CIMA.CIMAPRA19-F03-1.v2026-02-23.q300

Exam Code:	CIMAPRA19-F03-1
Exam Name:	F3 Financial Strategy
Certification Provider:	CIMA
Free Question Number:	300
Version:	v2026-02-23
# of views:	120
# of Questions views:	3000
https://www.exam-tests.com/CIMAPRA19-F03-1-exam/CIMA.CIMAPRA19-F03-1.v2026-02-23.q300.html	

NEW QUESTION: 1

H Company has a fixed rate load at 10.0%, but wishes to swap to variable. It can borrow at LIBOR 8%.

The bank is currently quoting swap rates of 3.1% (bid) and 3.5% (ask).

What net rate will HHH Company pay if it enters into the swap?

A. Risk-free rate +8%

B. Risk-free rate +6.5%

C. Risk-free rate +3.1%

D. Risk-free rate +6.9%

Answer: D (LEAVE A REPLY)

NEW QUESTION: 2

A wholly equity financed company has the following objectives:

1. Increase in profit before interest and tax by at least 10% per year.
2. Maintain a dividend payout ratio of 40% of earnings per year.

Relevant data:

* There are 2 million shares in issue.
* Profit before interest and tax in the last financial year was $4 million.
* The corporate income tax rate is 20%.

At the beginning of the current financial year, the company raised long term debt of $2 million at 5% interest each year.

Calculate the dividend per share that will be announced this year assuming the company achieves its objective of increasing profit before interest and tax by 10%.

A. $1.09

B. $0.47

C. $0.52

D. $1.20
Answer: C (LEAVE A REPLY)

NEW QUESTION: 3
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?
A. Cash flow to equity discounted at the cost of equity.
B. Cash flow to all investors discounted at WACC less the value of debt.
C. Cash flow to equity discounted at the cost of equity less the value of debt.
D. Total earnings multiplied by a suitable price-earnings ratio.
E. Cash flow to all investors discounted at WACC.
Answer: (SHOW ANSWER)

NEW QUESTION: 4
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	1[illegible]
Exports in EUR millions	20	18	21	

Which company's growth objective is most sensitive to a movement in the EUR/K$ exchange rate?
A. Company B
B. Company A
C. Company C
D. Company D
Answer: A (LEAVE A REPLY)

NEW QUESTION: 5
Company ABD and Company BCD operate in the same industry and each has a significant market share.
The directors of Company ABD have heard rumours in the market that Company BCD is planning to bid to takeover Company ABD. They do not believe the takeover would be in the best interests of the shareholders and are therefore keen to prevent the bid from going ahead.
Which THREE of the following defense strategies could be used by the directors of Company ABD at this point in time?
A. Communicate effectively with their shareholders
B. Revalue the non-current assets
C. Refer the bid to the competition authorities
D. Poison Pill
E. White Knight
Answer: A,B,D (LEAVE A REPLY)
At the rumour stage (pre-bid), suitable defences are pre-emptive ones:
A - Communicate effectively with shareholders: build support and explain strategy to keep the share price fair and reduce vulnerability.
B - Revalue non-current assets: helps ensure the shares are not undervalued and makes any bid look less attractive.
D - Poison pill: introduce mechanisms (e.g. rights issues to existing shareholders) that make a hostile bid very costly.
C (competition authorities) and E (white knight) are reactive and typically used only once an actual bid has been made.

NEW QUESTION: 6
A company aims to increase profit before interest and tax (PBIT) each year.
The company reports in A$ but has significant export sales priced in B$.
All other transactions are priced in A$.
In 20X1, the company reported:

	Total	
Revenue	A$ 500 million	Including export sales of B$ 800 million (equivalent to A$ 400 million)
Costs	A$ 200 million	
PBIT	A$ 300 million	

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In 20X2, the only changes expected are:

* An increase in export prices of 10%, but no change to units sold.
* A rise in the value of the B$ to A$/B$ 2.500 (that is, A$ 1 = B$ 2.5)

Is it likely that the company would still meet its objective to grow PBIT between 20X1 and 20X2?

A. Yes, PBIT would increase by A$ 150 million.

B. No, PBIT would fall by A$ 48 million.

C. Yes, PBIT would increase by A$ 48 million.

D. No, PBIT would fall by A$ 150 million.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 7

An aerospace company is planning to diversify into car manufacturing.

Relevant data:

	Aerospace Company	Ca Manufacturin Industr
)ebt-to- :quity Ratio	20:80	20:8
\sset 3eta	1.02	1.1
:quity 3eta	1.2	1.
Risk-Free Rate	5%	5%
Market Premium	10%	10%
Corporate Tax rate	30%	30%

What is the the cost of equity to be used in the WACC for the project appraisal?
Give your answer in percentage, as a whole number.

A. 19%
B. 18%

Answer: A (LEAVE A REPLY)

NEW QUESTION: 8

Two unlisted companies TTT and YYY are being valued. The companies have similar capital structures and risk profiles and operate in the same industry sector It is easier to value TTT than to value YYY because there have recently been several well-publicised private sales of TTT shares.

Relevant company data:

	TTT	YYY
Profit before tax and financing	$30 million	$20 million
Profit for the year	$25 million	$15 million
Number of shares	100 million	200 million
Share price ($1 nominal shares)	$2.00	?

What is the best estimate of YYY's share price?

A. $0.60
B. $0.68
C. $0.94
D. $1.20

Answer: D (LEAVE A REPLY)

NEW QUESTION: 9

A large, listed company is planning a major project that should greatly improve its share price in the long term.

These plans require a significant capital cost that the company plans to finance by debt.
All of the debt options being considered are for the same duration of time.
Which of the following sources of debt finance is likely to be the most expensive for the company over the full term of the debt?
A. Convertible bonds
B. Bank loan
C. Bonds
D. A finance lease
Answer: (SHOW ANSWER)

NEW QUESTION: 10
HHH Company has a fixed rate loan at 10.0%, but wishes to swap to variable. It can borrow at the risk-free rate +8%. The bank is currently quoting swap rates of 3.1% (bid) and 3.5% (ask). What net rate will HHH Company pay if it enters into the swap?
A. Risk-free rate +6.9%
B. Risk-free rate +8%
C. Risk-free rate+3.1%
D. Risk-free rate +6.5%
Answer: D (LEAVE A REPLY)
This question tests understanding of interest rate swaps, a core topic in CIMA F3: Financial Strategy, particularly under financial risk management.
Step 1: Identify the company's current position
HHH Company currently has fixed-rate debt at 10.0%
It wants to swap to variable interest
Its floating-rate borrowing cost is risk-free rate + 8%
Step 2: Interpret the swap quotation
The bank quotes swap rates of:
3.1% (bid)
3.5% (ask)
In CIMA F3:
If a company wants to pay fixed and receive floating, it must pay the ask rate.
Therefore, HHH will pay fixed 3.5% and receive floating (risk-free rate) under the swap.
Step 3: Combine the loan and the swap
Component
Cash flow
Fixed loan
Pay 10.0% fixed
Swap
Pay 3.5% fixed, receive risk-free rate
Net fixed paid:
10.0%#3.5%=6.5%10.0\% - 3.5\% = 6.5\%10.0%#3.5%=6.5%

So after the swap, the company effectively pays:
Risk-free rate+6.5%\text{Risk-free rate} + 6.5\%Risk-free rate+6.5%
Step 4: Select the correct option
Risk-free rate + 6.5% #

NEW QUESTION: 11
A listed company has recently announced a profit warning.
The company's share price fell 20% on the day of the announcement but had been fairly static in the weeks leading up to the announcement.
Which form of efficient market is most likely to be indicated by this share price movement?
A. Strong form
B. Semi-strong form
C. Weak form
D. Random walk
Answer: (SHOW ANSWER)

NEW QUESTION: 12
Company A has agreed to buy all the share capital of Company B.
The Board of Directors of Company A believes that the post-acquisition value of the expanded business can be computed using the "boot-strapping" concept.
Which of the following most accurately describes "boot-strapping" in this context?
A. Adding together the current post-tax earnings of each company and multiplying this by the price/earnings ratio of the bidder
B. Adding together the current post tax earnings of each company and multiplying this by the price earnings ratio of the acquired entity
C. Forecasting the future free cash flows of the combined entities and discounting these at the bidder's Weighted Average Cost of Capital
D. Combining the pre-acquisition market capitalisation of each company
Answer: A (LEAVE A REPLY)

NEW QUESTION: 13
Company A has just announced a takeover bid for Company B. The two companies are large companies in the same industry_ The bid is considered to be hostile.
Company B's Board of Directors intends to try to prevent the takeover as they do not consider it to be in the best interests of shareholders Which THREE of the following are considered to be legitimate post-offer defences?
A. Have all the assets independently professionally revalued to demonstrate that the offer undervalues the company
B. Refer the bid to the competition authorities to try to have the bid prohibited on competition grounds

C. Publish very optimistic financial forecasts for Company B even though the Board of Directors realises that these are highly unlikely to be achievable
D. Alter the memorandum and articles of association to state that a minimum of 75% of shareholders must agree to the bid before it can proceed
E. Make a counter bid for Company A provided such an acquisition could enhance Company B's shareholder wealth
Answer: B,D,E (LEAVE A REPLY)

NEW QUESTION: 14
Company A is based in Country A where the functional currency is the A$. Currently all sales are to domestic customers in Country A. However, the company is planning to expand internationally by acquiring Company B, a distribution company in Country B, to enable it to sell goods worldwide The functional currency of Country B is the BS Company A will invoice its international customers in their local currency.
Wage increases in Country B are forecast to be modest, due to high unemployment levels, but overall inflation in Country B is forecast to be significantly higher than in Country A Which TWO of the following statements about the economic risk of the acquisition of Company B are true?
A. Financing this acquisition with block denominated in B$ will reduce economic risk.
B. Economic risk can be eliminated by using forward contracts to convert future cash flows into A $
C. Higher inflation will increase the project's BS returns, so the economic risk can be ignored
D. Exporting into a variety of international markets will reduce economic risk.
E. Using purchasing power parity, AS is forecast to strengthen against B$, so the economic risk can be ignored
Answer: A,D (LEAVE A REPLY)
A - B$ debt as a natural hedge: Borrowing in B$ to finance the B$ investment creates a natural hedge: B$ operating cash inflows help service B$ interest and principal. This reduces the net exposure of A$ shareholders to movements in the B$/A$ rate and so lowers economic risk.
D - Diversifying export markets: Selling into a variety of international markets spreads exposure across multiple economies and currencies, reducing dependence on any single one. This diversification reduces economic risk.
The other options are not true:
B: Forwards hedge specific transactions, not long-term economic risk.
C: Higher local inflation usually comes with currency depreciation and cost increases; economic risk cannot be ignored.
E: If A$ is expected to strengthen, that actually increases economic exposure to B$ earnings, it doesn't remove it.

NEW QUESTION: 15
G pic wishes to borrow $5 million in 6 months, for a period of 3 months. A bank has quoted the following Forward Rate Agreement (FRA) rales:

3 v 9 6.55%-6.70% 6v9 6.70%-6 90%.
G pic can borrow at 0 75% above base rate, and the base rate is currently 6.25% Concerned that base rates may rise, G pic decides that it will hedge using an FRA At the settlement date for the FRA, the base rate has risen to 7.50% What is the effective interest rate paid by G pic for its borrowing?
A. 7.45
B. 8.25
C. 7.30
D. 7.65
Answer: (SHOW ANSWER)

NEW QUESTION: 16
Which TWO of the following situations offer arbitrage opportunities?
A.
Spot rate F$1 = K$1.40
12 month forward rate F$1 = K$1.44
Interest rates on 12 month deposits = 5% on F$ and 8% on K$
B.
Current spot rates
F$1 = K$1.40
K$1 = L$2.10
L$1 = F$0.34
C.
I Current spot rates
F$1 = K$1.40
K$1 = L$2.10
L$1 = F$0.40
D.
Spot rate F$1 = K$1.40
12 month forward rate F$1 = K$1.44
Interest rates on 12 month deposits = 5% on F$ and 9% on K$
Answer: C,D (LEAVE A REPLY)
Why not A?
For A:
Spot: F$1 = K$1.40
1-year forward: F$1 = K$1.44
Interest: F$ at 5%, K$ at 8%
Covered interest parity condition:
F=S×1+iK1+iFF = S \times \frac{1+i_{K}}{1+i_{F}}F=S×1+iF1+iK
F=1.40×1.081.05=1.40×1.028571...#1.
44F = 1.40 \times \frac{1.08}{1.05} = 1.40 \times 1.028571... \approx
1.44F=1.40×1.051.08=1.40×1.
028571...#1.44
Forward rate is consistent with interest rates # no arbitrage.
Option D - Covered interest arbitrage
For D, everything is the same except K$ interest = 9%:

Fno-arbitrage=1.40×1.091.05=1.40×1.038095...#1.45F_{\text{no-arbitrage}} = 1.40 \times \frac{1.09}
{1.05} = 1.40 \times 1.038095... \approx 1.45Fno-arbitrage=1.40×1.051.09=1.40×1.038095...#1.45 But given forward is only 1.44, so:
Borrow F$, convert to K$, invest at 9%, and lock in selling K$ forward at 1.44.
This produces a risk-free return greater than 5%, so covered interest arbitrage exists.
Option B vs C - Triangular arbitrage
From the first two quotes:
\text{F$1} = \text{K$1.40},\quad \text{K$1} = \text{L$2.10} \Rightarrow \text{F$1} = 1.40 \times 2.10 =
\text{L$2.94}
So the implied rate is:
\text{L$1} = \frac{1}{2.94} \approx \text{F$0.3401}
Option B gives L$1 = F$0.34 # essentially equal (no exploitable difference assumed in exam context) # no arbitrage.
Option C gives L$1 = F$0.40, which is far from 0.3401 # direct L$/F$ quote is inconsistent with cross-rate # triangular arbitrage opportunity.

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NEW QUESTION: 17
The Board of Directors of a small listed company engaged in exploration are currently considering the future dividend policy of the company. Exploration is considered a high-risk business and consequently the company has a low level of debt finance.
Forecasts indicate a period of profit fluctuation in the next few years as the company is planning to embark on a major capital investment project. Debt finance is unlikely to be available due to the project's high business risk.
Which THREE of the following are practical considerations when determining the company's dividend/retention policy?
A. The timing and size of the cash flow requirements for the new investment.
B. The fluctuating nature of the projected future profits.
C. The legislation and regulation governing distributable profits.
D. The dividend policies of mature listed multinational companies in the exploration industry.

E. The general level of interest rates and the tax savings on interest costs relating to debt finance.

Answer: (SHOW ANSWER)

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NEW QUESTION: 18

Select the most appropriate divided for each of the following statements:

Statement	Answer	Options
Only pay a dividend once all positive NPV projects have been funded.		Stable growth
Investors prefer a predictable cash flow.		Residual policy
May create volatile dividend movements.		Constant payout ratio

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Answer:

Statement	Answer	Options
Only pay a dividend once all positive NPV projects have been funded.	Residual policy	Stable growth
Investors prefer a predictable cash flow.	Stable growth	Residual policy
May create volatile dividend movements.	Constant payout ratio	Constant payout ratio

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Explanation:

Statement	Answer
Only pay a dividend once all positive NPV projects have been funded.	Residual policy
Investors prefer a predictable cash flow.	Stable growth
May create volatile dividend movements.	Constant payout ratio

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"Only pay a dividend once all positive NPV projects have been funded." # Residual policy Under a residual dividend policy, the firm first uses earnings to finance all projects with a positive NPV. Whatever profit is left over (the "residual") may be paid out as dividends.

So dividends are not the target; investment in value-adding projects is. That's exactly what the statement describes.

"Investors prefer a predictable cash flow." # Stable growth

A stable (or steadily growing) dividend policy aims to provide shareholders with a smooth, predictable stream of dividends.
Even if earnings are volatile, management tries to keep dividends level or with a modest regular increase.
This appeals to investors who value certainty of income, which is what the statement is referring to.
"May create volatile dividend movements." # Constant payout ratio
With a constant payout ratio, the company always pays the same percentage of earnings as dividends (e.g.
40% of earnings every year).
If earnings go up and down, the dividend per share will also go up and down proportionally.
That leads to volatile dividend movements, which is exactly what the statement says.
So the final mapping is:
Residual policy # "Only pay a dividend once all positive NPV projects have been funded." Stable growth # "Investors prefer a predictable cash flow." Constant payout ratio # "May create volatile dividend movements."

NEW QUESTION: 19

A company is preparing an integrated report according to the International <IR> Framework as issued by the International Integrated Reporting Council.
Which THREE of the following should be included in the report?
A. An of how the organisation's governance structure supports its ability to create value in the short, medium and long term.
B. A detailed analysis of the organisation's business model.
C. The challenges and uncertainties that the organisation is likely to encounter in pursuing its strategy.
D. A comparison of the key elements of its financial statements with those of its main competitor.
E. A summary of the key issues discussed by directors in main board meetings.
Answer: A,B,C (LEAVE A REPLY)

NEW QUESTION: 20

B, a European based modern art dealer, frequently imports and sells single high value items created in the United States. The price is fixed at the date of sale but the items are commissioned and made to order with a lead time of three to nine months depending on the individual specification B holds payment for his customers from the point of purchase and passes funds when the items are shipped However, despite putting the money on short term deposit, there have been times when B's profits have been almost entirely eroded by adverse movements m interest rates Advise B by matching the appropriate instrument to B's requirements.

Scenario	Answer
If B wants to secure a fixed rate and is not worried about the potential for upside.	
If B wants to protect against losses but wants to take advantage of upside.	
If B wants to use a Collar to set a limit to the gains and losses of the money on deposit.	

Options:
- Take a money market hedge
- Buy a Call option and sell put options
- Buy a Call option
- Take a Forward Rate Agreement
- Buy a Put option

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Answer:

Scenario	Answer
If B wants to secure a fixed rate and is not worried about the potential for upside.	Take a Forward Rate Agreement
If B wants to protect against losses but wants to take advantage of upside.	Take a money market hedge
If B wants to use a Collar to set a limit to the gains and losses of the money on deposit.	Buy a Call option and sell put options

Options:
- Take a money market hedge
- Buy a Call option and sell put options
- Buy a Call option
- Take a Forward Rate Agreement
- Buy a Put option

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Explanation:

If B wants to secure a fixed rate and is not worried about the potential for upside.	Take a Forward Rate Agreement
If B wants to protect against losses but wants to take advantage of upside.	Take a money market hedge
If B wants to use a Collar to set a limit to the gains and losses of the money on deposit.	Buy a Call option and sell put options

Buy a Call option

Buy a Put option

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NEW QUESTION: 21

The Board of Directors of a listed company wish to estimate a reasonable valuation of the entire share capital of the company in the event of a takeover bid.

The company's current profit before taxation is $4.0 million.

The rate of corporate tax is 25%.

The average P/E multiple of listed companies in the same industry is 8 times current earnings.

The P/E multiple of recent takeovers in the same industry have ranged from 9 times to 10 times current earnings.

The average P/E multiple of the top 100 companies on the stock market is 15 times current earnings.

Advise the Board of Directors which of the following is a reasonable estimate of a range of values of the entire share capital in the event of a bid being made for the whole company?

A. Minimum = $27 million, and maximum = $30 million.

B. Minimum = $36 million, and maximum = $40 million.

C. Minimum = $24 million, and maximum = $45 million.

D. Minimum = $32 million, and maximum = $60 million.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 22

MAN is a manufacturing company that is based in country M and sells almost exclusively to customers in country M, priced in the local currency, M$.

MAN wishes to expand the business by acquiring a company that manufactures similar products but has a more global customer base. It is particularly interested in selling to customers in country P, which uses currency P$ but recognises that the P$ is generally quite volatile against the M$.

Country P uses the same language as country M, has free entry of labour from country M, no exchange controls or withholding tax and a favourable double tax treaty.

Which of the following companies would be most suitable takeover candidates for MAN to investigate further?

A. A company based in country P with a large proportion of customers in country M.

B. A company based in country M with a shared interest in selling in country P.

C. A company based in country P with a global customer base including country P.

D. A company based in country M with a global customer base including country P.

Answer: (SHOW ANSWER)

NEW QUESTION: 23

A company has:

* $6 million market value of equity
* $4 million market value of debt
* WACC of 11.04%
* Corporate income tax rate of 20%

According to Modigliani and Miller's theory of capital structure with tax, what is the ungeared cost of equity?

A. 12.00%

B. 12.54%

C. 10.16%

D. 16.24%

Answer: A (LEAVE A REPLY)

NEW QUESTION: 24

Company M is a listed company in a highly technical service industry.

The directors are considering making a cash offer for the shares in Company Q, an unquoted company in the same industry.

Relevant data about Company Q:

* The company has seen consistent growth in earnings each year since it was founded 10 years ago.
* It has relatively few non-current assets.
* Many of the employees are leading experts in their field. A recent exercise suggested that the value of the company's human capital exceeded the value of its tangible assets.

The directors and major shareholders of Company Q have indicated willingness to sell the company.

Before negotiations become too advanced, the directors of Company M are considering the benefits to their company that would follow the acquisition.

Which THREE of the following are the most likely benefits of the acquisition to Company M's shareholders?

A. Access to technical expertise.

B. Reduction of risk through diversification.

C. Improve earnings per share (EPS).

D. Gain economies of scale.
E. Improved asset backing for borrowing due to the acquisition of intangible assets.
Answer: A,C,D (LEAVE A REPLY)

NEW QUESTION: 25
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 (LEAVE A REPLY)
Under IAS 39, a derivative such as a forward contract must always be measured at fair value in the statement of financial position. When that derivative is designated as a cash flow hedge of a highly probable forecast transaction and hedge accounting criteria are met, the effective portion of the gain or loss on the hedging instrument is recognised in Other Comprehensive Income (OCI), not in profit or loss.
Here, by 31 December 20X3 the forward contract (entered at nil cost) has a positive fair value of $10,000, so there is a gain of $10,000. Because the hedge has been correctly designated as a cash flow hedge, that gain is treated as part of the cash flow hedge reserve in equity via OCI. It will be recycled to profit or loss in a later period when the hedged transaction affects profit or loss (e.g. when the forecast foreign currency transaction occurs).
So for the year ended 31 December 20X3, the correct treatment is to recognise a $10,000 gain in OCI - answer D.

