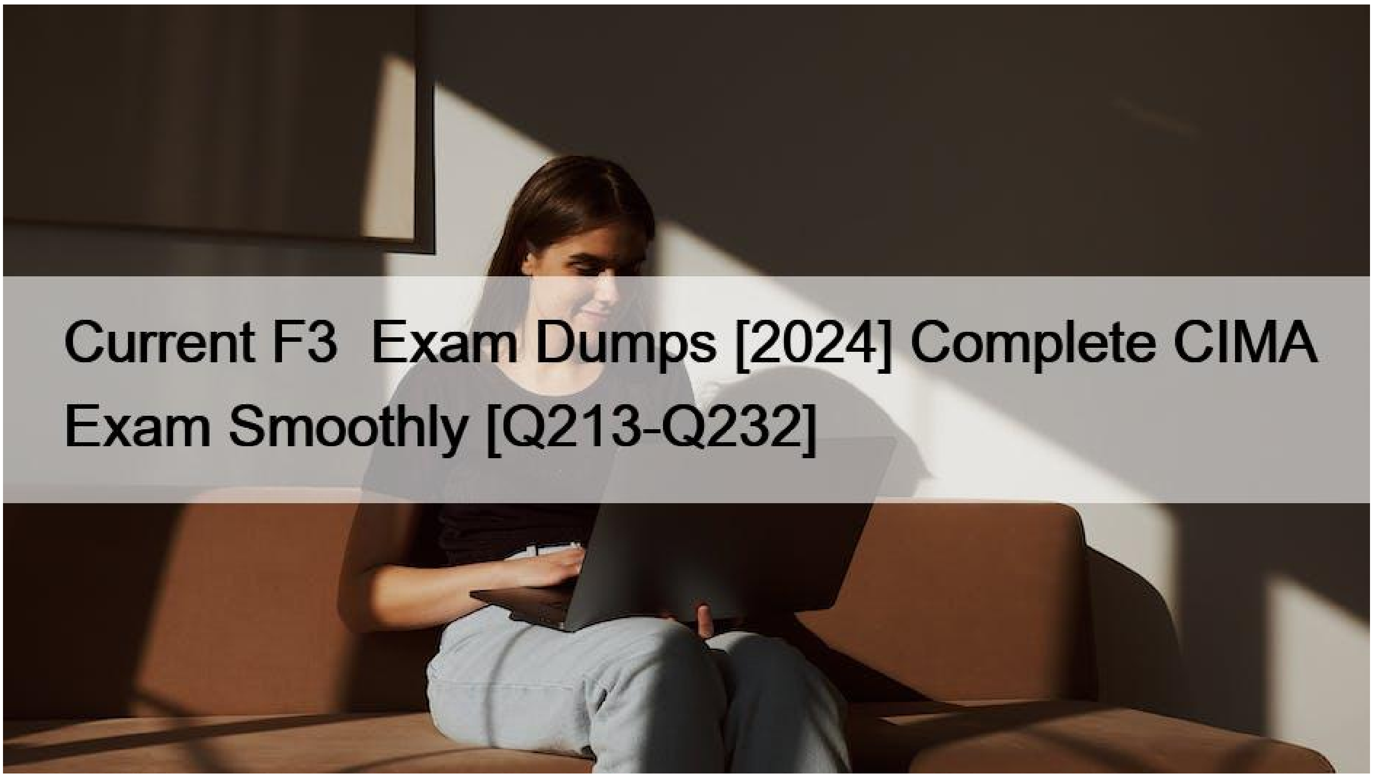
Current F3 Exam Dumps [2024 Complete CIMA Exam Smoothly [Q213-Q232



Current F3 Exam Dumps [2024] Complete CIMA Exam Smoothly
F3 Premium PDF & Test Engine Files with 435 Questions & Answers

Candidates should also be familiar with the CIMA Professional Competency Framework, which sets out the skills and knowledge required for success in the accounting profession. This framework includes technical skills, such as financial reporting and analysis, as well as broader skills, such as business acumen and leadership.

QUESTION 213

A company plans to raise $12 million to finance an expansion project using a rights issue.

Relevant data:

* Shares will be offered at a 20% discount to the present market price of $15.00 per share.

* There are currently 2 million shares in issue.

* The project is forecast to yield a positive NPV of $6 million.

What is the yield-adjusted Theoretical Ex-Rights Price following the announcement of the rights issue?

* $16.00
* $14.00
* $9.00
* $11.00

Explanation

Calc_Set3

QUESTION 214

Company A plans to diversify by a cash acquisition of Company B an unlisted company in another country (Country B) which operates in a different industrial sector

Company A already manufactures its product in Country B and has a loan denominated in Country B’s currency

Company A regularly suffers foreign exchange losses due to volatility in the exchange rate between the two countries’ currencies in recent years.

