10% is a cost of equity calculated using the capital asset pricing model (CAPM), based on the industry average beta factor

Valuation of Company B's equity = $\frac{\$2\,million \times 1.05}{0.10 - 0.05} = \$42\,million$

Where:

Which THREE of the following are valid criticisms of the valuation of Company B’s equity prepared by the assistant accountant?
* The DVM calculation should use Company A’s cost of equity rather than Company B’s cost of equity
* It is better to use the present value of earnings rather than present value of dividends to value a controlling interest
* The 5% growth rate may not reflect the future growth of Company B.
* The beta factor used may not reflect Company B’s financial risk.
* An unlisted company cannot use the capital asset pricing model to calculate its cost of equity

NO.178 A private company manufactures goods for export, the goods are priced in foreign currency B$.

The company is partly owned by members of the founding family and partly by a venture capitalist who is helping to grow the business rapidly in preparation for a planned listing in three years’ time.

The company therefore has significant long term exposure to the B$.

This exposure is hedged up to 24 months into the future based on highly probable forecast future revenue streams.

The company does not apply hedge accounting and this has led to high volatility in reported earnings.

Which of the following best explains why external consultants have recently advised the company to apply hedge accounting?
* To provide a more appropriate earnings figure for use in calculating the annual dividend.
* To make it easier for the market to value the business when it is listed on the Stock Exchange.
* To ensure that the venture capitalist receives regular annual returns on its investment.
* To fully adopt IFRS in preparation for listing the company.

NO.179 A listed company plans to raise $350 million to finance a major expansion programme.

The cash flow projections for the programme are subject to considerable variability.

Brief details of the programme have been public knowledge for a few weeks.

The directors are considering two financing options, either a rights issue at a 20% discount to current share price or a long term bond.

The following data is relevant:

The company’s share price has fallen by 5% over the past 3 months compared with a fall in the market of

3% over the same period.

The directors favour the bond option.

However, the Chief Accountant has provided arguments for a rights issue.

Which TWO of the following arguments in favour of a right issue are correct?
* The issue of bonds might limit the availability of debt finance in the future.
* The recent fall in the share price makes a rights issue more attractive to the company.
* The rights issue will lead to less pressure on the operating cash flows of the programme.
* The WACC will decrease assuming Modigliani and Miller’s Theory of Capital Structure without taxes applies.
* The administrative costs of a rights issue will be lower.

NO.180 A UK company enters into a 5 year borrowing with bank P at a floating rate of GBP Libor plus 3%

It simultaneously enters into an interest rate swap with bank Q at 4.5% fixed against GBP Libor plus 1.5%

What is the hedged borrowing rate, taking the borrowing and swap into account?

Give your answer to 1 decimal place.
* 7.5%
* 6.5%

NO.181 WW is a quoted manufacturing company. The Finance Director has addressed the shareholders during WW’s annual general meeting-She has told the shareholders that WW raised equity during the year and used the funds to repay a large loan that was maturing, thereby reducing WW’s gearing ratio

At the conclusion of the Finance Director’s speech one of the shareholders complained that it had been foolish for WW to have used equity to repay debt The shareholder argued that the Modigliani and Miller model (with tax) offers proof that debt is cheaper than equity when companies pay tax on their profits.

Which THREE arguments could the Finance Director have used in response to the shareholder?
* A lower gearing ratio will result in an increase in the value of the company
* WW was approaching a debt covenant limit and it was therefore important to reduce gearing.
* A lower gearing ratio creates greater flexibility for WW in the future
* The shareholder was confusing the cost of capital with shareholder wealth
* Reducing the gearing ratio has reduced the financial risk of WW which will benefit shareholders
* The Modigliani and Miller model would only be valid in practice if WW’s shareholders were aware of the model and believed in its validity

NO.182 A company is based in Country Y whose functional currency is YS. It has an investment in Country Z whose functional currency is ZS This year the company expects to generate ZS20 million profit after tax.

Tax Regime

* Corporate income tax rate in Country Y is 60%

* Corporate income tax rate in Country Z Is 30%

* Full double tax relief is available

Assume an exchange rate of YS1 = ZS5

What is the expected profit after tax in YS if the ZS profit is remitted to Country Y?
* YS2 29 million
* YS1 60 million
* YS6.67 million
* YS57.14 million

NO.183 A UK based company is considering investing GBP1 ,000,000 in a project it the USA. It is anticipated that the project will yield net cash inflows of USD580.000 each year for the next three years. These surplus cash flows will be remitted to the UK at the end of each year.

Currently GBP1.00 is worth USD1.30.

The expected inflation rates in the two countries ever the next four years are 2% in the UK and 4% in the USA.

Applying the purchasing power parity theory, which of the following represents the expected remittance at the end of year three, in GBP whole the nearest whole GBP)?
* GBP568,846
* GBP450,906
* GBP472,916
* GBP546,547

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NO.185 The ex div share price of Company A’s shares is $.3.50

An investor in Company A currently holds 2,000 shares.

Company A plans to issue a script divided of 1 new shares for every 10 shares currently held.

After the scrip divided, what will be the total wealth of the shareholder?

Give your answer to the nearest whole $.

7000

NO.186 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.187 D has US$10 million to invest over 12 months in either USS or GBP Its options are to invest in USS at the present USS interest rate of 10 18%. or to convert the USS to GBP at the spot rate GBP1 =US$1 61 and invest in GBP at an interest rate of 6.4%.

According to the interest rate parity theory, what will the one year forward rate be?

Give your answer to three decimal places.