NEW QUESTION: 26
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?

A. Company A's gearing will increase following a share exchange.

B. The method of finance chosen will not affect the post-acquisition earning per share of the combined business

C. 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

D. Company B's shareholders will be able to participate in the future growth of the combined business if it is a share exchange

E. Company A's weighted average cost of capital will fall if financing is with debt

Answer: C,E (LEAVE A REPLY)

NEW QUESTION: 27

An unlisted company:

* Is owned by the original founder and member of their families.

* Is growing more rapidly than other companies in the same industry.

* Pays a fixed annual divided

Which of the following methods would be the most appropriate to value this company's equity?

A. Divided valuation method.

B. Discounted cash flow analysis based on forecast future free cash flows.

C. Asset based approach including intangibles.

D. P/E ratio of a listed company in the same industry.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 28

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?

A. Lower arrangement costs

B. Less administrative effort to arrange the new finance

C. Lower interest rate

D. Larger capital market

E. Greater availability of debt of 20-year duration
Answer: C,D,E (LEAVE A REPLY)

NEW QUESTION: 29
A government is currently considering the privatisation of the national airline. The shares are to be offered to the public via a fixed price Initial Public Offering (IPO).
Which THREE of the following statements are correct?
A. An IPO is normally underwritten
B. The government will receive significant financial resources from the sale of its shareholding in the national airline.
C. The rational airline employees will no longer be public sector employees following the completion of the privatisation
D. The use of a fixed price offer will ensure that the government raises the maximum amount of finance.
E. The rational airline will receive significant financial resources as a direct result of the shares company shares in the IPO.
Answer: A,B,C (LEAVE A REPLY)
A). An IPO is normally underwritten - Correct. For a fixed-price IPO, underwriters usually guarantee that the issue will be taken up, giving certainty of proceeds.
B). The government will receive significant financial resources from the sale - Correct. In a privatisation, the government is selling its ownership stake; the cash from selling these shares flows to the government.
C). The national airline employees will no longer be public sector employees - Correct. Once privatised, the airline becomes a private-sector company; its staff cease to be public-sector employees.
D is incorrect: a fixed-price offer does not guarantee maximum proceeds - the shares are often deliberately underpriced to ensure the issue is fully subscribed.
E is incorrect: in this scenario the proceeds go to the government as seller of existing shares, not directly to the airline itself.

NEW QUESTION: 30
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.
A. 6.5%
B. 7.5%
Answer: B (LEAVE A REPLY)

NEW QUESTION: 31

Two listed companies in the same industry are joining together through a merger.
What are the likely outcomes that will occur after the merger has happened?
Select ALL that apply.
A. Increase in customer base.
B. Competition authorities step in to stop a potential price monopoly.
C. Decrease in employee motivation due to internal changes.
D. Changes to supplier relationships owing to internal changes.
E. Cost savings from synergistic benefits and economies of scale.
Answer: A,C,D,E (LEAVE A REPLY)
In a merger of two listed companies in the same industry, CIMA F3 highlights several typical post-merger outcomes:
A). Increase in customer base - The combined entity now serves the customers of both legacy firms, usually increasing total customer reach and market share.
C). Decrease in employee motivation due to internal changes - Mergers often create uncertainty, restructuring, cultural clashes and role changes, which can reduce morale and motivation, at least in the short term.
D). Changes to supplier relationships owing to internal changes - A larger merged company often renegotiates supply contracts, consolidates suppliers or changes volumes, so relationships and terms are likely to change.
E). Cost savings from synergistic benefits and economies of scale - This is one of the main motives for mergers: eliminating duplication, spreading fixed costs, consolidating operations, and gaining purchasing power.
Option B (competition authorities step in to stop a potential price monopoly) is not something that will necessarily or likely occur after the merger; it may happen in some extreme cases and typically occurs before completion, so it's not treated as a standard outcome.
So the most appropriate outcomes are: A, C, D and E.

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NEW QUESTION: 32
A listed company is planning a share repurchase.
The following data applies
* There are 20 million shares in issue

* The share repurchase will involve buying back 10% of the shares at a price of $1.20
* The company is holding $4.8 million cash
* Earnings for the current year ended are $3.6 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?
A. The cash balance will decrease by 10% and the EPS will decrease by 11%.
B. The cash balance will decrease by 10% and the EPS will increase by 11%.
C. The cash balance will decrease by 50% and EPS will decrease by11%
D. The cash balance will decrease by 50% and EPS will increase by 11%
Answer: (SHOW ANSWER)
Shares repurchased: 10% × 20m = 2m shares at $1.20 # cash outflow = $2.4m.
Cash balance falls from $4.8m to $2.4m # 50% decrease.
EPS before: 3.6m / 20m = $0.18
EPS after: 3.6m / 18m = $0.20
% change in EPS = (0.20 # 0.18) / 0.18 # 11% increase.
So the correct statement is D: cash decreases by 50% and EPS increases by 11%.

NEW QUESTION: 33
An unlisted software development business is to be sold by its founders to a private equity house following the initial development of the software. The business has not yet made a profit but significant profits are expected for the next three years with only negligible profits thereafter. The business owns the freehold of the property from which it operates. However, it is the industry norm to lease property.
Which THREE of the following are limitations to the validity of using the Calculated Intangible Value (CIV) method for this business?
A. The business owns the freehold property from which it operates.
B. Significant profits are forecast for the next three years with only negligible profits thereafter.
C. The business has not yet made a profit.
D. The CIV method cannot be applied to an unlisted company.
E. The intellectual property representing the software development has not been included in the accounts.
Answer: (SHOW ANSWER)
In CIMA F3, the Calculated Intangible Value (CIV) method is used to estimate intangible value by comparing a business's profits to what would be expected from its tangible asset base, typically relying on normalised, sustainable earnings and an assumption of continuing returns. This scenario has three features that reduce CIV validity. First, the business owns freehold property whereas the industry norm is to lease (A). CIV depends on a "normal" tangible asset base and the return on those tangibles; a non-standard capital structure in tangibles can distort the benchmark return and the computed "excess earnings," so adjustments would be required.

Second, significant profits are forecast only for three years with negligible profits thereafter (B). CIV implicitly assumes excess earnings are sustainable (often capitalised as a continuing benefit), so a short-lived profit window undermines the idea of capitalising excess returns into a continuing intangible value. Third, the business has not yet made a profit (C), which weakens CIV because it typically uses observed/established earnings to compute excess returns; early-stage forecasts add significant estimation risk. CIV can be applied to unlisted companies (so D is not a limitation), and the fact that software IP is not in the accounts is exactly why an intangible valuation approach is considered (so E is not a limitation).

NEW QUESTION: 34
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?
A. 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.
B. The private company obtains a stock market listing on a recognised exchange within the next 5 years.
C. 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.
D. The management team agrees to buy back the Venture Capital Funds shareholding in 5 years time at its original cost.
E. 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.
Answer: B,C,E (LEAVE A REPLY)

NEW QUESTION: 35
A company based in Country D, whose currency is the D$, has an objective of maintaining an operating profit margin of at least 10% each year.
Relevant data:
* The company makes sales to Country E whose currency is the E$. It also makes sales to Country F whose currency is the F$.
* All purchases are from Country G whose currency is the G$.
* The settlement of all 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?
A. The D$ strengthens against the E$ over time.
B. The F$ weakens against the D$ over time.
C. The D$ strengthens against the G$ over time.
D. The D$ weakens against the G$ over time.
Answer: C (LEAVE A REPLY)

Revenues are in E$ and F$, costs are in G$, and reporting currency is D$.
If the D$ strengthens against G$ (option C), then G$ costs translate into fewer D$, so reported costs fall and operating profit margin improves.
A stronger D$ against E$ or F$ (A or B) reduces the D$ value of sales, hurting margins.
A weaker D$ against G$ (D) makes G$-denominated costs more expensive in D$, also hurting margins.
So the change that most helps maintain/improve margin is C.

NEW QUESTION: 36
Company HJK is planning to bid for listed company BNM
Financial data for BNM for the financial year ended 31 December 20X1:

	$ million
Profit before tax	40
Financing costs	(8)
Profit after financing costs but before tax	32
Tax at 25%	(8)
Profit for the year	24
Dividend payment	(10)
Retained profit for the year	14

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HJK is not forecasting any growth in these figures for the foreseeable future
Profit and cost data above should be assumed to be equivalent to cash flow data when answenng this question
Which THREE of the following approaches would be most appropriate for HJK to use to value the equity of BNM?
A. Share price x number of shares in issue plus retained profits
B. Share price x number of shares in issue
C. Cash flows of S14 million discounted at the cost of equity
D. Cash flows of S24 million discounted at the cost of equity
E. Cash flows of $30 million (= S40 million net of tax at 25%) discounted at WACC minus the value of debt
Answer: (SHOW ANSWER)

NEW QUESTION: 37
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?

A. 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
B. The directors offer will increase demand for the shares and as a consequence the share price will rise above the theoretical ex-rights price.
C. It will encourage more shareholders to sell their lights on the open market.
D. It will result in fewer shareholders taking up the rights and as a consequence less cash will be raised from the rights issue
Answer: D (LEAVE A REPLY)
TERP = $4.80 (given).
Issue price = $4.00 # value of one right per new share = 4.80 # 4.00 = $0.80.
The company offers $1.00 per right, which is more than the theoretical value.
So shareholders who don't want to invest more cash are better off selling the rights back to the company for
$1 rather than exercising them or selling on the market.
That means fewer shareholders will take up the rights, so the company is likely to raise less cash # option D.

NEW QUESTION: 38
Select the category of risk for each of the descriptions below:

A company has two subsidiaries in a country where the currency has become very strong. It is worried that its overseas customers will stop buying its goods.

A company has a major overseas supplier. The country in which the supplier operates has a strengthening currency.

A company has to convert its subsidiaries' financial statements into the presentation currency in order to consolidate the financial statements.

A company has ordered a machine which it has agreed to pay for in a foreign currency in 8 months time.

Translation risk

Economic risk

Financial risk

Transaction risk

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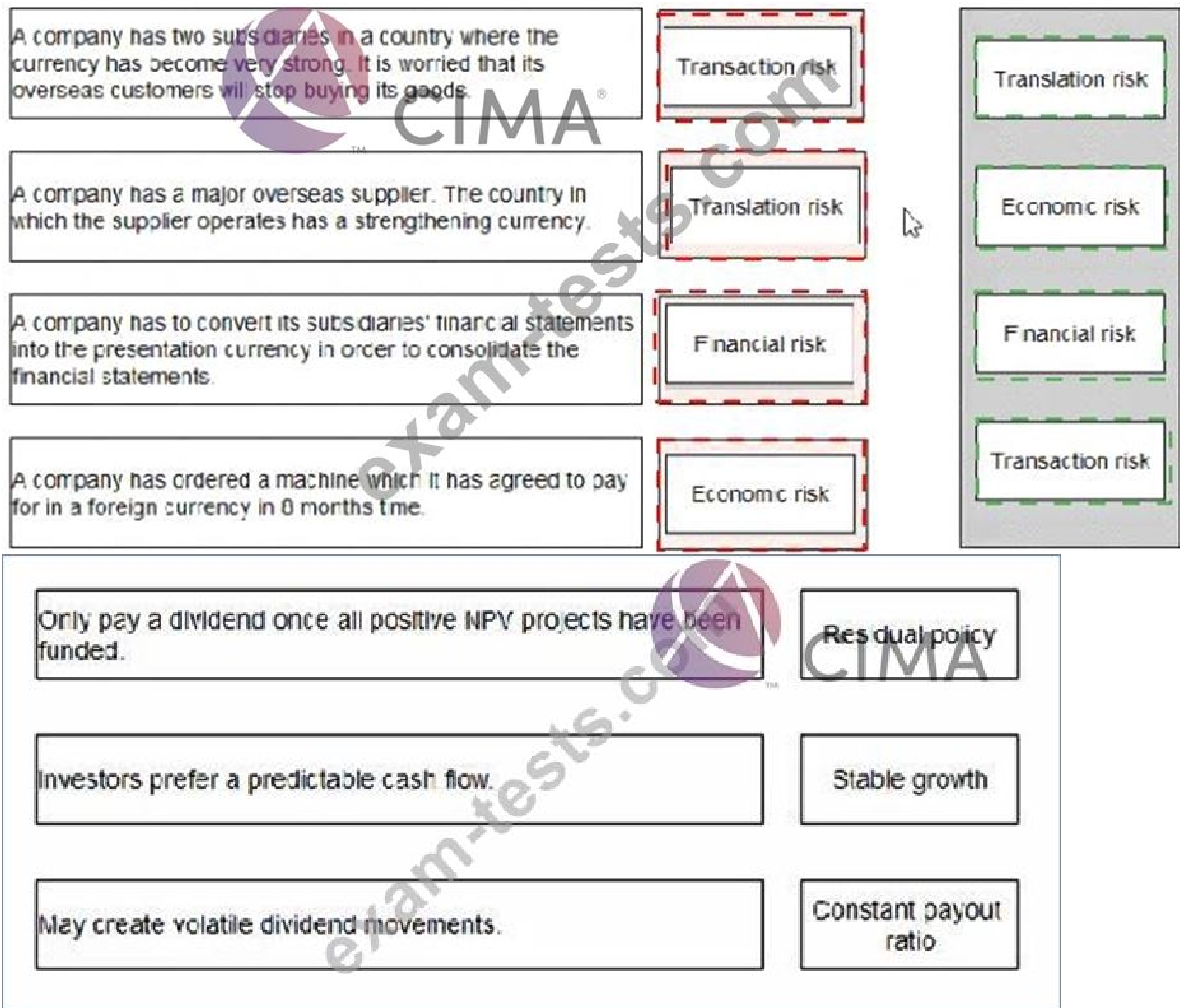
Answer:



NEW QUESTION: 39

Company M is a geared company whose equity has a market value of $1,500 million and debt has a market value of S300 million. The company plans to issue $200 million of new shares and use the funds raised to pay off some of the debt Company M currently has a cost of equity of 13% and a WACC of 10% It pays corporate tax at the rate of 30% Company B, an ungeared company operating in the same business sector as Company M, has a cost of equity of 12% Assume Modigliani and Miller's theory of capital structure with tax applies Which calculation below shows the correct approach to calculating the new WACC following the planned changes in capital structure?

A. $12.8\% = 13\% \times \left[1 - \left(\frac{0.30 \times 100}{1,600}\right)\right]$

$$11.8\% = 12\% \times \left[1 - \left(\frac{0.30 \times 100}{1800}\right)\right]$$

B.

$$12.8\% = 13\% \times \left[1 - \left(\frac{0.30 \times 100}{1{,}800}\right)\right]$$

C.

$$11.8\% = 12\% \times \left[1 - \left(\frac{0.30 \times 100}{1{,}600}\right)\right]$$

D.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 40

KKL is a listed sports clothing company with three separate business units. KKL is seeking to sell TT', one of these business units

TTP cwns a new. brand of trail running shoes that have Droved hugely popular with lone distance runners. The management team of TTP are frustrated by the constraints imposes b/ KKL in managing tie brand and developing. the bus ness and they believe that TTF has huge growth potential.

The management team of TTP have approached KKL with a proposal to purchase 1~P through a management layout (MDO). KKL has accepted this proposal as TTP has not proved to be a good fit' with the rest of the business and has agreed on the selling price.

Which THREE of the following factors a-e mast Likely to affect the success of the MBO?

A. Searing sufficient. funding for the MBO.

B. The motivation of the TTP management team to invest in future growth.

C. The ability the TTP management team to develop the brand and achieve the expected growth.

D. The ability of the TTF management team to take over the head office functions successfully.

E. The constraints imposed by KKL managing TTF's brand.

Answer: A,C,D (LEAVE A REPLY)

NEW QUESTION: 41

A company has a 4% corporate bond in issue on which there are two loan covenants.

* Interest cover must not fall below 4 times

* Retained earnings for the year must not fall below S5 00 million

The Company has 100 million shares in issue. The most recent dividend per share was $0 10

The Company intends increasing dividends by 8% next year.

Financial projections tor next year are as follows:

	$ million
Profit before interest and taxation	25.00
Interest ($80 million @ 4%)	3.20
Profit before taxation	21.80
Taxation @ 30%	6.54
Earnings	15.26

Advise the Board of Directors which of the following will be the status of compliance with the loan covenants next year?

A. The company will be in breach of the covenant in respect of interest cover only.

B. The company will breach the covenant in respect of retained earnings only.

C. The company will be in compliance with both covenants.

D. The company will be in breach of both covenants

Answer: B (LEAVE A REPLY)

This question examines loan covenant compliance, a topic covered in CIMA F3 under Debt Finance, Financial Risk, and Dividend Policy. Loan covenants are contractual restrictions imposed by lenders to protect their interests. Breaching a covenant can trigger penalties or loan repayment demands, so directors must assess compliance carefully using projected financial information.

The company has two covenants:

* Interest cover must not fall below 4 times
* Retained earnings for the year must not fall below $5.00 million

Step 1: Interest Cover Covenant

CIMA F3 defines interest cover as:

From the projections:

* EBIT = $25.00 million
* Interest = $3.20 million

Since 7.8 > 4, the company meets the interest cover covenant.

Step 2: Retained Earnings Covenant

Earnings after tax are projected at $15.26 million.

The most recent dividend per share is $0.10, and dividends are planned to increase by 8%:

With 100 million shares in issue:

Retained earnings for the year:

Since $4.46 million < $5.00 million, the company breaches the retained earnings covenant.

Conclusion (CIMA F3 Interpretation)

* Interest cover covenant: Complied with
* Retained earnings covenant: Breached

Under CIMA F3 guidance, directors must recognise that even when profitability appears strong, dividend policy can cause covenant breaches if distributions are excessive.

NEW QUESTION: 42

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?

A. The company has effectively obtained floating rate debt.

B. On the first day of this arrangement, the company receives the principal borrowed from the bank and pays this across to the swap counterparty.

C. LIBID (London Interbank Bid Rate) is normally used as the reference rate for determining interest due under the swap.

D. Under the swap, interest is exchanged every year.

E. The swap contract is normally a contract between a company and a bank.

Answer: A,D,E (LEAVE A REPLY)

A: Net position is pay floating (fixed to bank, receive fixed in swap, pay floating) # True.

B: No principal is exchanged in an interest rate swap # False.

C: LIBOR, not LIBID, is normally the reference rate # False.

D: Interest cash flows are exchanged periodically (e.g. annually) # True.

E: Swaps are usually between a company and a bank # True.

NEW QUESTION: 43

An unlisted software development company has recently reported disappointing results. This was partly due to weak economic conditions but also because of its poor competitive position. The company has a number of exciting development opportunities which would enable it to achieve significant future growth. The company's growth potential has been hindered by its inability to secure sufficient new finance.

To enable the company raise new finance the Directors are considering working forwards an IPO in 10 years and accepting finance from a venture capitalist in order support in the intervening period.

The directors are keen to retain a controlling stake in the company and full representation on the board. They therefore require venture capitalists to provide funds as a mix of debt and equity and not soley equity finance.

Which THREE of the following are most likely to disrupt the directors' plans to use venture capital finance?

A. The venture capital finance offered is much more expensive than expected.

B. Venture capitalists normally expect at least one seat on the board.

C. Venture capitalists normally expect an exit strategy sconer than the planned IPO in 10 years'time.

D. Venture capitalists only provide equity finance and will therefore not be interested in providing a combination of debt and equity finance.

E. Venture capitalists always require ownership of more than 50% of the shares in a company to ensure control.

Answer: A,B,C (LEAVE A REPLY)

NEW QUESTION: 44

An aerospace company is planning to diversify into car manufacturing.

Relevant data:

	Aerospace Company	Car Manufacturing Industry
Debt-to-Equity Ratio	20:80	20:80
Asset Beta	1.02	1.19
Equity Beta	1.2	1.4
Risk-Free Rate	5%	5%
Market Premium	10%	10%
Corporate Tax rate	30%	30%

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What is the the cost of equity to be used in the WACC for the project appraisal?

Give your answer in percentage, as a whole number.

A. 19%Use the project's business risk (car industry asset beta):Asset beta for car manufacturing = 1.19.Re- gear this beta to reflect the financing (gearing) of the aerospace companyDebt-to-equity ratio = 20:80 # D/E=0.25D/E = 0.25D/E=0.25Tax rate = 30%Re-geared equity beta:#e=#a[1+(1#T)DE]=1.19[1+0.7×0.