Which THREE of the following appear to be be valid justifications of this diversification decision?
* The diversification will give Company A protection from political risk
* The diversification into another product market will lower business risk
* The diversification will give Company A greater protection from transaction risk.
* The diversification will give Company A greater protection from translation risk
* The diversification will enable Company A to enjoy production scale economies

QUESTION 215

Company ABC is planning to bid for company DDD, an unlisted company in an unrelated industry sector to ABC.

The directors of ABC are considering a number of different valuation methods for DDD before making a bid.

Which of the following is the MOST appropriate method for ABC to use to value DDD?
* Using DDD’s tangible assets.
* Applying an industry P/E ratio to DDD’s forecast earnings.
* Discounting DDD’s forecast cash flows using ABC’s cost of equity.
* Applying Company ABC’s P/E ratio to DDD’s forecast earnings.

QUESTION 216

Which TWO of the following statements about debt instruments are correct?
* A zero coupon will eliminate the tax shield effect on debt payments.
* Changes in corporation tax rates will have no effect on the tax shield of fixed rate debentures.
* The true cost of servicing debt instruments to the company is the post-tax cost of debt.
* If corporation tax rates rise, the tax shield effect on debenture interest will be reduced.

QUESTION 217

A company is reporting under IFRS 7 Financial Instruments: Disclosures for the first time and the directors are concerned about whether this will lead to the disclosure of information that could affect the company’s share price.

The company is based in a country that uses the A$ but 40% of revenue relates to export sales to the USA and priced in US$.

When the company reports under IFRS 7 for the first time, the share price is most likely to:
* Increase due to greater clarity of information available on the extent of US$ risks and how they are managed.
* Stay the same since US$ risk can already be quantified from segmental analysis disclosures included elsewhere in the annual report.
* Decrease since investors place a lower value on higher risk businesses.
* Either increase or decrease depending on market reaction to new information on how financial risk is managed.

QUESTION 218

A Venture Capital Fund currently holds a significant shareholding in a large private company as a result of funding a recent management buyout. It plans to exit this investment in 5 years time at a significant profit.

Which THREE of the following exit mechanisms are most likely to be preferred by the Venture Capital Fund?
* The management team agrees to buy back the Venture Capital Funds shareholding in 5 years time at its original cost.
* The private company obtains a stock market listing on a recognised exchange within the next 5 years.
* The Venture Capital Fund has an option to sell its shareholding to the company at twice its original cost which can be exercised in 5 years time.
* The Venture Capital Fund has a legal entitlement to sell its shareholding to any third party investor if the company has not obtained a stock market listing within 5 years.
* The management team has an option to buy the Venture Capital Fund’s shares for their nominal value which can be exercised in 5 years time.

QUESTION 219

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.

QUESTION 220

Company XXY operates in country X with the X$ as its currency. It is looking to acquire company ZZY which operates in country Z with the Z$ as its currency.

The assistant accountant at Company XXY has started to prepare an initial valuation of Company ZZY’s equity for the first 3 years, however their valuation is incomplete. TBC’ in the table below indicates that her calculations have yet to be completed.

	Year 1	Year 2	Year 3
Forecast free cash flow to all investors Z$ million	200	220	240
Forecast exchange rate	TBC	TBC	TBC
Forecast free cash flow to all investors X$ million	TBC	TBC	TBC
Discount factor @ 8%	0.926	0.857	0.794
Present value X$ million	TBC	TBC	TBC

The following information is relevant:

Current exchange rate	Z$ 1 = X$ 2
Rate of inflation in country X	2%
Rate of inflation in country Z	4%

What is the correct figure (to the nearest million S) to include in year 3 as the present value in X$ million?
* X$453 million
* X$504 million
* X$401 million
* X$360 million

QUESTION 221

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?
* $11.25\% = 10\% + [(10\% - 5\%) \times (20/80)]$
* $10.75\% = 10\% + [(10\% - 6\%) \times (15/80)]$
* $10.94\% = 10\% + [(10\% - 5\%) \times (15/80)]$
* $11.00\% = 10\% + [(10\% - 6\%) \times ($

QUESTION 222

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

QUESTION 223

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.

QUESTION 224

Which three of the following are most likely be primary objectives for a newly established, unincorporated entity in the service sector?
* Increasing the dividend payment year on year
* Increasing Revenue
* Providing consistently high levels service quality
* Maintaining sufficient liquidity in the business to avoid overtrading
* Reaching an optimum capital structure

QUESTION 225

A company’s gearing is well below its optimal level and therefore it is considering implementing a share re-purchase programme.

This programme will be funded from the proceeds of a planned new long-term bond issue.

Its financial projections show no change to next year’s expected earnings.

As a result, the company plans to pay the same total dividend in future years.

