CIMA

CIMAPRA19-F03-1 Exam

F3 Financial Strategy

Questions & Answers
Demo

Version: 11.0

Question: 1

A listed company is planning to raise $21.6 million to finance a new project with a positive net present value of $5 million. The finance is to be raised via a rights issue at a 10% discount to the current share price. There are currently 100 million shares in issue, trading at $2.00 each.

Taking the new project into account, what would the theoretical ex-rights price be?

Give your answer to two decimal places.

$?

A. 2.02, 2.03
B. 2.02, 1.03

Answer: A

Explanation:

Question: 2

Company A is planning to acquire Company B.

Company A's managers think they can improve the performance of Company B to the extent that its own P/E ratio should be applied to Company B's earnings.

Relevant Data:

	Company A	Company B
P/E Ratio	8	6
Total Earnings	$5 million	$4 million
Market Share Price	$6.50	$2.50
Market Capitalisation	$40 million	$24 million

What is the expected synergy if the acquisition goes ahead?

Give your answer to the nearest $ million.

$? million

A. 8, 8000000
B. 7, 8000000

Answer: A

Explanation:

Question: 3

Which THREE of the following remain unchanged over the life of a 10 year fixed rate bond?

A. The coupon rate
B. The yield
C. The market value
D. The nominal value
E. The amount payable on maturity

Answer: A, D, E

Explanation:

Question: 4

On 31 October 20X3:

- A company expected to agree a foreign currency transaction in January 20X4 for settlement on 31 March 20X4.
- The company hedged the currency risk using a forward contract at nil cost for settlement on 31 March 20X4.
- The transaction was correctly treated as a cash flow hedge in accordance with IAS 39 Financial Instruments: Recognition and Measurement.

On 31 December 20X3, the financial year end, the fair value of the forward contract was $10,000 (asset).

How should the increase in the fair value of the forward contract be treated within the financial statements for the year ended 31 December 20X3?

A. Not recognised in 20X3 as the forward contract is not settled until after the year end.
B. Not recognised in 20X3 as the gain will be offset by a loss on the hedged transaction.
C. A $10,000 profit will be recognised within the Income Statement.
D. A $10,000 profit will be recognised within other comprehensive income.

Answer: D

Explanation:

Question: 5

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:

A. increase the company's asset beta.
B. decrease the company's equity beta.
C. increase shareholder wealth.
D. increase the market value of the company's equity.

Answer: C