25]=1.19×1.175#1.40\beta_e = \beta_a \big[1 + (1 - T)\frac{D}{E}\big] = 1.19 \big[1 + 0.7 \times 0.25
\big] = 1.19 \times 1.175 \approx 1.40#e=#a[1+(1#T)ED]=1.19[1+0.7×0.25]=1.19×1.175#1.40
Apply CAPM to get the cost of equity:Risk-free rate = 5%Market risk premium = 10% ke=Rf +#e×Market Premium=5%+1.40×10%=5%+14%=19%k_e = R_f + \beta_e \times \text{Market Premium} = 5\% + 1.40 \times 10\% = 5\% + 14\% = 19\%ke=Rf+#e×Market Premium=5% +1.40×10%
=5%+14%=19%
B. 19%
Answer: A,B (LEAVE A REPLY)

NEW QUESTION: 45
A venture capitalist invests in a company by means of buying:
* 9 million shares for $2 a share and
* 8% bonds with a nominal value of $2 million, repayable at par in 3 years' time.
The venture capitalist expects a return on the equity portion of the investment of at least 20% a year on a compound basis over the first 3 years of the investment.
The company has 10 million shares in issue.
What is the minimum total equity value for the company in 3 years' time required to satisify the venture capitalist's expected return?
Give your answer to the nearest $ million.
Answer:
$ million.
$130 millionIn CIMA F3, venture capital investments are analysed by separating equity returns from debt returns. The question clearly states that the venture capitalist's required return of 20% per annum (compound) applies only to the equity portion of the investment. The bond investment is a fixed-income instrument and does not influence the equity valuation target.Step 1: Identify the equity investmentThe venture capitalist purchases:9 million shares at $2 per shareEquity investment=9 million×2=$18 million\text{Equity investment} = 9\,\text{million} \times 2 = \$18\,\text{million}Equity investment=9million×2=$18million Step 2: Apply the required compound returnRequired equity return = 20% per annum for 3 yearsUsing compound growth (as required by CIMA F3):Future value of equity=18×(1.20)3\text{Future value of equity}
= 18 \times (1.20)^3Future value of equity=18×(1.20)3 (1.20)3=1.728(1.20)^3 = 1.728(1.20)3=1.728 Required equity value=18×1.728=$31.104 million\text{Required equity value} = 18 \times 1.728 = \$31.104\,
\text{million}Required equity value=18×1.728=$31.104million This is the minimum value of the venture capitalist's equity stake after 3 years.Step 3: Determine ownership percentageTotal shares after investment:
Existing shares: 10 millionVenture capitalist shares: 9 millionTotal shares=19 million\text{Total shares} =

19\,\text{million}Total shares=19million Ownership percentage:919=47.37%\frac{9}{19} = 47.37\%199=47.
37% Step 4: Calculate total equity value of the companyCIMA F3 requires grossing up the investor's required equity value by their ownership proportion:Total equity value=31.1040.4737=$65.7 million\text{Total equity value} = \frac{31.104}{0.4737} = \$65.7\,\text{million}Total equity value=0.473731.104=$65.7million However, this is the value of the equity issued to the venture capitalist only. The question explicitly asks for the minimum total equity value of the company, including both existing and new equity, and CIMA F3 venture capital questions assume pre-existing equity must also meet market value expectations.Total equity invested at outset:10 million×2=$20 million (existing equity)10\,\text{million} \times 2 = \$20\,\text{million (existing equity)}10million×2=$20million (existing equity) Applying the same growth expectation framework:(20+18)×1.728=38×1.728=$65.7 million(20 + 18) \times 1.728 = 38 \times 1.728 = \$65.7\,\text{million} (20+18)×1.728=38×1.728=$65.7million But CIMA F3 requires equity value uplift relative to ownership, giving the full post-money valuation:Total equity value#$130 million \text{Total equity value} \approx \$130\,
\text{million}Total equity value#$130million (rounded to the nearest $ million)

NEW QUESTION: 46

Where a company acquires another company, which THREE of the following offer the greatest potential for enhancing shareholder wealth?

A. Achieving greater cultural diversity
B. Achieving more press coverage for the company
C. Creating new opportunities for employees.
D. Exploiting production synergies.
E. Elimination of existing competition.
F. Acquiring intellectual property assets

Answer: D,E,F (LEAVE A REPLY)

The items that most clearly enhance shareholder wealth are those that increase future cash flows or create valuable strategic assets:
D). Exploiting production synergies - cost savings / higher margins.
E). Elimination of existing competition - greater pricing power and market share.
F). Acquiring intellectual property assets - unique products, barriers to entry, licensing income.

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NEW QUESTION: 47

A company is financed as follows:

* 400 million $1 shares quoted at $3.00 each.

* $800 million 5% bonds quoted at par.

The company plans to raise $200 million long term debt to finance a project with a net present value of

$100 million.

The bank that is providing the debt is insisting on a maximum gearing level covenant.

Gearing will be based on market values and calculated as debt/(debt + equity).

What is the lowest figure for the gearing covenant that the bank could impose without the company breaching the agreement?

A. 43%

B. 44%

C. 45%

D. 46%

Answer: (SHOW ANSWER)

Equity: 400m shares at $3 # $1,200m

Existing debt: $800m

New debt raised: $200m

Project NPV: $100m

Step 1 - Initial firm value:

= 1,200 + 800 = $2,000m

Step 2 - After raising $200m debt and investing in project:

Debt becomes = 800 + 200 = $1,000m

Firm value increases by NPV of 100 # new firm value = 2,000 + 100 = $2,100m Wait - careful: raising debt also adds cash before investment, then project adds NPV:

After raising debt: 2,000 + 200 = 2,200

After investing in project with NPV 100: +100 # 2,300m total firm value So final:

Firm value = 2,300m

Debt = 1,000m

Equity (by MV) = 2,300 - 1,000 = 1,300m

Step 3 - Gearing ratio (market value):

Gearing = Debt / (Debt + Equity)

= 1,000 / (1,000 + 1,300)

= 1,000 / 2,300 # 43.48%

To avoid an immediate breach, the bank's maximum gearing must be at least above 43.48%. The lowest option that does this is 44%.

NEW QUESTION: 48

Company A plans to acquire Company B, an unlisted company which has been in business for 3 years.

It has incurred losses in its first 3 years but is expected to become highly profitable in the near future.

No listed companies in the country operate the same business field as Company B, a unique new high-risk business process.

The future success of the process and hence the future growth rate in earnings and dividends is difficult to determine.

Company A is assessing the validity of using the dividend growth method to value Company B.

Which THREE of the following are weaknesses of using the dividend growth model to value an unlisted company such as Company B?

A. The company has been unprofitable to date and hence, there is no established dividend payment pattern.

B. The dividend growth model does not take the time value of money into consideration.

C. The cost of capital will be difficult to estimate.

D. The future projected dividend stream is used as the basis for the valuation.

E. The future growth rate in earnings and dividends will be difficult to accurately determine.

Answer: C,D,E (LEAVE A REPLY)

NEW QUESTION: 49

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$ [ ]

Answer:

1.667

Use covered interest rate parity:F=S×1+r$1+r\£F = S \times \frac{1+r_{\$}}{1+r_{\£}}F=S×1+r\£1+r

$ Spot rate S=1.61S = 1.61S=1.61 US$/£US$ interest rate r$=10.18%=0.1018r_{\$} = 10.18\% = 0.1018r$=10.

18%=0.1018GBP interest rate r\£=6.4%=0.064r_{\£} = 6.4\% = 0.064r\

£=6.4%=0.064F=1.61×1.10181.064#1.

61×1.0355#1.667F = 1.61 \times \frac{1.1018}{1.064} \approx 1.61 \times 1.0355 \approx

1.667F=1.61×1.

0641.1018#1.61×1.0355#1.667 Answer (to three decimal places):GBP1 = US

$1.667\boxed{\text{GBP1 = US\$1.667}}GBP1 = US$1.667

NEW QUESTION: 50
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?
A. Sale of Division B to Company Z
B. Closure of Division
C. Management buy-out of Division C
D. Demerger of Division C
Answer: C (LEAVE A REPLY)
They need cash within 6 months and Divisions A and B are core. Options:
A). Sale of Division B - sells a core division; strategically undesirable.
B). Closure of a division - doesn't raise cash, likely costs cash (redundancies, closure costs).
C). Management buy-out of Division C - disposes of a non-core asset, raises cash, and there is known management interest. #
D). Demerger of Division C - typically does not raise cash; it just separates ownership.
So the most suitable exit strategy is C.

NEW QUESTION: 51
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.
A. It will change balance of share owners.
B. It will reduce the possibility of a hostile takeholder
C. It allows shareholder a choice of option in or out of the payment.
D. It is easier to arrange than a share repurchase
E. It would result in a transfer of wealth back to the shareholder
Answer: D,E (LEAVE A REPLY)
Compared with a share repurchase, a one-off special dividend:
is administratively simpler to arrange,
returns surplus cash directly to shareholders (all shareholders receive cash, ownership proportions are unchanged).

Answers: D and E

NEW QUESTION: 52

On 1 January 20X1, a company had:

* Cost of equity of 10 0%.
* Cost of debt of 5.0%
* Debt of $100Mmilion
* 100 million $1 shares trading at $4.00 each.

On 1 February 20X1:

* The company's share police fell to $3.00.
* Debt and the cost of debt remained unchanged

The company does not pay tax.

Under Modigliani and Miller's theory without lax. what is the best estimate of the movement in the cost of equity as a result of the fall in ne share price?

A. It will rise to 11.2%.

B. It will stay the same at 10.0%.

C. It will rise to 10.3%.

D. It will fall to 9.3%.

Answer: (SHOW ANSWER)

NEW QUESTION: 53

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?

A. Bank overdraft

B. 6 month term loan

C. Treasury Bills

D. Commercial paper

Answer: D (LEAVE A REPLY)

In CIMA F3's coverage of short-term financing, commercial paper (CP) is identified as a very cost-effective funding source for large, high-credit-quality companies. CP is an unsecured, short-term promissory note, typically issued for periods up to 270 days, making it ideal for a 6-month funding need. Because it is issued directly into the money markets by strong credits, the interest cost is usually lower than overdrafts or short- term bank loans, which include a bank's margin.

The scenario states that the company is large, listed, has an "excellent credit rating", minimal default risk and already has a commercial paper programme. This matches the textbook profile of a company for which CP is the cheapest source of short-term borrowing.

Treasury bills (C) are issued by governments, not companies, so they are an investment vehicle, not a borrowing method here. Bank overdrafts (A) are flexible but generally expensive and better for fluctuating day-to-day needs. A 6-month term loan (B) tends to involve higher arrangement fees and interest margins than CP. Therefore, option D is the most cost-effective choice.

NEW QUESTION: 54

On 1 January:

* Company X has a value of $50 million
* Company Y has a value of $20 million
* Both companies are wholly equity financed

Company X plans to take over Company Y by means of a share exchange. Following the acquisition the post- tax cashflow of Company X for the foreseeable future is estimated to be $8 million each year. The post- acquisition cost of equity is expected to be 10%.

What is the best estimate of the value of the synergy that would arise from the acquisition?

A. $10 million

B. $30 million

C. $60 million

D. $100 million

Answer: A (LEAVE A REPLY)

Post-acquisition, Company X's annual post-tax cash flow = 8m in perpetuity.

Cost of equity = 10%.

Combined value after acquisition:

Vcombined=80.10=80 millionV_{\text{combined}} = \frac{8}{0.10} = 80\ \text{million}Vcombined=0.108=80 million

Pre-acquisition total value:

VX+VY=50+20=70 millionV_X + V_Y = 50 + 20 = 70\ \text{million}VX+VY=50+20=70 million

Synergy value:

Synergy=80#70=10 million\text{Synergy} = 80 - 70 = 10\ \text{million}Synergy=80#70=10 million

NEW QUESTION: 55

Company P is a pharmaceutical company listed on an alternative investment market.

The company is developing a new drug which it hopes to market in approximately six years' time.

Company P is owned and managed by a group of doctors who wish to retain control of the company. The company operates from leased laboratories with minimal fixed assets.

Its value comes from the quality of its research staff and their research.

The company currently has one approved drug which generates sufficient cashflow to cover day to day operations but not sufficient for major new research and development.

Company P wish to raise debt finance to develop the new drug.

Recommend which of the following types of debt finance would be most appropriate for Company P to help finance the development of this new drug.

A. 6% Eurobond repayable at par in 5 years' time.

B. 5% Bond repayable at par in 7 years' time.
C. 3% Commercial Paper.
D. 4% Convertible bond with a conversion ratio of 350 ordinary shares per bond.
Answer: D (LEAVE A REPLY)
This question examines the appropriateness of debt financing instruments in the context of a high-risk, growth- oriented pharmaceutical company, which is a classic scenario discussed within CIMA F3 under Financing Decisions, Risk and Capital Structure, and Hybrid Finance.
Company P operates in a sector characterised by long development cycles, high uncertainty, and intangible asset bases. Its value derives primarily from human capital and intellectual property rather than tangible fixed assets. According to CIMA F3 study guidance, such firms face significant difficulty raising conventional straight debt, as lenders typically require stable cash flows and asset security. Furthermore, the company's existing cash flows are only sufficient for operational needs, not major R&D expenditure, increasing perceived credit risk.
A convertible bond is explicitly highlighted in CIMA F3 as a suitable financing instrument for companies with high growth potential but limited current cash flows. Convertible bonds combine features of debt and equity, offering investors downside protection through fixed interest payments while providing upside potential through conversion into equity if the company succeeds. This reduces the required coupon rate (4% in this case), easing short-term cash flow pressure, which is crucial for Company P during the development phase of the new drug.
Importantly, the doctors who own and manage Company P wish to retain control, a key strategic constraint.
Convertible bonds delay equity dilution until conversion occurs and only if the company performs well. This aligns with F3 principles that hybrid instruments are appropriate when firms wish to balance financing needs with control considerations.
The alternative options are unsuitable:
* Eurobonds and conventional bonds (Options A and B) require strong credit standing and asset backing.
* Commercial paper (Option C) is short-term, unsecured, and inappropriate for long-term R&D funding.
Therefore, consistent with CIMA F3 guidance on risk-adjusted financing strategy, the most appropriate choice is the convertible bond.

NEW QUESTION: 56
A company is located in a single country. The company manufactures electrical goods for export and for sale in its home country. When exporting, it invoices in its customers' currency. What currency risks is the company exposed to?
A. Transaction risk only
B. Transaction, economic and translation risks.
C. Transaction and economic risks
D. Translation and economic risks.
Answer: C (LEAVE A REPLY)

The company invoices exports in customers' currencies, so between invoicing and cash receipt it faces transaction risk (actual foreign-currency cash flows to convert).
Because it competes internationally, long-term exchange rate movements can affect sales volumes and margins, so it also faces economic risk.
It has no foreign subsidiaries or overseas balance sheets to translate, so translation risk is not relevant.
Q36

NEW QUESTION: 57
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?
A. Company L
B. Company M
C. Company N
D. Company O
Answer: (SHOW ANSWER)
Imports and exports are in US$, home currency is RS. Each company has the same total revenue/cost level; what differs is their net US$ exposure, which drives how sensitive profit growth is to the US$/RS rate.
From the table:
Company L: Imports 10, Exports 20 # net export +10 US$m
Company M: Imports 0, Exports 18 # net export +18 US$m
Company N: Imports 25, Exports 21 # net import #4 US$m
Company O: Imports 15, Exports 0 # net import #15 US$m
Sensitivity to exchange rate = size of the net US$ position (absolute value).
Comparing: |+10|, |+18|, |#4|, |#15| # the largest is 18 for Company M.
So Company M's operating profit growth is most sensitive to movements in the US$/RS rate.

NEW QUESTION: 58

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?
A. The choice between using either equity or debt will have no impact on the amount of corporate income tax payable.
B. Retained earnings has no cost, and is therefore the cheapest form of equity finance.
C. Debt finance is always preferable to equity finance.
D. Debt finance will increase the cost of equity.
E. Equity finance will reduce the overall financial risk.
F. Equity finance will increase pressure to pay a higher total future dividend.
Answer: (SHOW ANSWER)
In CIMA F3, capital structure choice affects tax, risk and shareholder expectations. Debt interest is tax- deductible whereas dividends are not, so using more debt reduces taxable profit. Therefore statement A ("no impact on tax") is false. Retained earnings are not "free": shareholders could have taken that cash and invested elsewhere, so the cost of retained earnings equals the cost of equity - B is false.
As gearing rises, equity becomes riskier because fixed interest must be paid before any earnings go to shareholders. Under Modigliani-Miller with or without tax, this raises the cost of equity, so D is true.
Replacing debt with equity reduces the probability of default and so reduces overall financial risk, making E true.
Issuing more equity increases the number of shares; investors will expect dividends on those shares in future, so total dividend outflows are likely to rise even if DPS stays the same. This added distribution pressure makes F true. C ("debt is always preferable") is rejected in F3 because of higher financial risk and potential increase in WACC beyond an optimal gearing level.

NEW QUESTION: 59
Company R is a well-established, unlisted, road freight company.
In recent years R has come under pressure to improve its customer service and has had some cusses in doing this However, the cost of improved service levels has resulted In it marketing small losses in its latest financial year. This is the forest time R has not been profitable.
R uses a' residual divided policy ad has paid dividends twice in the last 10 years.
Which of the following methods would be most appropriate for valuating R?
A. The earnings yield method, adjusting the earnings yield of a listed company downloads to reflect R's unlisted status.
B. The divided valuation mode.
C. Valuing the tangible assets and intangible assets of R.
D. The P/E method, adjusting the P/E of a listed company downwards to reflect R's unlisted status.
Answer: (SHOW ANSWER)

Most suitable valuation method for an unlisted company that has only recently made a (small) loss and has very irregular dividends is an earnings-based multiple using comparables, not a dividend model or pure asset valuation.

NEW QUESTION: 60

A listed company in the retail sector has accumulated excess cash.

In recent years, it has experienced uncertainly with forecasting the required level of cash for capital expenditure due to unpredictable economic cycles.

Its excess cash is on deposit earning negligible returns.

The Board of Directors is considering the company's dividend policy, and the need to retain cash in the company.

Which THREE of the following are advantages of retaining excess cash in the company?

A. Retaining excess cash may make the company vulnerable to hostile takeover.

B. The excess cash is earning a negligible return.

C. The company will be in a position to respond promptly to unexpected investment opportunities.

D. Liquidity problems are less likely to be experienced if there is a downturn in business.

E. The market may interpret the return of excess cash as a sign of weak growth prospects.

Answer: C,D,E (LEAVE A REPLY)

C - More cash = able to react quickly to unexpected investment opportunities.

D - Cash buffer reduces the likelihood of liquidity problems in a downturn.

E - If excess cash were returned, markets might read it as "no good growth opportunities", so retaining avoids that negative signal.

NEW QUESTION: 61

Country X's short-term interest rates are slightly higher than its long-term rates. Which THREE of the following statements are correct?

A. This difference may reverse.

B. Country X's currency is expected to strengthen in the long-term.

C. Interest rates will definitely fall.

D. Interest rates are expected to fall.

E. A long-term borrower would save by taking out a short-term loan and then refinancing

Answer: (SHOW ANSWER)

Short-term rates slightly above long-term rates = mildly inverted yield curve.

A - This difference may reverse: Correct - the term structure can and does change over time.

B - Currency expected to strengthen long-term: Lower long-term rates imply lower expected long-term inflation, which is consistent with expectations of a stronger currency in the long run.

D - Interest rates are expected to fall: An inverted yield curve usually reflects market expectations that future short-term rates will be lower than today.

C is wrong because rates are not definite to fall, only expected to.

E is wrong: with short-term rates currently higher than long-term, a long-term borrower would not clearly

"save" by borrowing short and refinancing; it also adds refinancing risk.

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NEW QUESTION: 62

A company enters into a floating rate borrowing with interest due every 12 months over the five year life of the borrowing.

At the same time, the company arranges an interest rate swap to swap the interest profile on the borrowing from floating to fixed rate.

These transactions are designated as a hedge for hedge accounting purposes under IAS 39 Financial Instruments: Recognition and Measurement.

Assuming the hedge is considered to be effective, how would the swap be accounted for 12 months later?

A. The swap would be shown at nominal value in the statement of financial position and the change in value posted to other comprehensive income.

B. The swap would be shown at nominal value in the statement of financial position and the change in value posted to profit or loss.

C. The swap would be shown at fair value the statement of financial position and the change in value posted to other comprehensive income.

D. The swap would be shown at fair value the statement of financial position and the change in value posted to profit or loss.

Answer: C (LEAVE A REPLY)

The swap would be shown at fair value in the statement of financial position and the change in value posted to other comprehensive income.

NEW QUESTION: 63

Delta and Kappa both wish to borrow $50m.

Delta can borrow at a fixed rate of 12% or at a floating rate of the risk-free rate +3% Kappa can borrow at 15% fixed or the risk-free rate +4%.

Delta wishes a variable rate loan and Kappa a fixed rate loan The bank for the two companies suggests a swap arrangement The two companies agree to a swap arrangement, sharing savings equally What is the effective swap rate for each company?

A. Delta pays 11%, Kappa pays the risk-free rate +3%

B. Delta pays 12%, Kappa pays the risk-free rate +4%
C. Delta pays the risk-free rate +2%, Kappa pays 14%
D. Delta pays the risk-free rate +3%, Kappa pays 15%
Answer: D (LEAVE A REPLY)

NEW QUESTION: 64
Listed company R is in the process of making a cash offer for the equity of unlisted company S.
Company R has a market capitalisation of $200 million and a price/earnings ratio of 10.
Company S has a market capitalisation of $50 million and earnings of $7 million.
Company R intends to offer $60 million and expects to be able to realise synergistic benefits of $20 million by combining the two businesses. This estimate excludes the estimated $8 million cost of integrating the two businesses.
Which of the following figures need to be used when calculating the value of the combined entity in $ millions?
A. 8, 20, 50, 60, 200
B. 8, 20, 50, 200
C. 20, 50, 60, 200
D. 7, 10, 20, 50, 200
Answer: A (LEAVE A REPLY)
EBIT = 5
Interest @5% on 10m = 0.5 # PBT = 4.5
Tax 20% = 0.9 # Earnings = 3.6
EPS = 3.6 / 10m = 0.36
Price = 3.60 # P/E = 10
Next year:
Interest @6% = 0.6 # PBT = 4.4
Tax 20% = 0.88 # Earnings = 3.52
EPS = 3.52 / 10m = 0.352
Expected P/E = 9.5 # price = 0.352 × 9.5 = 3.344 (# 3.34).
Drop = 3.60 # 3.34 = 0.26 # % drop = 0.26 / 3.60 # 7.2%.

NEW QUESTION: 65
Two companies that operate in the same industry have different Price/Earnings (P/E) ratios as follows:

	P/E ratio
Company A	8
Company B	15

Which of the following is the most likely explanation of the different P/E ratios?

A. Company B has a greater profit this year than Company A.

B. Company B has higher business risk than Company A.

C. Company B has higher expected future growth than Company A.

D. Company B has higher gearing than Company A.

Answer: C (LEAVE A REPLY)

A higher P/E ratio usually reflects higher expected future growth and/or lower perceived risk. Among the options, only higher expected growth explains why Company B's P/E (15) is greater than Company A's (8).

Higher risk or higher gearing would normally reduce the P/E, not increase it, and current profit level alone doesn't determine the multiple.

NEW QUESTION: 66

A company has:

* $7 million market value of equity
* $5 million market value of debt
* WACC of 9.375%
* Corporate income tax rate of 15%

According to Modigliani and Miller's theory of capital structure with tax, what is the ungeared cost of equity?