If the share re-purchase is implemented, which THREE of the following measures are most likely to decrease?
* The Weighted Average Cost of Capital
* The cost of equity
* The interest cover
* Next year’s dividend per share
* The gearing, based on book value (debt ÷ (debt + equity))
* The number of shares in issue

QUESTION 226

Company M’s current profit before interest and taxation is $5.0 million.

It has a long-term 10% corporate bond in issue with a nominal value of $10 million.

The rate of corporate tax is 25%.

It plans to continue to pay out 50% of its earnings in dividends and earnings are expected to grow by 3% each year in perpetuity.

Its cost of equity is 10%.

Using the dividend growth model, advise the Board of Directors of Company M which of the following provide a reasonable valuation of Company M’s equity?
* $73.6 million
* $22.1 million
* $44.1 million
* $50.1 million

QUESTION 227

LPM Company is based in Country C. whose currency is the CS

It has entered Into a contract to buy a machine in three months’ time. The supplier is overseas and the payment is to be made in a different currency from the CS The treasurer at LPM Company is considering using a money market hedge to manage the transaction risk associated with a payment.

The assumptions of interest rate parity apply

Which THREE of the following statements concerning the use of a money market hedge for this supplier payment are correct*?
* Any opportunity to benefit from future exchange rate movements is lost.
* It can be tailored to match the size of the payment
* It manages transaction risk
* It offers a significantly better outcome than a forward contract
* lt avoids the need to find immediate finance

QUESTION 228

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%

QUESTION 229

An unlisted company operates in a niche market, exploring the west coast of Africa for new oiI reservoirs.

The oil exploration program has been successful in recent years and t now has a substantial amount of oil reserves with a high level of certainty of being recoverable Under financial reporting regulations, oil still in the ground is not recognised as an asset unit is extracted.

The expense of the exploration program has used up all the company’s available cash resources.

The company has denied to list or a stock market and raise finds through an initial public offering to finance its drilling program.

Which of the following valuation methods in the appropriate to use in calculating an initial listing price for this company?

* Market capitalisation.
* Framings valuation using the ratio of a multinational oil exploration company
* Net asset valuation based on book values.
* Discounted cash flow valuation

QUESTION 230

A company has accumulated a significant amount of excess cash which is not required for investment for the foreseeable future.

It is currently on deposit, earning negligible returns.

The Board of Directors is considering returning this excess cash to shareholders using a share repurchase programme.

The majority of shareholders are individuals with small shareholdings.

Which THREE of the following are advantages of the company undertaking a share repurchase programme?
* Individual shareholders can realise their investment if they wish.
* The earnings per share should increase for the shareholders who do not sell their shares.
* It reduces excess cash which might have been attractive to predators.
* It reduces the amount of cash for potential future investment opportunities.
* Institutional investors generally prefer a constant predictable income in the form of dividends.

QUESTION 231

Company A operates in country A and uses currency AS. It is looking to acquire Company B which operates in country B and uses currency B$. The following information is relevant:

Current exchange rate	B$ 1 = A$ 0.3
Rate of inflation in country A	3%
Rate of inflation in country B	5%
Company B's WACC	8%
Company B's cost of equity	10%

The assistant accountant at Company A has prepared the following valuation of company B’s equity, however there are some errors in his calculations.

	Year 1	Year 2	Year 3 and each year thereafter
Forecast free cash flow to all investors B$ million	50	60	70
Forecast exchange rate	B$ 1 = A$ 0.3058	B$ 1 = A$ 0.3117	B$ 1 = A$ 0.3178
Forecast free cash flow to all investors A$ million	15.29	18.70	22.25
Discount Factor @ 8%	0.926	0.857	0.794
Present Value A$ million	14.16	16.03	17.67

Value of Company B’s equity = 14.16 + 16.03 + 17.67 = AS47.86 million

Company B has BS5 million of debt finance.

Which of the following THREE statements are true?
* The conversion into AS is incorrect as the assistant accountant should have divided by the exchange rate and not multiplied.
* Cash flow to all investors should be discounted at Company B’s cost of equity of 10% rather than its WACC of 8%.
* The valuation is understated because forecast cash flows beyond year 3 have been ignored.
* The forecast exchange rates are incorrect as they show the BS strengthening and it should be weakening.
* The calculations show Company B’s entity value, not its equity value.

QUESTION 232

A manufacturing company based in Country R. where the currency is the R$, has an objective of maintaining an operating profit margin of at least 10% each year

Relevant data:

* The company makes sales to Country S whose currency is the SS It also makes sales to Country T whose currency is the T$ ” All purchases are from Country U whose currency is the US.

* The settlement of an transactions is in the currency of the customer or supplier

Which of the following changes would be most likely to help the company achieve its objective?
* The T$ weakens against the R$ over time
* The R$ strengthens against the S$ over time.
* The R$ strengthens against the U$ over time.
* The R$ weakens against the U$ over time

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