GBP1=US$

* 1.667
* 1.668

NO.188 JAG and ZEB are two listed companies. JAG is approximately 20 times the size of ZEB.

10 days ago JAG made a hostile bid for ZEB. offering a share exchange.

The bid price represents a 10% profit to the shareholders of ZEB at today’s market prices to reflect the high levels of synergistic benefits that JAG expects to realise from the transaction.

Which of the following is the greatest future threat to the post-transaction value for JAG?
* Forecast synergistic benefits are not realised.
* New shareholders acquired from ZEB demand a higher dividend payout than JAG is used to.
* Negative market response to the bid.
* New shareholders acquired from ZEB withdraw their investment by selling their shares within 12 months.

NO.189 A company has an opportunity to invest in a positive net present value project, but the project would require debt finance that would push the company’s gearing ever a limit imposed by a debt covenant on an existing loan.

Which THREE of the following actions could be taken by the company?
* The company could approach its existing Lenders to negotiate a relaxation of :he conditions imposed by the covenant.
* The project could be foregone if it cannot be funded without breaching the covenant
* The project could proceed if the cash inflows from the project will enable some of the debt to be repaid before the end of the financial year and so the breach of covenant may never be detected
* The company could seek alternative sources of finding, such as a reduction in the annual dividend payment, to finance the project.
* The directors could meet with key shareholder to discuss whether they wish the project proceed despite the breach of the covenant
* The directors could proceed will the project because their primary duly is maximise shared older wealth, even if that conflicts with lenders’ interest.

NO.190 An unlisted company is attempting to value its equity using the dividend valuation model.

Relevant information is as follows:

* A dividend of $500,000 has just been paid.

* Dividend growth of 8% is expected for the foreseeable future.

* Earnings growth of 6% is expected for the foreseeable future.

* The cost of equity of a proxy listed company is 15%.

* The risk premium required due to the company being unlisted is 3%.

The calculation that has been performed is as follows:

Equity value = $540,000 / (0.18 – 0.08) = $5,400,000

What is the fault with the calculation that has been performed?
* The cost of equity used in the calculation should have been 12% (15% subtract 3%).
* The dividend cashflow used should have been $500,000 rather than $540,000.
* The dividend growth rate is unsuitable given that earning growth is lower than dividend growth.
* The cost of equity used in the calculation should have been 15%; no adjustment was necessary.

NO.191 Company A is planning to acquire Company B.

Both companies are listed and are of similar size based on market capitalisation No approach has yet been made to Company B’s shareholders as the directors of Company A are undecided about the most suitable method of financing the offer Two methods are under consideration a share exchange or a cash offer financed by debt.

Company A currently has a gearing ratio (debt to debt plus equity) of 30% based on market values. The average gearing ratio (debt to debt plus equity) for the industry is 50% Although no formal offer has been made there have been market rumours of the proposed bid. which is seen as favorable to Company A.

As a consequence. Company As share price has risen over the past few weeks while Company B’s share price has fallen.

Which THREE of the following statements are most likely to be correct?
* Based on current share price movements, a share exchange would mean Company A has to issue fewer shares to acquire Company B than it would have done a few weeks ago
* Company B’s shareholders will be able to participate in the future growth of the combined business if it is a share exchange
* The method of finance chosen will not affect the post-acquisition earning per share of the combined business
* Company A’s weighted average cost of capital will fall if financing is with debt
* Company A’s gearing will increase following a share exchange.

NO.192 An unlisted company wishes to obtain an estimated value for its shares in anticipation of a private sale of a large parcel of shares.

Relevant data for the unlisted company:

* It has a residual dividend policy.

* It has earnings that are highly sensitive to underlying economic conditions.

* It is a small business in a large industry where there are listed companies but there are none with a similar capital structure.

The company intends to base valuations on the cost of equity of a proxy company after adjusting for any differences in capital structure where appropriate.

Which of the following methods is likely to give the most accurate equity value for this unlisted company?
* Dividend valuation model.
* Discounted cash flow analysis at WACC based on free cash flow to equity.
* Net asset valuation.

* P/E based valuation using the P/E of a similar listed company in the same industry.

NO.193 Company A is subject to a takeover bid from Company B, both companies operate in the same industry and each of them demand a significant market share Company B h3S made an of an of $5 per share to the shareholders of Company A.

The directors of Company A do not believe the takeover would be h the best interests of the stakeholders and other stakeholders of Company A due to the following reruns

1. Company B has recently taken ever several ether companies resulting in them breaking up the company and se ling on the assets.

2 The directors of Company A believe the offer of $5 per snare undervalues tie company The directors of Company A are therefore keen to prevent the bid from going ahead Which THREE of the following defence strategies could be used by the directors of Company Air this situation?
* Offer the company to an alternative While Knight bidder.
* Appeal to their own shareholders that the company should not be broken up because i: has strong growth prospects.
* Refer the bid to the Competition Authorizes because of the risk of a large number of employee redundancies if Company B’s Did were to be successful
* Inform shareholders of the potential current value of the non-current assets including intangibles, to show that their true value is higher than the bid value.
* Give existing shareholders the right to buy bonds in the future.

NO.194 Companies A, B, C and D:

* are based in a country that uses the K$ 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 eurozone. All import and export trade with companies or individuals in the eurozone is priced in EUR.

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

Company	A	B	C	D
Imports in EUR millions	10	-	25	15
Exports in EUR millions	20	18	21	-

Which company’s growth objective is most sensitive to a movement in the EUR/K$ exchange rate?
* Company A
* Company B

* Company C
* Company D

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