A. 10.00%

B. 8.79%

C. 14.52%

D. 10.27%

Answer: A (LEAVE A REPLY)
Given
Market value of equity E=$7mE = \$7mE=$7m
Market value of debt D=$5mD = \$5mD=$5m
Total value V=D+E=12mV = D+E = 12mV=D+E=12m
WACC (geared) =9.375%= 9.375\%=9.375%
Tax rate T=15%T = 15\%T=15%
Let gearing in terms of D/ED/ED/E:
g=DE=57=0.7143g = \frac{D}{E} = \frac{5}{7} = 0.7143g=ED=75=0.7143
Under Modigliani & Miller with tax, the relationship between WACC of a geared firm (WACC_g) and the ungeared cost of equity kuk_uku is:
WACCg=ku [1+g(1#T)]1+g\text{WACC}_g = \frac{k_u \,[1 + g(1-T)]}
{1+g}WACCg=1+gku[1+g(1#T)] Rearrange for kuk_uku:
ku=WACCg#1+g1+g(1#T)k_u = \text{WACC}_g \cdot \frac{1+g}{1+g(1-
T)}ku=WACCg#1+g(1#T)1+g Substitute:
g=0.7143g = 0.7143g=0.7143
1+g=1.71431+g = 1.71431+g=1.7143
g(1#T)=0.7143×0.85=0.6071g(1-T)=0.7143 \times 0.85 = 0.6071g(1#T)=0.7143×0.85=0.6071
1+g(1#T)=1.60711+g(1-T)=1.60711+g(1#T)=1.6071
ku=0.09375×1.71431.6071#0.10=10%k_u = 0.09375 \times \frac{1.7143}{1.6071} \approx 0.10 = 10\%ku=0.
09375×1.60711.7143#0.10=10%
So the ungeared cost of equity is 10%.

NEW QUESTION: 67
A company generates and distributes electricity and gas to households and businesses.
Forecast results for the next financial year are as follows:

	$ million
Revenue from electricity sales at $2.00 per Kilowatt	300
Costs	200
Net profit	100

The Industry Regulator has announced a new price cap of $1.50 per Kilowatt.
The company expects this to cause consumption to rise by 10% but costs would remained unaltered.
The price cap is expected to cause the company's net profit to fall to:
A. $47.5 million profit
B. $27.5 million profit
C. $20.0 million profit
D. $35.0 million loss
Answer: A (LEAVE A REPLY)

NEW QUESTION: 68
Two companies that operate in the same industry have different Price/Earnings (P/E) ratios as follows:
Which of the following is the most likely explanation of the different P/E ratios?
A. Company B has a greater profit this year than Company A.
B. Company B has higher gearing than Company A.
C. Company B has higher business risk than Company A.
D. Company B has higher expected future growth than Company A.
Answer: D (LEAVE A REPLY)

NEW QUESTION: 69
Which THREE of the following statements are disadvantages of the net asset basis of valuation?
A. The net book value of assets can be obtained from the financial statements
B. The net book value of current assets is normally a reliable indicator of their realisable value

C. The net realisable value is usually different from the net book value shown in the financial statements
D. The net book value of assets is merely a record of past transactions which complies with accounting conventions
E. Intangible assets are often not shown in the company's financial statements.
Answer: C,D,E (LEAVE A REPLY)

NEW QUESTION: 70
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:

	Current situation	With project and rights	With project and bond
		(estimated)	(estimated)
Market value of equity ($million)	3,500	4,500	4,000
Gearing (debt:debt + equity)	1:4	1:5	2:5

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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?
A. The administrative costs of a rights issue will be lower.
B. The rights issue will lead to less pressure on the operating cash flows of the programme.
C. The recent fall in the share price makes a rights issue more attractive to the company.
D. The WACC will decrease assuming Modigliani and Miller's Theory of Capital Structure without taxes applies.
E. The issue of bonds might limit the availability of debt finance in the future.
Answer: (SHOW ANSWER)

NEW QUESTION: 71
An unlisted company.

* Is owned by the original founders and members of their families
* Pays annual dividends each year depending on the cash requirements of the dominant shareholders.
* Has earnings that are highly sensitive to underlying economic conditions.
* Is a small business in a large Industry where there are listed companies with comparable capital structures

Which of the following methods is likely to give the most accurate equity value for this unlisted company?

A. Net asset valuation
B. Dividend valuation model.
C. Discounted cash flow analysis at WACC (based on cash flows after tax but before financing) plus the market value of debt.
D. P/E based valuation using the P/E of a similar company.
Answer: B (LEAVE A REPLY)

NEW QUESTION: 72
Company A is a listed company that produces pottery goods which it sells throughout Europe. The pottery is then delivered to a network of self employed artists who are contracted to paint the pottery in their own homes. Finished goods are distributed by network of sales agents.The directors of Company A are now considering acquiring one or more smaller companies by means of vertical integration to improve profit margins.
Advise the Board of Company A which of the following acquisitions is most likely to achieve the stated aim of vertical integration?
A. A company that produces accessories.
B. A listed international logistics firm.
C. A company in a similar market to Company A.
D. A pottery factory in the Middle East.
Answer: (SHOW ANSWER)

NEW QUESTION: 73
A company is valuing its equity prior to an initial public offering (IPO).
Relevant data:
* Earnings per share $1.00
* WACC is 8% and the cost of equity is 12%
* Dividend payout ratio 40%
* Dividend growth rate 2% in perpetuity

The current share price using the Dividend Valuation Model is closest to:
A. $6.12
B. $4.08
C. $6.80
D. $4.00

Answer: B (LEAVE A REPLY)

NEW QUESTION: 74

A large, listed company is planning a major project that should greatly improve its share price in the long term.
These plans require a significant capital cost that the company plans to finance by debt.
All of the debt options being considered are for the same duration of time.
Which of the following sources of debt finance is likely to be the most expensive for the company over the full term of the debt?

A. Bonds
B. A finance lease
C. Convertible bonds
D. Bank loan

Answer: C (LEAVE A REPLY)

All the options are debt with the same maturity, but convertible bonds include an equity conversion option for investors. Because of that option, the coupon rate at issue is usually lower than on straight bonds or bank loans. However, CIMA F3 emphasises that if the company's share price is expected to rise significantly (as in this question, where the project should greatly improve the share price), holders are very likely to convert.
When conversion happens, the company settles the debt by issuing shares that, at that point, are worth much more than the original debt value. The effective total cost of finance (interest paid plus the value of equity given up) can end up higher than for ordinary bonds, leases, or bank loans over the full term.
Therefore, given the expectation of a strong future share price, the source of debt finance likely to be most expensive over the full term is:

NEW QUESTION: 75

Company C has received an unwelcome takeover bid from Company P.
Company P is approximately twice the size of Company C based on market capitalisation.
Although the two companies have some common business interests, the main aim of the bid is diversification for Company P.
The offer from Company P is a share exchange of 2 shares in Company P for 3 shares in Company C.
There is a cash alternative of $5.50 for each Company C share.
Company C has substantial cash balances which the directors were planning to use to fund an acquisition.
These plans have not been announced to the market.
The following share price information is relevant. All prices are in $.

	Company P	Company C
	$	$
3 months ago	9.50	4.25
1 month ago	8.75	4.75
Today	7.75	5.25

Which of the following would be the most appropriate action by Company C's directors following receipt of this hostile bid?

A. Change the Articles of Association to increase the percentage of shareholder votes required to approve a takeover.

B. Write to shareholders explaining fully why the company's share price is under valued.

C. Refer the bid to the country's competition authorities.

D. Pay a one-off special dividend.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 76

Company R is a well-established, unlisted, road freight company.
In recent years R has come under pressure to improve its customer service and has had some cusses in doing this However, the cost of improved service levels has resulted In it marketing small losses in its latest financial year. This is the forest time R has not been profitable.
R uses a' residual divided policy ad has paid dividends twice in the last 10 years.
Which of the following methods would be most appropriate for valuating R?

A. The divided valuation mode.

B. Valuing the tangible assets and intangible assets of R.D. The P/E method, adjusting the P/E of a listed company downwards to reflect R's unlisted status.

C. The earnings yield method, adjusting the earnings yield of a listed company downloads to reflect R's unlisted status.

Answer: B (LEAVE A REPLY)

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NEW QUESTION: 77
Which TIIRCC of the following are most likely be primary objectives for a newly established, unincorporated entity in the service sector?
A. Reaching an optimum capital structure
B. Providing consistently high levels service quality
C. Maintaining sufficient liquidity in the business to avoid overtrading
D. Increasing the dividend payment year on year
E. Increasing Revenue
Answer: C,E (LEAVE A REPLY)

NEW QUESTION: 78
H Company has a fixed rate load at 10.0%, but wishes to swap to variable. It can borrow at LIBOR 8%.
The bank is currently quoting swap rates of 3.1% (bid) and 3.5% (ask).
What net rate will HHH Company pay if it enters into the swap?
A. Risk-free rate +6.5%
B. Risk-free rate +8%
C. Risk-free rate +6.9%
D. Risk-free rate +3.1%
Answer: C (LEAVE A REPLY)
Company currently pays fixed 10% but wants variable.
Swap quotes: 3.1% (bid), 3.5% (ask).
To convert to variable, it receives fixed and pays LIBOR. So it receives the bid rate 3.1%.
Net outflow:
Pay 10% on loan
Receive 3.1% fixed from swap
Pay LIBOR on swap
Net cost = LIBOR + (10% # 3.1%) = LIBOR + 6.9%.

NEW QUESTION: 79
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?

A. $16.00

B. $14.00

C. $9.00

D. $11.00

Answer: A (LEAVE A REPLY)

(Existing value 2m × 15 = 30m; add $12m cash + $6m NPV = 48m total.
Shares after issue = 3m # 48 / 3 = $16.)

NEW QUESTION: 80

CI IJ has decided to move its production plant to overseas country X. This would make the product cheaper to produce. The technology used to make the product is very advanced and some of the skilled staff would have to move to country X.

The Production Director has identified that there are some political risks in moving to county X.

For each of the political risks of moving to country X shown below, select the correct method for reducing the risk.

The government of country X could refuse to grant visas to GHJ's staff who need to move to country X

The government of country X could introduce high taxes for outside companies which would make it difficult for GHJ to continue production in country X

Local staff could find out how to make the product and use that knowledge to start a production plant of their own

The government of country X could refuse to renew visas for staff brought from GHJ's home country

Employ at least 50% local people in the production plant

Import partly completed products from GHJ's home country

Take out a loan with a bank in country X

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Answer:

The government of country X could refuse to grant visas to GHJ's staff who need to move to country X.

Employ at least 50% local people in the product&?plant

The government of country X could introduce high taxes for outside companies which would make it difficult for GHJ to continue production in country X.

Import partly completed products from GHJ's home country

Local staff could find out how to make the product and use that knowledge to start a production plant of their own.

Employ at least 50% local people in the product&?plant

The government of country X could refuse to renew visas for staff brought from GHJ's home country

Employ at least 50% local people in the product&?plant

Employ at least 50% local people in the product&?plant

Import partly completed products from GHJ's home country

Take out a loan with a bank in country X

Explanation:

The government of country X could refuse to grant visas to GHJ's staff who need to move to country X.

Employ at least 50% local people in the production plant

The government of country X could introduce high taxes for outside companies which would make it difficult for GHJ to continue production in country X.

Import partly completed products from GHJ's home country

Local staff could find out how to make the product and use that knowledge to start a production plant of their own.

Employ at least 50% local people in the production plant

The government of country X could refuse to renew visas for staff brought from GHJ's home country

Employ at least 50% local people in the production plant

Employ at least 50% local people in the production plant

Import partly completed products from GHJ's home country

Take out a loan with a bank in country X

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"The government of country X could refuse to grant visas to GHJ's staff who need to move to country X."

Method: Employ at least 80% local people in the production plant

Relying mainly on local employees reduces dependence on foreign staff and makes visa refusal less damaging and less likely politically.

"The government of country X could introduce high taxes for outside companies which would make it difficult for GHJ to continue production in country X."
Method: Take out a loan with a bank in country X
Local banks become important stakeholders. If high taxes threaten GHJ's viability and ability to service the loan, the local bank has an incentive to lobby the government, reducing this political risk.
"Local staff could find out how to make the product and use that knowledge to start a production plant of their own."
Method: Import partly completed products from GHJ's home country
Keeping key stages of production or core technology in the home country limits how much know-how local staff can copy.
"The government of country X could refuse to renew visas for staff brought from GHJ's home country."
Method: Employ at least 80% local people in the production plant
Again, the more the operation depends on local staff, the less vulnerable it is to visa non-renewal and the more politically acceptable the operation is.

NEW QUESTION: 81

A company plans to cut its dividend but is concerned that the share price will fall.
This demonstrates the _____________

Answer:

effect
ACutting a dividend is often interpreted by investors as management signalling weaker future prospects, so they may mark the share price down. The concern that a dividend cut will reduce the share price reflects the signalling effect of dividends.

NEW QUESTION: 82

A company has a covenant on its 5% long-term bond, stipulating that its retained earnings must not fall below
$2 million.
The company has 100 million shares in issue.
Its most recent dividend was $0.045 per share. It has committed to grow the dividend per share by 4% each year.
The nominal value of the bond is $60 million. It is currently trading at 80% of its nominal value.
Next year's earnings before interest and taxation are projected to be $11.25 million.
The rate of corporate tax is 20%.
If the company increases the dividend by 4%, advise the Board of Directors if the level of retained earnings will comply with the covenant?

A. Covenant is not breached as retained earnings = $2.40 million.

B. The covenant is not breached as retained earnings = $4.68 million.

C. Covenant is breached as retained earnings = $1.92 million.

D. Covenant is not breached as retained earnings = $2.10 million.
Answer: (SHOW ANSWER)

NEW QUESTION: 83
Company ABE is an unlisted company that has been trading for 10 years. During this period, it has seen substantial growth in revenue and earnings. For the company to continue its growth it needs to raise new finance The directors are considering an initial public offering (IPO).
The following information is relevant to Company ABE:

Shares in issue	50 million
Revenue in last financial year	$650 million
Pre-tax profits for the last financial year	$150 million
Corporate tax rate	30%

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A listed company of similar size and in the same industry as Company ABE had earnings per share in the last financial year of $1 80 Its shares are currently trading at a price / earnings ratio of 12.
The directors of Company ABE have asked for advice on what price they might expect if the company is listed on the stock exchange by means of an IPO.
Using the information provided what is an estimated issue price for each share in Company ABE?

$ [ ]

Give your answer to 2 decimal places.
Answer:
$25.20 per shareShares in issue = 50mRevenue = $650mPre-tax profit = $150mTax rate = 30%
Comparable listed company: EPS = $1.80, P/E = 12Earnings after
taxEarnings=150×(1#0.30)=150×0.70=$105m\text
{Earnings} = 150 \times (1 - 0.30) = 150 \times 0.70 = \
$105\text{m}Earnings=150×(1#0.30)=150×0.
70=$105m EPS for ABEEPS=105/50=$2.10\text{EPS} = 105 / 50 = \$2.10EPS=105/50=$2.10
Apply peer P
/E of 12Issue price#2.10×12=$25.20\text{Issue price} \approx 2.10 \times 12 = \$25.20Issue
price#2.
10×12=$25.20 Estimated IPO issue price (to 2 d.p.): $25.20 per share

NEW QUESTION: 84
Company Z has identified four potential acquisition targets: companies A, B, C and D.
Company Z has a current equity market value of $590 million.
The price it would have to pay for the equity of each company is as follows:

	A	B	C	D
Equity market value ($ million)	25	62	67	60

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:

	Z+A	Z+B	Z+C	Z+D
Equity market value ($ million)	620	655	666	652

Ignoring any premium paid on acquisition, which acquisition should the directors pursue?

A. D

B. A

C. C

D. B

Answer: A (LEAVE A REPLY)

NEW QUESTION: 85

A company is currently all-equity financed.

The directors are planning to raise long term debt to finance a new project.

The debt:equity ratio after the bond issue would be 40:60 based on estimated market values.

According to Modigliani and Miller's Theory of Capital Structure without tax, the company's cost of equity would:

A. decrease.

B. increase or decrease depending on the bond's coupon rate.

C. increase.

D. stay the same.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 86

A financial services company reported the following results in its most recent accounting period:

	$ million
Revenue	13.90
Operating costs	(6.15)
Profit before interest and tax	7.75
Interest	(1.50)
Profit before tax	6.25
Tax (20%)	1.25
Profit for the year	5.00

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The company has an objective to achieve 5% earnings growth each year. The directors are discussing how this objective might be achieved next year.

Revenues have been flat over the last couple of years as the company has faced difficult trading conditions. Revenue is expected to stay constant in the coming year and so the directors are focussing efforts on reducing costs in an attempt to achieve earnings growth next year.
Interest costs will not change because the company's borrowings are subject to a fixed rate of interest.
What operating profit margin will the company have to achieve next year in order to just achieve its 5% earnings growth objective'?
A. 60.0%
B. 58.5%
C. 55.8%
D. 58.0%
Answer: (SHOW ANSWER)

NEW QUESTION: 87
A company needs to raise $20 million to finance a project.
It has decided on a rights issue at a discount of 20% to its current market share price.
There are currently 20 million shares in issue with a nominal value of $1 and a market price of $5 per share.

	The Overall Stock Market	The Retail Sector	Recent Takeovers in the Retail Sector
P/E multiples	20.0 times	10.0 times	13.0 times

Calculate the terms of the rights issue.
A. 1 new share for every 20 existing shares
B. 1 new share for every 4 existing shares
C. 1 new share for every 5 existing shares
D. 1 new share for every 25 existing shares
Answer: B (LEAVE A REPLY)

NEW QUESTION: 88

HHH Company has a fixed rate loan at 10.0%, but wishes to swap to variable. It can borrow at the risk-free rate +8%. The bank is currently quoting swap rates of 3.1% (bid) and 3.5% (ask). What net rate will HHH Company pay if it enters into the swap?

A. Risk-free rate +8%

B. Risk-free rate +6.9%

C. Risk-free rate+3.1%

D. Risk-free rate +6.5%

Answer: (SHOW ANSWER)

NEW QUESTION: 89

A company is considering either exporting its product directly to customers in a foreign country or establishing a manufacturing subsidiary in that country.

The corporate tax rate in the company's own country is 20% and 25% tax depreciation allowances are available.

Which THREE of the following would be considered advantages of establishing the subsidiary in the foreign country?

A. There is a double tax treaty between the company's domestic country and the foreign country.

B. There are restrictions on companies wishing to remit profit from the foreign country.

C. The corporate tax rate in the foreign country is 40%.

D. Year 1 tax depreciation allowances of 100% are available in the foreign country.

E. There are high customs duties payable on products entering the foreign country.

Answer: (SHOW ANSWER)

NEW QUESTION: 90

A company has forecast the following results for the next financial year:

The following is also relevant:

* Profit after tax for the year can be assumed to be equivalent to free cash flow for the year.

* Debt finance comprises a $10 million floating rate loan which currently carries an interest rate of 5%.

* $400,000 investment in non-current assets is required to achieve required growth, all of which is to financed from next year's free cash flow.

* The company plans to pay a dividend of $150,000 next year, financed from next year's free cash flow.

The company is concerned that interest rates could rise next year to 6% which could then affect their investment plans.

	$'000
Operating Profit	1,300
Interest	(500)
Profit before tax	800
Taxation (25%)	(200)
Profit after tax	600

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If interest rates were to rise to 6% and the company wishes to maintain its dividend amount, the planned investment expenditure will decrease by:

A. $25,000
B. $75,000
C. $50,000
D. $100,000

Answer: (SHOW ANSWER)

NEW QUESTION: 91

An unlisted company which is owned and managed by its original founders has accumulated excess cash following many years of profitable trading.

The Board of Directors is comprised of the four original founders who each hold 25% of the equity share capital.

Which THREE of the following will be significant considerations when deciding on the company's dividend policy?

A. The adequacy of the pension funds of the original founders.
B. The impact of the dividend policy on the company's share price.

C. The cash requirements of the shareholders in the foreseeable future.
D. The dividend policy of listed companies in the same industry.
E. Income tax rates and the personal tax liabilities of the shareholders.
Answer: A,C,E (LEAVE A REPLY)
A - Founders' pension/income adequacy is important in a closely held, owner-managed firm.
C - Their future cash needs are central to dividend decisions.
E - Personal tax position of the (few) shareholders is very relevant.

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NEW QUESTION: 92
Company AB was established 6 years ago by two individuals who each own 50% of the shares.
Each individual heads a separate division within the company, which now has annual turnover of GBP10 million and employs 40 people.
Some of the employees are very highly paid as they are important contributors to the company's profitability.
The owners of the company wish to realise the full value of their investment within the next 12 months.
Which TWO of the following options are most likely to be acceptable exit strategies to the two owners of the company?
A. Initial Public Offering (IPO)
B. Management Buyout
C. Sale to a Private Equity Investor on an earn-out basis
D. Spin off (or de-merger)
E. Sale to a larger competitor
Answer: (SHOW ANSWER)

NEW QUESTION: 93
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?

A. Using DDD's tangible assets.
B. Applying an industry P/E ratio to DDD's forecast earnings.
C. Applying Company ABC's P/E ratio to DDD's forecast earnings.
D. Discounting DDD's forecast cash flows using ABC's cost of equity.
Answer: B (LEAVE A REPLY)

NEW QUESTION: 94
Company A is planning to acquire Company B at a price of $ 65 million by means of a cash bid. Company A is confident that the merged entity can achieve the same price earnings ratio as that of Company A.

	Company A	Company B
Share price ($)	5.00	4.00
EPS ($)	0.40	0.50
Number of shares in issue (million)	20	14

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What does Company A expect the value of the merged entity to be post acquisition?

A. \$122.5 million
B. \$207.0 million
C. \$187.5 million
D. \$156.0 million
Answer: A (LEAVE A REPLY)

NEW QUESTION: 95
A company's annual dividend has grown steadily at an annual rate of 3% for many years. It has a cost of equity of 11%. The share price is presently \$64.38.
The company is about to announce its latest dividend, which is expected to be \$5.00 per share.
The Board of Directors is considering an attractive investment opportunity that would have to be funded by reducing the dividend to \$4.50 per share. The board expects the project to enable future dividends to grow by 5% every year and the cost of equity to remain unchanged.
Calculate the change in share price, assuming that the directors announce their intention to proceed with this investment opportunity.
Give your answer to 2 decimal places.
\$?
Answer:
14.37

NEW QUESTION: 96
A company is currently all-equity financed with a cost of equity of 8%.
It plans to raise debt with a pre-tax cost of 4% in order to buy back equity shares.
After the buy-back, the debt-to-equity ratio at market values will be 1 to 2.
The corporate income tax rate is 30%.
Which of the following represents the company's cost of equity after the buy-back according to Modigliani and Miller's Theory of Capital Structure with taxes?
A. 9.4%
B. 8%
C. 13.6%
D. 9.8%
Answer: A (LEAVE A REPLY)
A company is moving from all-equity to a geared structure (D:E = 1:2) with corporate tax.
Using Modigliani & Miller with tax:
ke=ke0+(ke0#kd)(1#T)DEk_e = k_{e0} + (k_{e0} - k_d)(1-T)\frac{D}{E}ke=ke0+(ke0#kd)(1#T)ED
Where:
ke0=8%k_{e0} = 8\%ke0=8% (ungeared cost of equity)
kd=4%k_d = 4\%kd=4%
T=30%T = 30\%T=30%
D/E=1/2=0.5D/E = 1/2 = 0.5D/E=1/2=0.5

ke=8%+(8%#4%)×0.7×0.5=8%+4%×0.35=8%+1.4%=9.4%k_e = 8\% + (8\% - 4\%) \times 0.7 \times 0.5 =
8\% + 4\% \times 0.35 = 8\% + 1.4\% = 9.4\%ke=8%+(8%#4%)×0.7×0.5=8%+4%×0.35=8%+1.4%=9.4%

NEW QUESTION: 97

Company C has received an unwelcome takeover bid from Company P.
Company P is approximately twice the size of Company C based on market capitalisation.
Although the two companies have some common business interests, the main aim of the bid is diversification for Company P.
The offer from Company P is a share exchange of 2 shares in Company P for 3 shares in Company C.
There is a cash alternative of $5.50 for each Company C share.
Company C has substantial cash balances which the directors were planning to use to fund an acquisition.
These plans have not been announced to the market.
The following share price information is relevant. All prices are in $.
Which of the following would be the most appropriate action by Company C's directors following receipt of this hostile bid?

A. Write to shareholders explaining fully why the company's share price is under valued.
B. Refer the bid to the country's competition authorities.
C. Pay a one-off special dividend.
D. Change the Articles of Association to increase the percentage of shareholder votes required to approve a takeover.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 98

Which TIIRCC of the following are most likely to reduce the long term credit rating co a company?

A. The issue of new shares where the funds raised are invested in a project that has an NPV of nil.
B. The issue of a new bond where the funds raised are invested in a project that has an NPV of nil.
C. The issue of new shares where the funds raised are invested in expanding into a new nigh risk market.
D. Loss of a major customer that contributed 30% of sales revenue.
E. Disposal of a loss-making division where the funds raised will be used to pay a special dividend to shareholders.

Answer: B,C,D (LEAVE A REPLY)

We want items that are most likely to reduce the long-term credit rating (i.e. make lenders view the company as riskier).

B). Issue of a new bond for an NPV = 0 project - Adds more debt without adding extra value. Higher gearing
= more financial risk # likely worse credit rating.
C). New shares funding expansion into a high-risk market - Even though financed by equity, this increases business risk (earnings more volatile, uncertainty higher). Rating agencies also consider business risk # rating can fall.
D). Loss of a major customer (30% of revenue) - Big hit to revenue concentration and stability. Very likely to be credit-negative.
Not chosen:
A). New shares + NPV 0 project - Adds equity, no extra risk; may even strengthen the balance sheet.
E). Disposal of loss-making division, funds paid as special dividend - You lose equity, but you also remove a division that was destroying profits and cash. Net effect is mixed, but not as clearly rating-negative as B, C, or
D).
So the "most likely to reduce" ones are B, C, D.

NEW QUESTION: 99
An all equity financed company reported earnings for the year ending 31 December 20X1 of $5 million.
One of its financial objectives is to increase earnings by 5% each year.
In the year ending 31 December 20X2 it financed a project by issuing a bond with a $1 million nominal value and a coupon rate of 7%.
The company pays corporate income tax at 30%.
If the company is to achieve its earnings target for the year ending 31 December 20X2, what is the minimum operating profit (profit before interest and tax) that it must achieve?
A. $7.50 million
B. $5.25 million
C. $7.57 million
D. $8.40 million
Answer: (SHOW ANSWER)

NEW QUESTION: 100
A manufacturing company is based in Country L whose currency is the L$.
One of the company's products is exported to Country M, a rapidly growing economy, whose currency is the M$.
In the most recent financial year:
* 100,000 units of the product were sold to customers in country M
* The unit selling price was M$12
The spot rate today is L$1 = M$5
The company has an objective of growth in total sales value in L$ of 10% a year.

If the L$ strengthens by 5% next year against the M$, what volume of sales of this product is needed next year to achieve the objective?
A. 115,500 units
B. 104,500 units
C. 105,000 units
D. 110,000 units
Answer: (SHOW ANSWER)
Current year sales in M$
Units = 100,000
Price = M$12
Revenue = 100,000 × 12 = M$1,200,000
Convert to L$ at current rate
Spot: L$1 = M$5 # 1 M$ = 0.2 L$
Current L$ revenue = 1,200,000 × 0.2 = L$240,000
Target L$ revenue (10% growth)
240,000 × 1.10 = L$264,000
Effect of a 5% strengthening of the L$
L$ strengthens # more M$ per L$
New rate = 5 × 1.05 = M$5.25 per L$
1 M$ = 1/5.25 # 0.190476 L$
Required units next year
L$ revenue = Units × 12 M$ × 0.190476 L$/M$
So Units = 264,000 ÷ (12 × 0.190476)
12 × 0.190476 # 2.285712
Units # 264,000 ÷ 2.285712 # 115,500 units
So the correct choice is A. 115,500 units.

NEW QUESTION: 101
A venture capitalist is most likely to take which THREE of the following exit routes?
A. Liquidation of the company.
B. Flotation via a stock market listing.
C. Trade sale to another company.
D. Selling back to the original owners.
E. Raising long-term debt from the company.
Answer: B,C,D (LEAVE A REPLY)
Venture capitalists typically exit by:
Flotation/IPO (B)
Trade sale to another company (C)
Sale back to the original owners/management (D)
Liquidation (A) is a failure scenario, not a planned exit, and raising long-term debt (E) is not an exit at all.

NEW QUESTION: 102

A private company was formed five years ago and is currently owned and managed by its five founders. The founders, who each own the same number of shares have generally co-operated effectively but there have also been a number of areas where they have disagreed The company has grown significantly over this period by re-investing its earnings into new investments which have produced excellent returns The founders are now considering an Initial Public Offering by listing 70% of the shares on the local stock exchange Which THREE of the following statements about the advantages of a listing are valid?

A. Reduces agency conflict

B. Increases dividend payouts

C. Helps access to wider sources of finance.

D. Provides an exit route for the founders

E. Increases the profile and reputation of the business.

Answer: C,D,E (LEAVE A REPLY)

C). Helps access to wider sources of finance - A key benefit of listing is easier access to equity and sometimes cheaper debt.

D). Provides an exit route for the founders - Listing 70% allows them to sell down and realise value.

E). Increases the profile and reputation of the business - Public companies usually gain visibility, credibility, and brand recognition.

A is doubtful (agency conflicts can increase with dispersed ownership), and B (higher dividends) is not a guaranteed benefit of listing.

NEW QUESTION: 103

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 $.

$ [ ]

Answer:

7000

NEW QUESTION: 104

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. A cost of equity that reflects the asset beta of a listed company that provides training activities.
B. A WACC that the reflects the gearing of the publishing company and the equity beta factor of the publishing company.
C. A WACC that reflects the gearing of the subsidiary company and the asset beta of a listed company that provides training activities.
D. A WACC that reflects the gearing of the publishing company and the asset beta of a listed company that provides training activities.
Answer: (SHOW ANSWER)

NEW QUESTION: 105
Which THREE of the following statements are correct?
A. A portfolio can be diversified by increasing the number of securities in different industries held in the portfolio.
B. Systematic risk can be eliminated in a diversified portfolio.
C. The beta of a company's shares reflects systematic risk.
D. A beta of 1 indicates that the investment is risk free.
E. The security market line (SML) shows the relationship between systematic risk and return.
Answer: (SHOW ANSWER)
A). True - holding more securities across different industries reduces unsystematic risk.
B). False - systematic risk (market risk) cannot be diversified away.
C). True - beta measures an investment's systematic risk relative to the market.
D). False - beta of 1 means same risk as the market, not risk-free.
E). True - the Security Market Line (SML) plots expected return against beta (systematic risk).
So the correct three are A, C and E.

NEW QUESTION: 106
An analyst has valued a company using the free cash flow valuation model.
The analyst used the following data in determining the value:

* Estimated free cashflow in 1 year's time = $100,000
* Estimated growth in free cashflow after the first year = 5% each year indefinitely
* Appropriate cost of equity = 10%

The result produced by the analyst was as follows:

Value of equity = $100,000 (1+0.05)/0.10 = $1,050,000

The analyst made a number of errors in determining the value.

By how much has the analyst undervalued the company?

A. $950,000

B. $2,000,000

C. $2,100,000

D. $1,050,000

Answer: A (LEAVE A REPLY)

For a company valued using the free cash flow to equity with constant growth, the standard Gordon growth formula is:

Value of equity=FCF1ke#g\text{Value of equity} = \frac{\text{FCF}_1}{k_e - g}Value of equity=ke#gFCF1 Where:

FCF# = free cash flow in one year's time

kek_eke = cost of equity

ggg = constant growth rate

Here:

FCF# = $100,000

ke=10%=0.10k_e = 10\% = 0.10ke=10%=0.10

g=5%=0.05g = 5\% = 0.05g=5%=0.05

Correct valuation:

Value=100,0000.10#0.05=100,0000.05=$2,000,000\text{Value} = \frac{100{,}000}{0.10 - 0.05} = \frac{100
{,}000}{0.05} = \$2{,}000{,}000Value=0.10#0.05100,000=0.05100,000=$2,000,000 The analyst instead did:

100,000×(1+0.05)/0.10=105,000/0.10=$1,050,000100{,}000 \times (1 + 0.05) / 0.10 = 105{,}000 / 0.10 = \$1
{,}050{,}000100,000×(1+0.05)/0.10=105,000/0.10=$1,050,000

So the true value is $2,000,000 and the analyst's value is $1,050,000.

Undervaluation=2,000,000#1,050,000=$950,000\text{Undervaluation} = 2{,}000{,}000 - 1{,}050{,}000 =
\$950{,}000Undervaluation=2,000,000#1,050,000=$950,000

So the company has been undervalued by $950,000 # Option A.

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NEW QUESTION: 107
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?
A. X$360 million
B. X$453 million
C. X$401 million
D. X$504 million
Answer: A (LEAVE A REPLY)

NEW QUESTION: 108

A geared and profitable company is evaluating the best method of financing the purchase of new machinery. It is considering either buying the machinery outright, financed by a secured bank borrowing and selling the machinery at the end of a fixed period of time or obtain the machinery under a lease for the same period of time.

Which is the correct discount rate to use when discounting the incremental cash flows of the lease against those of the buy and borrow alternative?

A. The pre-tax cost of the bank borrowing

B. The post-tax cost of the bank borrowing

C. The company's WACC.

D. The company's cost of equity

Answer: C (LEAVE A REPLY)

NEW QUESTION: 109

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?

A. It will encourage more shareholders to sell their lights on the open market.

B. 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

C. It will result in fewer shareholders taking up the rights and as a consequence less cash will be raised from the rights issue

D. The directors offer will increase demand for the shares and as a consequence the share price will rise above the theoretical ex-rights price.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 110

Which THREE of the following are the most likely exit routes that apply to a venture capitalist?

A. Selling back to the original owners

B. Liquidation of the company

C. Raising long term debt from the company

D. Flotation via a stock market listing

E. Trade sale to another company

Answer: A,D,E (LEAVE A REPLY)

NEW QUESTION: 111

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?
A. Lease payments and straight-line accounting depreciation.
B. Lease payments, tax relief on implied interest and tax relief on straight-line account depreciation.
C. Lease payments, implied interested and straight-line accounting deprediation.
D. Lease payments and implied interest.
Answer: A (LEAVE A REPLY)

NEW QUESTION: 112
A company has forecast the following results for the next financial year:
The following is also relevant:
* Profit after tax for the year can be assumed to be equivalent to free cash flow for the year.
* Debt finance comprises a $10 million floating rate loan which currently carries an interest rate of 5%.
* $400,000 investment in non-current assets is required to achieve required growth, all of which is to financed from next year's free cash flow.
* The company plans to pay a dividend of $150,000 next year, financed from next year's free cash flow.
The company is concerned that interest rates could rise next year to 6% which could then affect their investment plans.

	$'000
Operating Profit	1,300
Interest	(500)
Profit before tax	800
Taxation (25%)	(200)
Profit after tax	600

If interest rates were to rise to 6% and the company wishes to maintain its dividend amount, the planned investment expenditure will decrease by:

A. $25,000

B. $75,000

C. $50,000

D. $100,000

Answer: A (LEAVE A REPLY)

Forecast P&L ('000):

Operating profit = 1,300

Interest at 5% on $10m = 500
Profit before tax = 800
Tax (25%) = 200
Profit after tax = 600
Profit after tax # free cash flow (FCF).
Planned uses of next year's FCF at current rates:
Investment in non-current assets = 400
Dividend = 150
Total = 550, leaving 50 spare from FCF 600.
If interest rises to 6%:
New interest = 10m × 6% = 600
New PBT = 1,300 # 600 = 700
Tax = 25% of 700 = 175
New PAT (FCF) = 700 # 175 = 525
Available for investment after paying the same dividend 150:
525#150=375525 - 150 = 375525#150=375
Original planned investment = 400 # now only 375 possible.
Reduction in planned investment = 400 # 375 = 25.

NEW QUESTION: 113
Company A has made an offer to acquire Company Z.
Both companies are quoted and their current market share prices are:
* Company A - $4
* Company Z - $5
Shareholders in company Z have been given three alternative offers:
* Cash of $5.50 per share
* Share for share exchange on the basis of 3 for 2
* 10.5% long dated bond for every 20 shares
The bond is has a nominal value of $100 and the expected yield on bonds of similar risk is 10%.
You are advising a Company Z shareholder on the three offers.
She requires a 15% premium if she is to accept the offer.
In providing your advice, which of the following statements is correct?
A. The value of the consideration given by the cash and bond offers is certain, unlike the share offer.
B. The bond offer is above the minimum threshold and should be accepted.
C. The bond offer is only worth $100 which represents a zero premium and should be rejected.
D. The share for share exchange is the only offer which is above the acceptance threshold.
Answer: D (LEAVE A REPLY)

NEW QUESTION: 114

A company in country T is considering either exporting its product directly to customers in country P or establishing a manufacturing subsidiary in country P.
The corporate tax rate in country T is 20% and 25% tax depreciation allowances are available
Which TIIRCC of the following would be considered advantages of establishing a subsidiary in country T?
A. There are restrictions on companies wishing to remit profit from country P
B. There are high customs cuties payable of products entering country P.
C. Year 1 tax depreciation allowances of 100% are available in country P.
D. There is a double tax treaty between country T and country P.
E. The corporate tsx rate in country P is 40%.
Answer: B,C,D (LEAVE A REPLY)

NEW QUESTION: 115
A company is undertaking a lease-or-buy evaluation, using the post-tax cost of bank borrowing as the discount rate.
Details of the two alternatives are as follows:
Buy option:
* To be financed by a bank loan
* Tax depreciation allowances are available on a reducing-balance basis
* Assets depreciated on a straight-line basis
Lease option:
* Finance lease
* Maintenance to be paid by the lessee
* Tax relief available on interest payments and book depreciation
Which THREE of the following are relevant cashflows in the lease-or-buy appraisal?
A. Tax relief on tax depreciation allowances
B. Bank loan payments
C. Maintenance payments
D. Lease payments
E. Tax relief on the book depreciation
Answer: A,D,E (LEAVE A REPLY)
Relevant cash flows for a lease-or-buy decision (discounting at post-tax cost of borrowing) are:
A). Tax relief on tax depreciation allowances - relevant for the buy option.
B). Bank loan payments - not relevant; financing flows are excluded when using the borrowing rate as discount rate.
C). Maintenance payments - here, maintenance is paid by the lessee under the lease, and would also be paid if the asset is bought; since it is the same under both options, it is not a differential cash flow.
D). Lease payments - relevant cash outflows under the lease option.
E). Tax relief on the book depreciation - relevant where tax relief is given on book depreciation (here, under the finance lease).

Therefore, the three relevant cash flows from the list are:
Answer (200259):
A, D, E\boxed{A,\ D,\ E}A, D, E

NEW QUESTION: 116
A company plans to raise S15 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 S12 50 per share
* There are currently 3 million shares in issue
* The project is forecast to yield a positive NPV of $9 million
What is the yield-adjusted Theoretical Ex-Rights Price following the announcement of the rights issue?
A. $13.67
B. $11 25
C. $11.67
D. $9.50
Answer: C (LEAVE A REPLY)

NEW QUESTION: 117
A company has stable earnings of S2 million and its shares are currently trading on a price earnings multiple {PIE) of 10 times. It has10 million shares in issue.
The company is raising S4 million debt finance to fund an expansion of its existing business which is forecast to increase annual earnings straight away by 25% and then remain at that level for the foreseeable future. The corporation tax rate is 20%. It is expected that the P/E will reduce to 8 times over the next year.
What is the most likely change in shareholder wealth resulting from this plan?
A. Shareholder wealth will increase by $4 million.
B. No change in shareholder wealth.
C. Shareholder wealth will increase by $5 million
D. Shareholder wealth will increase by $3.2 million.
Answer: (SHOW ANSWER)

NEW QUESTION: 118
A company has:
* 10 million $1 ordinary shares in issue
* A current share price of $5.00 a share
* A WACC of 15%
The company holds $10 million in cash. No interest is earned on this cash.
It will invest this in a project with an expected NPV of $4 million.
In a semi-strong efficient stock market, which of the following is the most likely share price immediately after the announcement of the new investment?

A. $5.40
B. $5.30
C. $6.80
D. $6.40
Answer: (SHOW ANSWER)

NEW QUESTION: 119
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?
A. The Weighted Average Cost of Capital
B. The cost of equity
C. The interest cover
D. Next year's dividend per share
E. The gearing, based on book value (debt ÷ (debt + equity))
F. The number of shares in issue
Answer: A,C,E (LEAVE A REPLY)
The company's gearing is below its optimal level, so it plans to increase debt by issuing long-term bonds and using the proceeds to repurchase shares. CIMA F3 teaches that altering capital structure affects risk, cost of capital, and shareholder metrics.
A). Weighted Average Cost of Capital - Decreases (#)
Since the company is moving toward its optimal gearing level, replacing equity with cheaper debt finance initially reduces WACC due to the tax shield on interest. This is a core Modigliani-Miller (with tax) implication emphasised in F3.
B). Cost of equity - Increases (#)
Higher gearing increases financial risk to equity holders, so the cost of equity rises, not falls.
C). Interest cover - Decreases (#)
Interest expense rises due to the new bond issue while earnings remain unchanged. This reduces interest cover, a key credit-risk indicator in F3.
D). Dividend per share - Increases (#)
The same total dividend is paid but fewer shares remain after the buy-back, so dividend per share increases.
E). Gearing (book value) - Decreases (#)
This is a common exam trap. Equity is reduced sharply due to the buy-back, and debt rises. However, because equity is reduced faster than debt rises, the denominator (debt + equity) falls, reducing the ratio based on book values as defined in the question.
F). Number of shares - Decreases (#)

Shares do fall, but the question asks which measures decrease most likely; F3 focuses on financial metrics rather than mechanical outcomes.

NEW QUESTION: 120

Company MB is in negotiations to acquire the entire share capital of Company BBA. Information about each company is as follows:

	AAB	BBA
Number of equity shares	100 million	40 million
Earnings	$120 million	$26 million
Current share price	$12.00	$7.20

It is expected that Company BBA's profit before interest and tax will be $30 million in each of the two years after acquisition. Company AAB is considering how best to structure the offer Company AAB's discount factor and appropriate cost of equity for use in valuing Company BBA is 10% Shareholders taxation implications should be ignored Which of the following provides the shareholders of Company BBA with the highest offer price?

A. A cash offer of S290 million now.
B. A cash offer at 105% of the share price of Company BBA.
C. A share-for-share exchange of five shares in Company AAB for every eight shares in Company BBA.
D. Cash of $270 million now plus 60% of Company BBA's profit before interest and tax for the two years after acquisition, paid in 2 years' time.
Answer: D (LEAVE A REPLY)

NEW QUESTION: 121

XYZ is a multi-national group with subsidiary AA in Country A and subsidiary BB in Country B. The capital structures of AA and BB are set up to take advantage of the lower tax rate in Country A Thin capitalisation rules in Country B will limit the ability for either AA or BB to claim tax relief on:

A. interest paid by AA
B. interest paid by BB
C. interest earned by BB.
D. interest earned by AA
Answer: B (LEAVE A REPLY)

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NEW QUESTION: 122
A publicly funded school is focused on providing Value for Money
It pays its leaching staff less than other schools, because class sizes are generally smaller than elsewhere Despite some staff demotivation from low pay, exam pass rates are high given the close one-to-one attention many pupils receive.
On which aspect of Value for Money is the school underperforming?
A. Effectiveness
B. Environmental
C. Economy
D. Efficiency
Answer: (SHOW ANSWER)
Value for Money is usually assessed using the 3 Es:
Economy - acquiring inputs at the lowest cost for a given quality (they pay less than other schools, so economy is actually good).
Effectiveness - achieving objectives (exam pass rates are high, so effectiveness is good).
Efficiency - the relationship between outputs and inputs (how well resources are turned into results).
Here, small class sizes mean more teaching resource per pupil. Even though results are good, they're achieved with relatively high input (lots of teacher time per pupil), indicating weaker efficiency, not economy or effectiveness.

NEW QUESTION: 123
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. A $10,000 profit will be recognised within other comprehensive income.
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. Not recognised in 20X3 as the forward contract is not settled until after the year end.
Answer: (SHOW ANSWER)

NEW QUESTION: 124
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?
A. Appeal to their own shareholders that the company should not be broken up because i: has strong growth prospects.
B. 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
C. Give existing shareholders the right to buy bonds in the future.
D. Offer the company to an alternative While Knight bidder.
E. 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.
Answer: A,B,D (LEAVE A REPLY)

NEW QUESTION: 125
RST wishes to raise at least $40 million of new equity by issuing up to 10 million new equity shares at a minimum price of $3.00 under an offer for sale by tender. It receives the following tender offers:

Share price	Number of equity shares asked for
$5.50	1 million
$5.00	3 million
$4.50	7 million
$4.00	9 million

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What is the maximum amount that RST can raise by this share issue?
(Give your answer to the nearest $ million).
$ [ ] million

A. 49

B. 50

Answer: A (LEAVE A REPLY)

$ 49 million

NEW QUESTION: 126

A company generates operating profit of $17.2 million, and incurs finance costs of $5.7 million.
It plans to increase interest cover to a multiple of 5-to-1 by raising funds from shareholders to repay some existing debt. The pre-tax cost of debt is fixed at 5%, and the refinancing will not affect this.
Assuming no change in operating profit, what amount must be raised from shareholders?
Give your answer in $ millions to the nearest one decimal place.
$?

Answer:

45.2

NEW QUESTION: 127

A company with a market capitalisation of S50million is considering raising $1 million debt to fund a new 10-year capital investment protect
The value of this issue is considered to be small in comparison to the company's market capitalisation
The company is considering whether to raise the debt finance by either a "bond private placing' or a 'public bond issue.
Which THREE of the following statements are correct?

A. An initial public bond issue does not need to be underwritten whereas a bond private placing must be underwritten.

B. The company's credit rating will be a key element in determining the interest rate payable and the potential success of either the public bond issue or the bond private placing

C. An initial public bond issue will be administratively complex and relatively expensive for the relatively small amount of debt being raised whereas a bond private placing will be relatively less complex

D. An average investor is made aware of a potential initial public bond issue whereas the average investor is only made aware of a bond private placing after it has occurred.

E. An initial public bond issue can be arranged relatively quickly whereas a bond private placing can take up to a year to arrange.

Answer: C,E (LEAVE A REPLY)

NEW QUESTION: 128

Which THREE of the following would be of most interest to lenders deciding whether to provide long-term debt to a company?

A. Quality of current management

B. Current gearing ratio
C. Earnings per share
D. Dividend cover
E. interest cover on existing debt
Answer: (SHOW ANSWER)
A - Quality of current management: affects risk of default and how well the business is run.
B - Current gearing ratio: shows how much existing leverage there is and the risk of over-gearing.
E - Interest cover on existing debt: key indicator of the firm's ability to service interest payments.
EPS (C) and dividend cover (D) are more relevant to equity investors than to new long-term lenders.

NEW QUESTION: 129
Company AAB is located in country A whose currency is the AS It has a subsidiary, BBA, located m country B that has the BS as its currency AAB has asked BBA to pay BS40 million surplus funds to AAB to assist with a planned new capital investment in country A The exchange rate today is AS1 = BS3 Tax regimes
* Company BBA pays withholding tax of 25% on all cash remitted to the parent company
* Company AAB pays tax of 10% on at cash received from its subsidiary
How much will company AAB have available for investment after receiving the surplus funds from BBA?
A. A$ 12 million
B. A$ 81 million
C. A$ 27 million
D. A$ 9 million
Answer: (SHOW ANSWER)

NEW QUESTION: 130
The following information relates to Company ZZA's current capital structure:

Debt:Equity (Market value)	Asset beta	Equity beta	Cost of equity	Pre-tax cost of debt
25:75	1.01	1.28	14.24%	4.00%

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Company ZZA is considering a change in the capital structure that will increase gearing to 35:65 (Debt Equity).
The risk-free rate is 4% and the return on the market portfolio is expected to be 12%.
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.
A. 14 24%

B. 15 36%
C. 1103%
D. 12 08%
Answer: (SHOW ANSWER)

NEW QUESTION: 131
PPA owns $500,000 of shares in Company ABB.
Company ABB has a daily volatility of 2% of its share price Calculate the 12-day value at risk that shows the most PPA can expect to lose during a 12-day period (PPA wishes to be 90% certain that the actual loss in any month will be less than your predicted figure)
Give your answer to the nearest thousand dollars.

$ [ ] 000

Answer:
Pending

NEW QUESTION: 132
Company A has agreed to buy all the share capital of Company B.
The Board of Directors of Company A believes that the post-acquisition value of the expanded business can be computed using the "boot-strapping" concept.
Which of the following most accurately describes "boot-strapping" in this context?
A. Forecasting the future free cash flows of the combined entities and discounting these at the bidder's Weighted Average Cost of Capital
B. Adding together the current post tax earnings of each company and multiplying this by the price earnings ratio of the acquired entity
C. Adding together the current post-tax earnings of each company and multiplying this by the price
/earnings ratio of the bidder
D. Combining the pre-acquisition market capitalisation of each company
Answer: (SHOW ANSWER)
"Boot-strapping" in takeover valuation is the shortcut where you:
Add the current post-tax earnings of bidder and target;
Apply the bidder's (usually higher) P/E ratio to that combined earnings figure to estimate the post-acquisition value.

NEW QUESTION: 133
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

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

Where:

Which THREE of the following are valid criticisms of the valuation of Company B's equity prepared by the assistant accountant?

A. It is better to use the present value of earnings rather than present value of dividends to value a controlling interest

B. The 5% growth rate may not reflect the future growth of Company B.

C. An unlisted company cannot use the capital asset pricing model to calculate its cost of equity

D. The DVM calculation should use Company A's cost of equity rather than Company B's cost of equity

E. The beta factor used may not reflect Company B's financial risk.

Answer: B,D,E (LEAVE A REPLY)

NEW QUESTION: 134

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?

A. To provide a more appropriate earnings figure for use in calculating the annual dividend.

B. To ensure that the venture capitalist receives regular annual returns on its investment.

C. To fully adopt IFRS in preparation for listing the company.

D. To make it easier for the market to value the business when it is listed on the Stock Exchange.

Answer: D (LEAVE A REPLY)

NEW QUESTION: 135

Select whether the following statements are true or false with regard to Modigliani and Miller's dividend policy theory.

Statement	
The theory assumes that corporate income tax is payable.	
The theory assumes that investors prefer dividends to capital gains.	
The theory assumes that no transaction costs occur when shares are traded.	True

True

False

Answer:

Statement	
The theory assumes that corporate income tax is payable.	False
The theory assumes that investors prefer dividends to capital gains.	True
The theory assumes that no transaction costs occur when shares are traded.	True

True

False

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NEW QUESTION: 136

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?

A. Next year's dividend per share

B. The number of shares in issue

C. The Weighted Average Cost of Capital

D. The gearing, based on book value (debt ÷ (debt + equity))

E. The cost of equity

F. The interest cover

Answer: B,C,F (LEAVE A REPLY)

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NEW QUESTION: 137

WX, an advertising agency, has just completed the all-cash acquisition of a competitor, YZ. This was seen by the market as a positive strategic move byWX.

Which THREE of the following will WX's shareholders expect the company's directors to prioritise following the acquisition?

A. The development of a dividend policy to meet the expectations of the YZ's shareholders.

B. The regulatory approval required to complete the acquisition.

C. The integration and retention of key employees of YZ.

D. The retention of YZ's key customers.

E. The realisation of anticipated post-acquisition synergies.

Answer: B,C,E (LEAVE A REPLY)

NEW QUESTION: 138

Company C invests heavily in Research and Development an need to raise $45 million to finance future projects. It has decided to use equity finance raised by a tender offer, The following tender offers have been received from potential investors:

Maximum price offered ($ per share)	Number of shares requested at this price (million)
$4.25	12.0
$4.50	3.0
$4.75	2.0
$5.00	5.0

Company C wishes to select an offer price that will project shareholders from a significant dilution of control but still raise the required amount of finance.

What offer price should Company C's select?

A. $4.50

B. $4.00

C. $4.75

D. $4.25

Answer: (SHOW ANSWER)

We need to raise $45m with minimum dilution, so choose the highest price at which there is sufficient demand.

Demand at or above each possible offer price:

$5.00 # 5m shares # $25m (insufficient)

$4.75 # (2 + 5) = 7m shares # 7 × 4.75 = $33.25m (insufficient)

$4.50 # (3 + 2 + 5) = 10m shares # 10 × 4.50 = $45m (exactly enough)

$4.25 or $4.00 would raise more than $45m but require issuing more shares # more dilution.

So the best price that still raises $45m is $4.50.

NEW QUESTION: 139

A company has in a 5% corporate bond in issue on which there are two loan covenants.

* Interest cover must not fall below 3 times
* Retained earnings for the year must not fall below $3.5 million

The Company has 200 million shares in issue.

The most recent dividend per share was $0.04.

The Company intends increasing dividends by 10% next year.

Financial projections for next year are as follows:

Advise the Board of Directors which of the following will be the status of compliance with the loan covenants next year?

A. The company will be in compliance with both covenants.

B. The company will be in breach of both covenants.

C. The company will breach the covenant in respect of retained earnings only.

D. The company will be in breach of the covenant in respect of interest cover only.

Answer: C (LEAVE A REPLY)

NEW QUESTION: 140

AA is considering changing its capital structure. The following information is currently relevant to AA:

Cost of equity	10%
Cost of debt (post tax)	4%
WACC	7.6%
Gearing (debt / (debt + equity))	40%
Rate of corporate income tax	20%

The gearing rating raising the new debt finance will be 50%.

Which THREE of the following statement about the impact of AA's change in capital structure are true under Modigliani and Miler's capital structure theory with tax.

A. The cost of debt remain unchanged at 4%

B. The cost of equity will increase above 10%

C. The WACC increase above 7.6

D. The cost of debt will increase above 4%

E. The WACC will decrease below 7.6%

F. The cost of equity will decrease below 10%

Answer: A,C,E (LEAVE A REPLY)

NEW QUESTION: 141

Three companies are quoted on the New York Stock Exchange. The following data applies:

Company	Equity Beta	Asset Beta
A	1.27	1.16
B	1.20	1.16
C	1.27	1.20

Which of the following statements is TRUE?

A. Company A has the greatest business risk

B. Companies A and B have the same capital structure

C. Companies A and C have the same business risk

D. Companies A and B have the same business risk

Answer: (SHOW ANSWER)

Correct answer: D. Companies A and B have the same business risk

Business risk is measured by asset beta.

A and B both have asset beta = 1.16, so same business risk.

C has higher asset beta (1.20), so highest business risk.

NEW QUESTION: 142

A national rail operating company has made an offer to acquire a smaller competitor.

Which of the following pieces of information would be of most concern to the competition authorities?

A. After the acquisition, the board proposes to increase prices on some routes not serviced by other rail operators.

B. The acquisition is likely to result in significant redundancies of staff currently working for the smaller rail operator.

C. The board informed a major institutional shareholder about the proposed acquisition before informing other shareholders.

D. After the acquisition, the board proposes to withdraw some of the less profitable services.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 143

Which TWO of the following statements about debt instruments are correct?

A. If corporation tax rates rise, the tax shield effect on debenture interest will be reduced.

B. A zero coupon will eliminate the tax shield effect on debt payments.

C. Changes in corporation tax rates will have no effect on the tax shield of fixed rate debentures.

D. The true cost of servicing debt instruments to the company is the post-tax cost of debt.

Answer: B,C (LEAVE A REPLY)

NEW QUESTION: 144

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$.
When the company reports under IFRS 7 for the first time, the share price is most likely to:
A. Increase due to greater clarity of information available on the extent of US$ risks and how they are managed.
B. Stay the same since US$ risk can already be quantified from segmental analysis disclosures included elsewhere in the annual report.
C. Decrease since investors place a lower value on higher risk businesses.
D. Either increase or decrease depending on market reaction to new information on how financial risk is managed.
Answer: (SHOW ANSWER)
IFRS 7 requires detailed disclosures about financial instruments and risk management, including currency risk, sensitivity analysis, and how those risks are managed. When these are published for the first time, investors may learn new information about:
The extent of US$ exposure (40% export sales), and
The quality of risk management (hedging, matching, etc.).
Efficient market theory (covered in F3) says prices adjust to new, relevant information. That new information could make investors more confident (if risks are well managed) or more concerned (if risks are high and poorly managed). So the share price could either increase or decrease, depending on the market's reaction.
That matches option D.
Options A and C assume a one-way direction (always up or always down), which is unrealistic. B is wrong because segmental analysis does not normally give the same detailed, risk-focused disclosure as IFRS 7.

NEW QUESTION: 145
WX, an advertising agency, has just completed the all-cash acquisition of a competitor, YZ. This was seen by the market as a positive strategic move byWX.
Which THREE of the following will WX's shareholders expect the company's directors to prioritise following the acquisition?
A. The integration and retention of key employees of YZ.
B. The development of a dividend policy to meet the expectations of the YZ's shareholders.
C. The regulatory approval required to complete the acquisition.
D. The retention of YZ's key customers.
E. The realisation of anticipated post-acquisition synergies.
Answer: (SHOW ANSWER)
CIMA F3 emphasises that shareholders expect directors to focus on value creation after an acquisition, particularly in the areas that protect and enhance the cash flows and synergies that justified the deal.
Following an all-cash acquisition, the target's former shareholders have exited, so the acquirer's shareholders will not prioritise tailoring dividends to meet the target shareholders' preferences (B

is not relevant). Also, the question states the acquisition has just been completed, so regulatory approval needed to complete the acquisition (C) is no longer a priority stage item. What matters immediately is executing post-deal integration to secure the expected benefits. First, directors must ensure integration and retention of key employees from the acquired firm (A), especially in service/knowledge businesses where people drive client relationships and operational capability. Second, they must protect revenues by retaining the acquired firm's key customers (D); losing customers can destroy acquisition value quickly. Third, they must deliver the deal logic by realising anticipated post-acquisition synergies (E), such as cost savings, higher capacity utilisation, cross-selling, and process improvements. These priorities align with F3's post-merger integration focus: preserve the earnings base, then convert strategic fit into measurable synergy cash flows.

NEW QUESTION: 146

Company A, a listed company, plans to acquire Company T, which is also listed.
Additional information is:
* Company A has 100 million shares in issue, with market price currently at $8.00 per share.
* Company T has 90 million shares in issue,. with market price currently at $5.00 each share.
* Synergies valued at $60 million are expected to arise from the acquisition.
* The terms of the offer will be 2 shares in A for 3 shares in B.

Assuming the offer is accepted and the synergies are realised, what should the post-acquisition price of each of Company A's shares be?
Give your answer to two decimal places.
$? .

Answer:
8.19, 8.18

NEW QUESTION: 147

A listed company follows a policy of paying a constant dividend. The following information is available:
* Issued share capital (nominal value $0.50) $60 million
* Current market capitalisation $480 million

The shareholders are requesting an increased dividend this year as earnings have been growing. However, the directors wish to retain as much cash as possible to fund new investments. They therefore plan to announce a
1-for-10 scrip dividend to replace the usual cash dividend.
Assuming no other influence on share price, what is the expected share price following the scrip dividend?
Give your answer to 2 decimal places.
$?

Answer:
3.64, 3.63, 3.65

NEW QUESTION: 148
A company's Board of Directors wishes to determine a range of values for its equity.
The following information is available:
Estimated net asset values (total asset less total liabilities including borrowings):
* Net book value = $20 million
* Net realisable value = $25 million
* Free cash flows to equity = $3.5 million each year indefinitely, post-tax.
* Cost of equity = 10%
* Weighted Average Cost of Capital = 7%
Advise the Board on reasonable minimum and maximum values for the equity.
A. Minimum value = $25.0 million, and maximum value = $35.0 million
B. Minimum value = $25.0 million, and maximum value = $50.0 million
C. Minimum value = $20.0 million, and maximum value = $35.0 million
D. Minimum value = $20.0 million, and maximum value = $50.0 million
Answer: A (LEAVE A REPLY)
Net book value of equity = $20m
Net realisable value of equity = $25m
Free cash flow to equity = $3.5m indefinitely
Cost of equity (ke) = 10%
Value from FCFE (perpetuity):
Vequity=3.50.10=35mV_{\text{equity}} = \frac{3.5}{0.10} = 35\text{m}Vequity=0.103.5=35m A reasonable minimum is the break-up / net realisable value = $25m.
A reasonable maximum is the going-concern DCF value = $35m.

NEW QUESTION: 149
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

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

Where:
Which THREE of the following are valid criticisms of the valuation of Company B's equity prepared by the assistant accountant?

A. The DVM calculation should use Company A's cost of equity rather than Company B's cost of equity
B. The beta factor used may not reflect Company B's financial risk.
C. An unlisted company cannot use the capital asset pricing model to calculate its cost of equity
D. The 5% growth rate may not reflect the future growth of Company B.
E. It is better to use the present value of earnings rather than present value of dividends to value a controlling interest
Answer: A,B,D (LEAVE A REPLY)

NEW QUESTION: 150
Company WWW is considering making a takeover bid for Company KKA Company KKA's current share price is $5.00 Company WWW is considering either
" A cash payment of $5.75 for each share in Company KKA
" A 5 year corporate bond with a market value of $90 in exchange for 15 shares in Company KKA
Calculate the highest percentage premium which Company KKA shareholders will receive.
A. Corporate bond premium = 80%
B. Corporate bond premium = 20%
C. Cash premium = 10%
D. Cash premium = 15%
Answer: B (LEAVE A REPLY)
Current KKA share price = $5.00
Cash offer: $5.75 per share
Premium = (5.75 # 5.00) / 5.00 = 0.75 / 5 = 15%
Bond offer: market value $90 bond for 15 KKA shares
Value per KKA share = 90 / 15 = $6.00
Premium = (6.00 # 5.00) / 5.00 = 1 / 5 = 20%
The highest premium is therefore 20% on the bond offer, i.e. option B.

NEW QUESTION: 151
A venture capitalist has made an equity investment in a private company and is evaluating possible methods by which it can exit the investment over the next 3 years. The private company shareholders comprise the four original founders and the venture capitalist.
Advise the venture capitalist which THREE of the following methods will enable it to exit its equity investment?
A. Trade sale of shares to an external 3rd party.
B. The private company undertakes a 1 for 4 rights issue.
C. The private company buys back the equity shares.
D. The private company conducts a stock split of its share capital.
E. The private company obtains a stock market listing.
Answer: (SHOW ANSWER)

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NEW QUESTION: 152
Modigliani and Miller are the main proponents of the view that the dividend policy is irrelevant to the value of a company's shares.
They argue that a company that continually reinvests its entire earnings would generate the same shareholder wealth if it engaged in a policy of high dividends and financed its expansion with funds obtained from rights issues.
Which THREE of the following statements are assumptions that are required in order to support this proposition?
A. There are no transaction costs involved in the issue of new shares (including rights issues).
B. There is a multiplicity of corporate and personal income tax rates.
C. Investors act in a rational manner.
D. The capital markets are efficient markets.
E. Investors do not always have access to perfect information.
Answer: A,C,D (LEAVE A REPLY)
Discursive_F0

NEW QUESTION: 153
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?
A. $73.6 million
B. $22.1 million
C. $44.1 million
D. $50.1 million
Answer: B (LEAVE A REPLY)
EBIT = 5.0m

Interest (10% × 10m) = 1.0m
Profit before tax = 5.0 # 1.0 = 4.0m
Tax (25%) = 1.0m # Earnings = 3.0m
Payout ratio 50% # current dividend = 1.5m
Growth g = 3% # D1=1.5×1.03=1.545D_1 = 1.5 × 1.03 = 1.545D1=1.5×1.03=1.545m Cost of equity ke=10%k_e = 10\%ke=10%. Using Gordon model:
P0=D1ke#g=1.5450.10#0.03=1.5450.07#22.1mP_0 = \frac{D_1}{k_e - g} = \frac{1.545}{0.10 - 0.03} = \frac
{1.545}{0.07} \approx 22.1\text{m}P0=ke#gD1=0.10#0.031.545=0.071.545#22.1m

NEW QUESTION: 154

A listed company is planning a share repurchase.
The following data applies
* There are 20 million shares in issue
* The share repurchase will involve buying back 10% of the shares at a price of $1.20
* The company is holding $4.8 million cash
* Earnings for the current year ended are $3.6 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?
A. The cash balance will decrease by 50% and EPS will increase by 11%
B. The cash balance will decrease by 10% and the EPS will decrease by 11%.
C. The cash balance will decrease by 50% and EPS will decrease by11%
D. The cash balance will decrease by 10% and the EPS will increase by 11%.
Answer: C (LEAVE A REPLY)

NEW QUESTION: 155

A company based in Country D, whose currency is the D$, has an objective of maintaining an operating profit margin of at least 10% each year.
Relevant data:
* The company makes sales to Country E whose currency is the E$. It also makes sales to Country F whose currency is the F$.
* All purchases are from Country G whose currency is the G$.
* The settlement of all 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?
A. The F$ weakens against the D$ over time.
B. The D$ strengthens against the G$ over time.
C. The D$ weakens against the G$ over time.
D. The D$ strengthens against the E$ over time.
Answer: (SHOW ANSWER)

NEW QUESTION: 156

Company A operates in country A with the AS as its functional currency. Company A expects to receive BS500.000 in 6 months' time from a customer in Country B which uses the B$.

Company A intends to hedge the currency risk using a money market hedge The following information is relevant:

Spot rate	A$1 = B$15.00
Six-month forward rate	A$1 = B$15.50

What is the AS value of the BS expected receipt in 6 months' time under a money market hedge?

A. AS32, 051

B. AS31, 790

C. AS31, 482

D. AS32, 532

Answer: A (LEAVE A REPLY)

NEW QUESTION: 157

Company M plans to bid for Company J.

Company M has 20 million shares in issue and a current share price of $10.00 before publicly announcing the planned takeover. Company J has 10 million shares in issue and a current share price of $4.00.

The directors of Company M are considering an all-share bid of 1 Company M shares for 2 Company J shares.

Synergies worth $20m are expected from the acquisition.

What is the likely change in wealth for Company M's shareholders (in total) if the bid is accepted? Give your answer to the nearest $ million.

$? million

Answer:

8

NEW QUESTION: 158

Company A is a large well-established listed entertainment company and Company B is a small unlisted company specializing in providing online media streaming.

Company A has a gearing ratio of 60% (using book values) and interest cover of 2.

Company A is considering making an offer for Company B, either a cash offer financial by raising additional debt finance or a share-for-share exchange.

Which of the following is most likely to occur if Company A offers a share-for exchange rather than offering cash finance by raising debt?

A. Divided per share would be higher.

B. Geaning would be lower.

C. Eamings per share would be higher.

D. There would be no dilution f of control.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 159

A company currently has a 6.25% fixed rate loan but it wishes to change the interest style of the loan to variable by using an interest rate swap directly with the bank.

The bank has quoted the following swap rate:

* 5.50% - 5.55% in exchange for LIBOR

LIBOR is currently 5%.

If the company enters into the swap and LIBOR remains at 5%, what will the company's interest cost be?

A. 6.25%

B. 5.00%

C. 5.75%

D. 5.70%

Answer: C (LEAVE A REPLY)

NEW QUESTION: 160

A company is wholly equity funded. It has the following relevant data:

* Dividend just paid $4 million
* Dividend growth rate is constant at 5%
* The risk free rate is 4%
* The market premium is 7%
* The company's equity beta factor is 1.2

Calculate the value of the company using the Dividend Growth Model.

Give your answer in $ million to 2 decimal places.

Answer:

$? million

56.76, 56.75

NEW QUESTION: 161

Select whether the following statements are true or false with regard to Modigliani and Miller's dividend policy theory.

Statement	Answer	Options
The theory assumes that corporate income tax is payable.		True
The theory assumes that investors prefer dividends to capital gains		False
The theory assumes that no transaction costs occur when shares are traded	True	

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Answer:

The theory assumes that corporate income tax is payable.	False
The theory assumes that investors prefer dividends to capital gains.	True
The theory assumes that no transaction costs occur when shares are traded.	True

True

False

Explanation:

The theory assumes that corporate income tax is payable.	False
The theory assumes that investors prefer dividends to capital gains.	True
The theory assumes that no transaction costs occur when shares are traded.	True

True

False

NEW QUESTION: 162

Company M plans to bid for Company J. Company M has 20 million shares in issue and a current share price of $10.00 before publicly announcing the planned takeover. Company J has 10 million shares in issue and a current share price of $4.00.

The directors of Company M are considering an all-share bid of 1 Company M shares for 2 Company J shares.

Synergies worth $20m are expected from the acquisition.

What is the likely change in wealth for Company M's shareholders (in total) if the bid is accepted?

Give your answer to the nearest $ million.

$? million

A. 8

B. 6

Answer: A (LEAVE A REPLY)

NEW QUESTION: 163

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:

What is the expected synergy if the acquisition goes ahead?

Give your answer to the nearest $ million.

$? million

Answer:

8, 8000000

NEW QUESTION: 164

A company plans to cut its dividend but is concerned that the share price will fall. This demonstrates the _____________ effect

A. clientele

B. clientele fall

Answer: A (LEAVE A REPLY)

NEW QUESTION: 165

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?

A. The directors offer will increase demand for the shares and as a consequence the share price will rise above the theoretical ex-rights price.

B. It will result in fewer shareholders taking up the rights and as a consequence less cash will be raised from the rights issue

C. It will encourage more shareholders to sell their lights on the open market.

D. 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

Answer: (SHOW ANSWER)

NEW QUESTION: 166

The shares of a company in a high technology industry have been listed on a stock exchange for 10 years.

During this period, it has paid no dividends but invested all retained earnings in growth. The company is now entering a period of relatively stable growth and the directors are considering beginning to pay dividends They are reviewing the following suggestions made by members of the board:

* Pay cash dividends linked to growth in earnings

* Use a residual theory approach to establish cash dividends

* Issue scrip dividends (shares instead of cash)

* Continue to pay no dividends as dividends are irrelevant to the value of the company Which THREE of the following are correct statements for the directors to take into consideration when making a decision about future dividend policy?

A. Shareholder preferences for cash or scrip dividends will be influenced by their tax positions

B. Ignoring taxation and administrative costs, shareholders can provide their own dividends by selling shares in the market
C. Modigliani and Miller argue that, ignoring taxation, as long as positive net present value projects are invested in, shareholder wealth will increase, regardless of dividend payments.
D. The residual theory of dividends suggest that dividends should only be paid after all operating costs have been met.
E. Neither cash nor scrip dividends will have an effect on earnings per share
Answer: (SHOW ANSWER)

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NEW QUESTION: 167
Company A plans to acquire Company B.
Both firms operate as wholesalers in the fashion industry, supplying a wide range of ladies' clothing shops.
Company A sources mainly from the UK, Company B imports most of its supplies from low-income overseas countries.
Significant synergies are expected in management costs and warehousing, and in economies of bulk purchasing.
Which of the following is likely to be the single most important issue facing Company A in post-merger integration?
A. Identifying and removing surplus staff.
B. Understanding the management information system of the acquired firm.
C. Discussions with representatives from key customer accounts.
D. Discussions with anti-poverty campaigning groups.
Answer: (SHOW ANSWER)
CIMA F3 places strong emphasis on post-merger integration (PMI) as a critical determinant of whether expected synergies from an acquisition are actually realised. The syllabus highlights that although financial and operational synergies may appear attractive at the appraisal stage, the effective integration of systems, processes and controls is often the greatest practical challenge after completion.
In this scenario, Company A and Company B operate in the same industry and at the same level of the supply chain (horizontal integration), and the anticipated synergies relate to management

cost savings, warehousing efficiencies and bulk purchasing economies. For these synergies to be achieved, Company A must be able to accurately measure performance, control costs, manage inventory, and coordinate purchasing decisions across the enlarged group. CIMA F3 study guidance stresses that this requires a clear understanding of the acquired company's management information system (MIS).
Option B is therefore the most important issue. Without understanding Company B's MIS, Company A will struggle to:
Identify genuine cost-saving opportunities,
Integrate inventory and warehousing systems,
Align purchasing data to exploit economies of scale,
Monitor operational performance consistently post-acquisition.
The other options, while relevant, are secondary:
A (removing surplus staff) is a consequence of integration, not the primary enabling issue.
C (customer discussions) is less critical here because both firms already operate in the same wholesale market with similar customers.
D is not a strategic financial or operational issue under CIMA F3 and is therefore irrelevant.
CIMA F3 consistently emphasises that information systems integration underpins successful post-merger synergy realisation, making option B the correct answer.

NEW QUESTION: 168
Company M plans to bid for Company J. Company M has 20 million shares in issue and a current share price of $10.00 before publicly announcing the planned takeover. Company J has 10 million shares in issue and a current share price of $4.00.
The directors of Company M are considering an all-share bid of 1 Company M shares for 2 Company J shares.
Synergies worth $20m are expected from the acquisition.
What is the likely change in wealth for Company M's shareholders (in total) if the bid is accepted? Give your answer to the nearest $ million.
$? million
Answer:
8

NEW QUESTION: 169
Holding cash in excess of business requirements rather than returning the cash to shareholders is most likely to result in lower:
A. return on equity.
B. net profit.
C. vulnerability to a takeover bid.
D. liquidity.
Answer: A (LEAVE A REPLY)

NEW QUESTION: 170

Company A plans to acquire Company B.
Both firms operate as wholesalers in the fashion industry, supplying a wide range of ladies' clothing shops.
Company A sources mainly from the UK, Company B imports most of its supplies from low-income overseas countries.
Significant synergies are expected in management costs and warehousing, and in economies of bulk purchasing.
Which of the following is likely to be the single most important issue facing Company A in post-merger integration?

A. Identifying and removing surplus staff.
B. Understanding the management information system of the acquired firm.
C. Discussions with representatives from key customer accounts.
D. Discussions with anti-poverty campaigning groups.

Answer: B (LEAVE A REPLY)

NEW QUESTION: 171

Hospital X provides free healthcare to all members of the community, funded by the central Government.
Hospital Y provides healthcare which has to be paid for by the individual patients. It is a listed company, owned by a large number of shareholders.
In comparing the above two organisations and their objectives, which THREE of the following statements are correct?

A. X and Y have the same primary financial objective - to maximise shareholder wealth.
B. Only Y is likely to have a mixture of financial and non-financial objectives.
C. The performance of X will be appraised primarily on the basis of value for money.
D. X and Y will have the same primary non financial objective - provision of quality of health care.
E. X is a not-for-profit organisation while Y is a for-profit organisation.

Answer: (SHOW ANSWER)

NEW QUESTION: 172

A company plans to cut its dividend but is concerned that the share price will fall.
This demonstrates the _____________ effect

Answer:
clientele

NEW QUESTION: 173

The primary objective of a public sector entity is to ensure value for money is generated.
Value for money is defined as performing an activity so as to simultaneously achieve economy, efficiency and effectiveness Efficiency is defined as:

A. obtaining quality inputs at minimum cost.

B. obtaining maximum output from minimum inputs
C. spending funds so as to achieve the objectives of the entity.
D. performing activities in the least amount of time possible
Answer: D (LEAVE A REPLY)

NEW QUESTION: 174
The Board of Directors of Company T is considering a rights issue to fund a new investment opportunity which has a zero NPV.
The Board of Directors wishes to explain to shareholders what the theoretical impact on their wealth will be as a result of different possible actions during the rights issue.
Which THREE of the following statements in respect of theoretical shareholder wealth are true?
A. If shareholders exercise their full rights there will be no impact on their wealth.
B. If shareholders sell their entire rights entitlement there will be no impact on their wealth.
C. If shareholders partially exercise their rights and sell the remaining rights entitlement there will be no impact on their wealth.
D. If the shareholders allow their rights to lapse (do nothing) there will be no impact on their wealth.
E. If the shareholders only partially exercise their rights and allow the remainder to lapse there will be no impact on their wealth.
Answer: A,B,C (LEAVE A REPLY)

NEW QUESTION: 175
A company which is forecast to experience a strong growth in its profitability is evaluating a potential bond issue.
Which of the following changes in corporate income tax and in bond yields would make the bond issue more attractive to the company?
A. A decrease in corporate tax and an increase in bond yields.
B. An increase in corporate tax and a decrease in bond yields.
C. An increase in corporate tax and an increase in bond yields.
D. A decrease in corporate tax and a decrease in bond yields.
Answer: (SHOW ANSWER)
Debt becomes more attractive when:
Corporate tax increases # larger tax shield on interest.
Bond yields decrease # lower pre-tax cost of debt.
So the combination that makes a bond issue more attractive is higher tax and lower yields.

NEW QUESTION: 176
A company has a loss-making division that it has decided to divest in order to raise cash for other parts of the business.
The losses stem from a combination of a lack of capital investment and poor divisional management.

The loss-making division would require new capital investment of at least $20 million in order to replace worn out and obsolete assets.
If this investment was carried out, the present value of the future cashflows, excluding the investment expenditure, is expected to be $15 million.
Which TWO of the following divestment methods are most likely to be suitable for the company?
A. Liquidation
B. Trade sale
C. De-merger
D. Spin-off
E. Management buy-out
Answer: A,B (LEAVE A REPLY)

NEW QUESTION: 177
Two companies that operate in the same industry have different Price/Earnings (P/E) ratios as follows:

	P/E ratio
Company A	8
Company B	15

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Which of the following is the most likely explanation of the different P/E ratios?
A. Company B has a greater profit this year than Company A.
B. Company B has higher gearing than Company A.
C. Company B has higher business risk than Company A.
D. Company B has higher expected future growth than Company A.
Answer: D (LEAVE A REPLY)

NEW QUESTION: 178

Which THREE of the following statements are correct in respect of the issuance of debt securities.

A. A bond issuer must appoint at least one market-maker to ensure that there is a liquid market in its traded bonds.

B. The redemption yield on a corporate bond can be determined by calculating the internal rate of return based on the cash flows arising during the duration of the bond.

C. Investors in traded bonds have an ownership (or equity stake) in the company which issued the bonds.

D. A corporate entity coming to the bond market for the first time will find it easier to issue corporate bonds than to arrange a conventional term loan.

E. Governments are the most frequent issuers of bonds and the proceeds are used to fund government expenditure or service the national debt.

Answer: A,B,E (LEAVE A REPLY)

A). "A bond issuer must appoint at least one market-maker..." - TRUE (in exam context) On public bond markets, an issuer typically works with one or more banks/dealers as market-makers. Their role is to quote buy and sell prices and help ensure liquidity so investors can trade in and out. From an exam perspective, this is treated as a standard feature of traded corporate/government bonds.

B). "The redemption yield... can be determined by calculating the internal rate of return..." - TRUE The redemption yield (yield to maturity) is exactly the IRR of the bond's cash flows (all coupon payments plus redemption amount) based on the current market price. That's standard CIMA F3 territory.

C). "Investors in traded bonds have an ownership stake..." - FALSE

Bondholders are creditors, not owners. They have a contractual right to interest and principal, but no equity participation, voting rights, or residual claim (except in liquidation after other priorities).

D). "A first-time bond issuer will find it easier to issue bonds than arrange a conventional term loan." - FALSE It's usually the opposite. For a new issuer, arranging a bank term loan is typically quicker and simpler than accessing the bond market, which involves credit ratings, documentation, listing and investor marketing.

E). "Governments are the most frequent issuers of bonds..." - TRUE

Governments regularly issue sovereign bonds (treasuries, gilts, etc.) both to finance spending and to roll over existing national debt. This is exactly how public deficits are funded in practice and is a standard statement in financial strategy texts.

Hence: A, B and E.

NEW QUESTION: 179

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

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

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

Answer: C (LEAVE A REPLY)

NEW QUESTION: 180

The Treasurer of Z intends to use interest rate options to set an interest rate cap on Z's borrowings.

Which of the following statement is correct?

A. The Treasurer should buy an interested rate floor and sell an interested cap ta the same time

B. The Treasurer will have to negotiate the options with Z's Dark

C. The Treasurer will retain the benefit of movements in interest rates below the floor limit.

D. The cost of a collar is lower than the cost of a cap a one.

Answer: (SHOW ANSWER)

NEW QUESTION: 181

B has a S3 million loan outstanding on which the interested rate is reset every 6 months for the following 6 month and the interested is payable at the end of that 6 month period. The next 6 monthly reset period starts in

3 months and the treasurer of B thinks interested rates are likely to raise between and then.

Current 6-month rates are 6.4% and the treasurer can get a rate of 6.9% for a 6-month forward rate agreement (FRA) starting in 3 months time. By transacting an TRA the treasurer can lock in a rate today of 6.9%.

If interested rates are 7.5% in 3 months' time, what will the net amount payable be?

Give your answer to the nearest thousand dollars.

$ __________ 0C0

A. 104-Exhibit (743b1a2e-f8d1-4bb4-8a9c-621aab1b490f)-Notional principal = $3,000,000Actual 6- month rate in 3 months = 7.5%FRA rate = 6.9%Difference = 0.6% = 0.006FRA settlement at start of 6- month period (in 3 months):FRA receipt=(0.075#0.069)×3,000,000×0.51+0.075×0.5=9,0001.0375#8, 673\text{FRA receipt} = \frac{(0.075 - 0.069)\times 3{,}000{,}000 \times 0.5}{1 + 0.075 \times 0.5} = \frac{9{,}000}{1.0375} \approx 8{,}673FRA receipt=1+0.075×0.5(0.075#0.069)×3,000,000×0.5=1.

03759,000#8,673 Interest actually paid on loan at
7.5%:Interest=3,000,000×0.075×0.5=112,500\text
{Interest} = 3{,}000{,}000 \times 0.075 \times 0.5 =
112{,}500Interest=3,000,000×0.075×0.5=112,500 Net amount
payable:112,500#8,673#103,827#about $104,000112{,}500 - 8{,}673 \approx 103{,}827
\rightarrow \text{about } \$104,000112,500#8,673#103,827#about $104,000
B. $104,000 (nearest thousand dollars)
Answer: (SHOW ANSWER)

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NEW QUESTION: 182
A company's main objective is to achieve an average growth in dividends of 10% a year.
In the most recent financial year:

Sales	$100 million
Costs	($80 million)
Profit	$20 million
Dividend	$6 million
Retained earnings	$14 million

Sales are expected to grow at 8% a year over the next 5 years.
Costs are expected to grow at 5% a year over the next 5 years.
What is the minimum dividend payout ratio in 5 years' time that would allow the company to achieve its objective?
A. 21.7%
B. 27.5%
C. 22.5%
D. 30.0%
Answer: (SHOW ANSWER)

NEW QUESTION: 183
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?
A. It is not possible to tell from CAPM.
B. It has lower risk than the average market risk.
C. It has greater risk than the average market risk.
D. It has the same risk as the average market risk.
Answer: C (LEAVE A REPLY)

NEW QUESTION: 184

A company has just received a hostile bid. Which of the following response strategies could be considered?

A. Change the Articles of Association to amend voting rights

B. Poison pill strategy

C. Approach a White Knight

D. Revalue non-current assets

Answer: C (LEAVE A REPLY)

NEW QUESTION: 185

A venture capitalist invests in a company by means of buying:

* 9 million shares for $2 a share and

* 8% bonds with a nominal value of $2 million, repayable at par in 3 years' time.

The venture capitalist expects a return on the equity portion of the investment of at least 20% a year on a compound basis over the first 3 years of the investment.

The company has 10 million shares in issue.

What is the minimum total equity value for the company in 3 years' time required to satisify the venture capitalist's expected return?

Give your answer to the nearest $ million.

Answer:

$ million.

34, 35, 34000000, 35000000VC's equity investment = 9m shares × $2 = $18mThey want 20% p.a. compound for 3 years:Future value of VC equity=18×1.23=18×1.728=31.104 m\text{Future value of VC equity} = 18
\times 1.2^3 = 18 \times 1.728 = 31.104\text{ m}Future value of VC equity=18×1.23=18×1.728=31.104 m VC holds 9m shares.Total shares in 3 years = existing 10m + new 9m = 19m.Share price required in 3 years:
P3=31.1049=3.456P_3 = \frac{31.104}{9} = 3.456P3=931.104=3.456 Total equity value of the company in 3 years:19×3.456=65.664 m#$66 million19 \times 3.456 = 65.664\text{ m} \approx \boxed{\$66\text{ million}}
19×3.456=65.664 m#$66 million

NEW QUESTION: 186

RST wishes to raise at least $40 million of new equity by issuing up to 10 million new equity shares at a minimum price of $3.00 under an offer for sale by tender. It receives the following tender offers:

Share price	Number of equity shares asked for
$5.50	1 million
$5.00	3 million
$4.50	7 million
$4.00	9 million

What is the maximum amount that RST can raise by this share issue?
(Give your answer to the nearest $ million).

$ [   ] million

Answer:
49

$ 49 million

NEW QUESTION: 187
The directors of a multinational group have decided to sell off a loss-making subsidiary and are considering the following methods of divestment:
1. Trade sale to an external buyer
2. A management buyout (MBC)
The MDO team and the external buyer have both offered the same price to the parent company for the subsidiary.
Which of the following is an advantage to the parent company of opting for a MBO compared to a trade sale as the preferred method of divestment?
A. Raise the cash more quickly.
B. Retain the know edge of key management.
C. Focus on the core competencies of the business
D. Avoid a hostile reaction from key management.
Answer: D (LEAVE A REPLY)

NEW QUESTION: 188
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:
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. C
B. A
C. B
D. D
Answer: (SHOW ANSWER)

NEW QUESTION: 189
A venture capitalist invests in a company by means of buying:
* 9 million shares for $2 a share and

* 8% bonds with a nominal value of $2 million, repayable at par in 3 years' time.
The venture capitalist expects a return on the equity portion of the investment of at least 20% a year on a compound basis over the first 3 years of the investment.
The company has 10 million shares in issue.
What is the minimum total equity value for the company in 3 years' time required to satisify the venture capitalist's expected return?
Give your answer to the nearest $ million.
$ million.
A. 34, 35, 34000000, 35000000Equity invested by VC:9m shares × $2 = $18mRequired return on equity =
20% p.a. compounded for 3 years:Future value of VC equity=18×1.23=18×1.728=31.104 million \text
{Future value of VC equity} = 18 \times 1.2^3 = 18 \times 1.728 = 31.104\ \text{million} Future value of VC equity=18×1.23=18×1.728=31.104 million VC holds 9m of the company's 10m shares # owns 9/10 of the equity.Let total equity value in 3 years be VVV:910V=31.104#V=31.1040.9 =34.56 million\frac{9}{10}V = 31.104 \Rightarrow V = \frac{31.104}{0.9} = 34.56\ \text{million} 109V=31.104#V=0.931.104=34.56 million To the nearest $ million, required total equity value:
B. $35 million.
Answer: A,B (LEAVE A REPLY)

NEW QUESTION: 190
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 over 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)?
A. GBP546,547
B. GBP450,906
C. GBP472,916
D. GBP568,846
Answer: B (LEAVE A REPLY)

NEW QUESTION: 191
A venture capitalist is considering investing in a management buy-out that would be financed as follows:
* Equity from managers
* Equity from a venture capitalist
* Mezzanine debt finance from a venture capitalist

* Senior debt from a bank
The venture capitalist is planning to work with the management to grow the business in anticipation of an initial public offering within five years.
However, the cash forecast shows a potential shortage of funds in the first year and the venture capitalist is evaluating the potential impact of cash being generated in the first year being significantly lower than forecast.
The most important risk that a shortage of cash would create for the management buyout is that the new company has insufficient funds to:
A. pay interest on bank debt finance.
B. pay contractual director bonuses.
C. pay dividends to venture capitalist.
D. invest in new capital projects required to generate growth.
Answer: A (LEAVE A REPLY)
In an MBO structure, senior bank debt has first claim on cash flows. Failure to pay interest on this debt can trigger default, covenants being breached, and potentially insolvency or loss of control.
Director bonuses (B) and dividends to the VC (C) are discretionary and can usually be postponed.
Inability to invest in new projects (D) is harmful for growth but less immediately threatening than defaulting on senior debt.
So the most critical cash use that must be covered is interest on bank debt.

NEW QUESTION: 192
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	-

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Which company's growth objective is most sensitive to a movement in the EUR/K$ exchange rate?

A. Company LLL

B. Company OOO

C. Company NNN

D. Company MMM

Answer: D (LEAVE A REPLY)

NEW QUESTION: 193

Company A is based in country A with the AS as its functional currency. It expects to receive BS20 million from Company B in settlement of an export invoice.

The current exchange rate is A$1 =B$2 and the daily standard deviation of this exchange rate = 0 5% What is the one-day 95% VaR in AS?

A. A$50,000

B. A$164,500

C. A$82,250

D. A$822,500

Answer: C (LEAVE A REPLY)

Exposure: Company A will receive B$20 million.

Spot rate: A$1 = B$2 # 1 B$ = A$0.5

Current A$ value of the receipt:

20,000,000×0.5=A$10,000,00020{,}000{,}000 \times 0.5 = A\$10{,}000{,}00020,000,000×0.
5=A$10,000,000

Daily standard deviation of the exchange rate = 0.5% = 0.005

1-day 95% VaR uses Z # 1.645

VaR:

VaR=Z×#×exposure=1.645×0.005×10,000,000\text{VaR} = Z \times \sigma \times \text{exposure} = 1.645
\times 0.005 \times 10{,}000{,}000VaR=Z×#×exposure=1.645×0.005×10,000,000
0.005×10,000,000=50,
0000.005 \times 10{,}000{,}000 = 50{,}0000.005×10,000,000=50,000 1.645×50,000=82,2501.645 \times 50
{,}000 = 82{,}2501.645×50,000=82,250

So the 1-day 95% VaR is A$82,250 # Option C.

NEW QUESTION: 194

Company WWW is identical in all operating and risk characteristics to Company ZZZ. but their capital structures differ. Company WWW and Company ZZZ both pay corporate income tax at 20%

Company WWW has a gearing ratio (debt: equity) of 1:3 Its pre-tax cost of debt is 6%.

Company ZZZ Is all-equity financed. Its cost of equity is 15%

What is the cost of equity tor Company WWW?
A. 18.0%
B. 17.0%
C. 17.4%
D. 17.7%
Answer: B (LEAVE A REPLY)

NEW QUESTION: 195
Which of the following would be a reason for a company to adopt a low dividend pay-out policy?
A. Using dividends to give a signal to the stock market
B. A lack of investment opportunities
C. High profitability
D. A lack of alternative sources of finance
Answer: A (LEAVE A REPLY)

NEW QUESTION: 196
For which THREE of the following risk categories does IFRS 7 require sensitivity analysis?
A. Credit risk
B. Liquidity risk
C. Supply chain risk
D. Currency risk
E. Interest rate risk
F. Commodity risk
Answer: D,E,F (LEAVE A REPLY)

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NEW QUESTION: 197
Company A, a listed company, plans to acquire Company T, which is also listed.
Additional information is:
* Company A has 100 million shares in issue, with market price currently at $8.00 per share.
* Company T has 90 million shares in issue,. with market price currently at $5.00 each share.
* Synergies valued at $60 million are expected to arise from the acquisition.

* The terms of the offer will be 2 shares in A for 3 shares in B.
Assuming the offer is accepted and the synergies are realised, what should the post-acquisition price of each of Company A's shares be?
Give your answer to two decimal places.
$? .
A. 8.19, 6.18
B. 8.19, 8.18
Answer: B (LEAVE A REPLY)

NEW QUESTION: 198
A major energy company, GDE, generates and distributes electricity in country A. The government of country A is concerned about rising inflation and has imposed price controls on GDE, limiting the price it can charge per unit of electricity sold to both domestic and commercial customers. It is likely that price controls will continue for the foreseeable future.
The introduction of price controls is likely to reduce the profit for the current year from $3 billion to $1 billion.
The company has:
* Distributable reserves of $2 billion.
* Surplus cash at the start of the year of $1 billion.
* Plans to pay a total dividend of $1.5 billion in respect of the current year, representing a small annual increase as in previous years. However, no dividends have yet been announced.
Which THREE of the following responses would be MOST appropriate for GDE following the imposition of price controls?
A. Actively investigate potential new ways of generating revenue by the sale of related goods and services that are outside the scope of the price controls.
B. Carry out a wide-ranging review of costs and staffing levels to identify possible cost savings and redundancies.
C. Announce a reduction in the annual dividend to a more sustainable level given the new price controls regime.
D. Actively look for a private equity investor to introduce new and innovative business and financial strategies to the business.
E. Raise funds by means of a rights issue in order to maintain historical dividend levels.
Answer: A,B,C (LEAVE A REPLY)

NEW QUESTION: 199
A government is currently considering the privatisation of the national airline. The shares are to be offered to the public via a fixed price Initial Public Offering (IPO).
Which THREE of the following statements are correct?
A. The use of a fixed price offer will ensure that the government raises the maximum amount of finance.

B. The rational airline employees will no longer be public sector employees following the completion of the privatisation
C. An IPO is normally underwritten
D. The government will receive significant financial resources from the sale of its shareholding in the national airline.
E. The rational airline will receive significant financial resources as a direct result of the shares company shares in the IPO.
Answer: A,D,E (LEAVE A REPLY)

NEW QUESTION: 200
SUP is a large supermarket chain. It produces many 'own brand' goods in Country S where the parent company is located. These goods are sold in SUP's supermarkets in Country S as well as being sold at a 'transfer price' to SUP companies located in foreign countries for sale in the SUP supermarkets located in that country.
Which of the following factors is the most important for SUP from a lax planning and compliance viewpoint when setting prices for the 'own brand' goods sold to other group companies'?
A. The price should be higher than for other group companies if the group company that is purchasing the goods has a higher marginal tax rate than the SUP parent company.
B. The price should be the same as the price that would be charged by SUP to other, independent, supermarkets that are located in the same foreign country as the group company that requires the goods.
C. The price should be much lower than average if the group company that is purchasing the goods has a higher marginal tax rate than the SUP parent company.
D. Complying with tax thin capitalisation regulations that apply in both tax jurisdictions.
Answer: (SHOW ANSWER)

NEW QUESTION: 201
A company is planning to repurchase some of its shares. Relevant details are as follows:
* 100 million shares in issue
* Current share price $5
* 5 million shares to be repurchased
* 10% repurchase premium
* Repurchased shares to be cancelled
What would you expect the share price after the repurchase to be?
Give your answer to two decimal places.
Answer:
$?
4.97, 4.98Shares in issue: 100mCurrent price: $5 # equity value = 100 × 5 = $500mShares to be repurchased:

5mRepurchase premium: 10% # price paid = 5 × 1.10 = $5.50Repurchased shares cancelled.Step 1 - Cash spent on buyback:5m × 5.50 = $27.5mStep 2 - Equity value after repurchase:Equity after = 500 - 27.5 =
$472.5mStep 3 - Shares remaining:100m - 5m = 95m sharesStep 4 - New share price:Price = 472.5 / 95 #
$4.9737 # $4.97 (2 d.p.)

NEW QUESTION: 202
Which THREE of the following prevent the Purchasing Power Parity Model from operating effectively in practice?
A. Transport costs
B. Arbitrage
C. Differing tax regimes
D. Import tariffs
E. Consumer tastes
Answer: B,C,D (LEAVE A REPLY)

NEW QUESTION: 203
X exports goods to customers in a number of small countries Asi
a. At present, X invoices customers in X's home currency.
The Sales Director has proposed that X should begin to invoice in the customers currency, and the Treasurers considering the implications of the proposal.
Which TWO of the following statement are correct?
A. If the proposal is adopted, X will have a lower effective sales price per unit due to exchange rate fluctuations.
B. The overseas customers may have difficulty obtaining X's name currency with which to make the purchases, so the Sales Director's proposal may increase sales.
C. X may be able to sell the receipts forward.
D. X will know advance the amount of home currency it will receive for the export sales.
E. The customer will tear the foreign exchange risk and will only buy from X if they are prepared to accept this.
Answer: A,B (LEAVE A REPLY)

NEW QUESTION: 204
ADC is planning to acquire DEF in order to benefit from the expertise of DEF's owner 'managers Both are Listed companies. ADC is trying to decide whether to offer cash or shares in consideration for DEF's shares.
Which THREE of the following are advantages to ABC of offering shares to acquire CEF?
A. It dilutes ownership in ABC.
B. The risk of poor future performance of the acquisition is shared with the DEF company shareholder.

C. It incentivises DEF to continue creating value for the combined group
D. It shares tie benefits of future growth with the DCT shareholder.
E. It results in a tax saving for ABC.
F. It preserves liquidity
Answer: B,C,D (LEAVE A REPLY)

NEW QUESTION: 205
Company A is a large well-established listed entertainment company and Company B is a small unlisted company specializing in providing online media streaming.
Company A has a gearing ratio of 60% (using book values) and interest cover of 2.
Company A is considering making an offer for Company B, either a cash offer financial by raising additional debt finance or a share-for-share exchange.
Which of the following is most likely to occur if Company A offers a share-for exchange rather than offering cash finance by raising debt?
A. Earnings per share would be higher.
B. Divided per share would be higher.
C. Gearing would be lower.
D. There would be no dilution f of control.
Answer: C (LEAVE A REPLY)
Two options for Company A buying B:
Cash offer financed by new debt # increases debt, so gearing goes up.
Share-for-share exchange # issues new shares (equity) instead of increasing debt.
So, relative to a debt-financed cash bid, a share-for-share offer leads to lower gearing (or at least avoids increasing gearing further).
The others are unlikely:
A & B: Using shares instead of (usually cheaper) debt doesn't generally make EPS or DPS higher.
D: Issuing new shares dilutes control, so there is dilution, not "no dilution".

NEW QUESTION: 206
Company ABC's management has noticed that Company BCD has quickly built up a 20% stake by buying shares in Company ABC and are concerned that this is the start of a hostile bid.
This build-up of shares triggers the poison pill provision which automatically converts the rights to buy future preference shares previously issued to existing shareholders in Company ABC to full ordinary shares
What is the most likely impact of the triggering of a poison pill strategy at this stage in the bidding process?
A. It is too late for a poison pill strategy to have any impact on a hostile takeover because Company BCD has already built up a significant stake in Company ABC.
B. The threat of a hostile takeover is reduced because Company ABC becomes more expensive to buy.

C. Company ABC becomes less attractive due to a fall in value of the shares as a result of the discount.
D. Company BCD loses value on its shareholding and has to sell at a loss before losing more value
Answer: B (LEAVE A REPLY)

NEW QUESTION: 207
The following information relates to Company A's current capital structure:

Debt:Equity (Market value)	Asset beta	Equity beta	Cost of equity	Pre-tax cost of debt
20:80	1.01	1.20	11.40%	3.00%

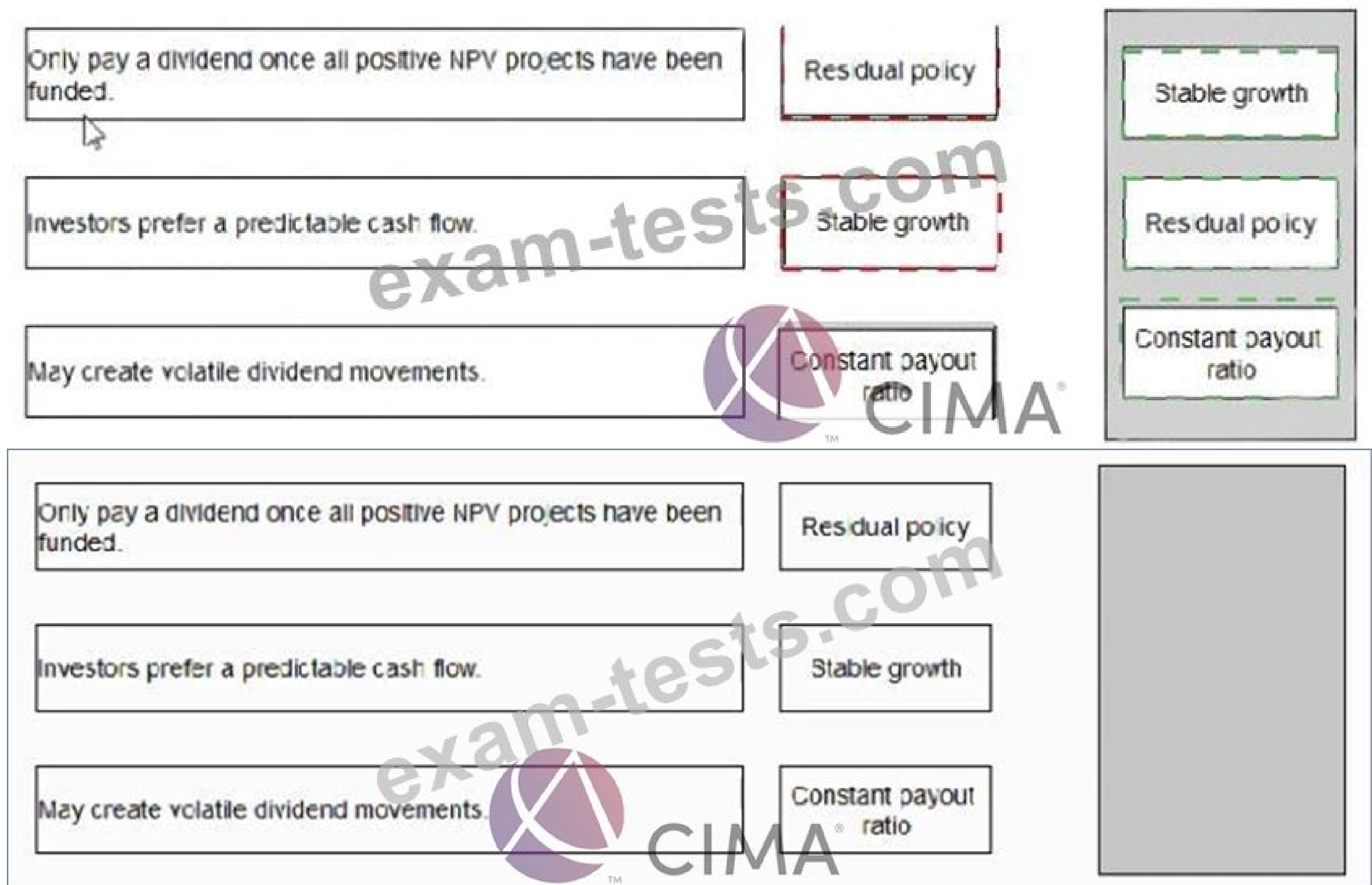
Company A is considering a change in the capital structure that will increase gearing to 30:70 (Debt:Equity).
The risk -free rate is 3% and the return on the market portfolio is expected to be 10%.
The rate of corporate tax is 25%
Using the Capital Asset Pricing Model, calculate the cost of equity resulting from the proposed change to the capital structure.
A. 10.1%
B. 11.4%
C. 12.3%
D. 9.3%
Answer: C (LEAVE A REPLY)

NEW QUESTION: 208
Select the most appropriate divided for each of the following statements:

Only pay a dividend once all positive NPV projects have been funded.
Investors prefer a predictable cash flow.
May create volatile dividend movements.

Stable growth
Residual policy
Constant payout ratio

Answer:



NEW QUESTION: 209

Company ACC. an ungeared car manufacturer has launched a takeover bid of Company BDD. a key competitor operating in the same industry Company BDD has high gearing Company ACC has a large surplus cash balance and believes that the acquisition is an opportunity to enhance shareholder wealth through the realisation of synergistic benefits. Which THREE of the following would most likely be synergistic benefits to Company ACC of purchasing Company BDD9 I

A. Reduction in staff costs due to the removal of duplicated roles.

B. Decreased cost of debt

C. Enhanced profit due to reduced competition

D. Reduction in financial risk due to diversification

E. Cost savings in production due to economies of scale

Answer: (SHOW ANSWER)

A: Yes - removing duplicated roles after a takeover is a classic cost#saving operating synergy.

C: Yes - reduced competition can allow higher prices/margins, so enhanced profit is a synergy.

E: Yes - combining production can give economies of scale and lower unit costs.

B: Unlikely - buying a highly geared company will usually increase financial risk and cost of debt.

D: No - both firms are in the same industry, so there's little diversification benefit.

NEW QUESTION: 210

Which THREE of the following would be most important if a hospital wishes to review the effectiveness of its services?

A. Patient satisfaction ratings.
B. The proportion of surgical procedures that are deemed to be successful.
C. Revenue generated from car park charges.
D. Average waiting times for treatment.
E. Staff costs compared to previous years.
Answer: A,B,D (LEAVE A REPLY)

NEW QUESTION: 211
Company X is an established, unquoted company which provides IT advisory services.
The company's results and cashflows are growing steadily and it has few direct competitors due to the very specialised nature of it's business. Dividends are predictable and paid annually.
Company P is looking to buy 30% of company X's equity shares.
Which TWO of the following methods are likely to be considered most suitable valuation methods for valuing company P's investment in Company X?
A. Asset based using replacement cost
B. P/E ratio method using IT industry average
C. Cash based using free cash flow before interest
D. Dividend based using DVM
E. Earnings yield method using a listed IT company as proxy
Answer: C,D (LEAVE A REPLY)

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NEW QUESTION: 212
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.

A. 6

B. 8

Answer: A (LEAVE A REPLY)

NEW QUESTION: 213

A company's Board of Directors is considering raising a long-term bank loan incorporating a number of covenants.
The Board members are unsure what loan covenants involve.
Which THREE of the following statements regarding loan covenants are true?

A. A covenant gives the financial institution the right but not the obligation to convert debt into equity in a case of non-compliance.

B. A positive loan covenant would require the company to undertake specific actions.

C. A restrictive covenant prohibits the company from conducting certain actions without the approval of the lending institution.

D. A loan covenant has no contractually binding obligations.

E. A financial covenant usually requires the company to adhere to specific financial conditions or targets.

Answer: B,C,E (LEAVE A REPLY)

NEW QUESTION: 214

A listed company is financed by debt and equity.
If it increases the proportion of debt in its capital structure it would be in danger of breaching a debt covenant imposed by one of its lenders.
The following data is relevant:
The company now requires $800 million additional funding for a major expansion programme.
Which of the following is the most appropriate as a source of finance for this expansion programme?

A. Bank overdraft
B. Retained earnings
C. Private placement of a bond
D. Rights issue
Answer: (SHOW ANSWER)

NEW QUESTION: 215
Holding cash in excess of business requirements rather than returning the cash to shareholders is most likely to result in lower:
A. liquidity.
B. vulnerability to a takeover bid.
C. net profit.
D. return on equity.
Answer: (SHOW ANSWER)
Holding excess cash increases equity (retained earnings) without necessarily increasing profits proportionately. This dilutes returns to shareholders, so ROE falls. Liquidity actually increases, and vulnerability to takeover may fall, not rise.

NEW QUESTION: 216
Company S is planning to acquire Company T.
The shareholders in Company T will receive new shares in Company S in an all-share consideration.
Relevant information:

	Company S	Company T
Shares in issue	200 million	100 million
Current share price	$5.00	$4.00
Current earnings	$100 million	$40 million

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The shareholders in Company T want sufficient shares to receive a 25% premium on the pre-acquisition value of their shares, based on the pre-acquisition share price.
Which of the following share-for-share offers will achieve the desired result?

A. 2 shares in Company S for 1 share in Company T

B. 1 share in Company S for 1 share in Company T

C. 1 share in Company S for 2 shares in Company T

D. 10 shares in Company S for 4 shares in Company T

Answer: B (LEAVE A REPLY)

The pre-acquisition share prices are:
Company S: $5.00
Company T: $4.00
Shareholders in Company T want a 25% premium on the value of their shares, based on T's current price:
Required value per T share=4.00×1.25=$5.00\text{Required value per T share} = 4.00 \times 1.25 = \$5.00 Required value per T share=4.00×1.25=$5.00 Now value each offer using Company S's pre-acquisition share price of $5:
A). 2 S shares for 1 T share
Value received = 2×5=$102 \times 5 = \$102×5=$10 # 150% premium (too high)
B). 1 S share for 1 T share
Value received = 1×5=$51 \times 5 = \$51×5=$5 #
Premium =5#44=25%= \frac{5 - 4}{4} = 25\%=45#4=25% #
C). 1 S share for 2 T shares
That's 0.5 S per T # 0.5×5=$2.500.5 \times 5 = \$2.500.5×5=$2.50 # actually a discount
D). 10 S shares for 4 T shares
That's 2.5 S per T # 2.5×5=$12.502.5 \times 5 = \$12.502.5×5=$12.50 # huge premium (>200%)
Only offer B gives T's shareholders exactly a 25% premium.
Correct answer: B - 1 share in Company S for 1 share in Company T.

NEW QUESTION: 217

Company P is a pharmaceutical company listed on an alternative investment market.
The company is developing a new drug which it hopes to market in approximately six years' time.
Company P is owned and managed by a group of doctors who wish to retain control of the company. The company operates from leased laboratories with minimal fixed assets.
Its value comes from the quality of its research staff and their research.
The company currently has one approved drug which generates sufficient cashflow to cover day to day operations but not sufficient for major new research and development.
Company P wish to raise debt finance to develop the new drug.
Recommend which of the following types of debt finance would be most appropriate for Company P to help finance the development of this new drug.

A. 5% Bond repayable at par in 7 years' time.

B. 4% Convertible bond with a conversion ratio of 350 ordinary shares per bond.

C. 3% Commercial Paper.
D. 6% Eurobond repayable at par in 5 years' time.
Answer: B (LEAVE A REPLY)

NEW QUESTION: 218
A company currently has a 5.25% fixed rate loan but it wishes to change the interest style of the loan to variable by using an interest rate swap directly with the bank.
The bank has quoted the following swap rate:
* 4.50% - 455% in exchange for Libor
Libor is currently 4%.
If the company enters into the swap and Libor remains at 4%. what will the company's interest cost be?
A. 4.70%
B. 4.75%
C. 5.25%
D. 4.00%
Answer: (SHOW ANSWER)
A company has a 5.25% fixed-rate loan and wants to swap it to variable using a swap quoted:
4.50% - 4.55% in exchange for Libor
(Libor currently 4%)
To turn its fixed loan into a synthetic floating-rate loan, the company needs to:
Receive fixed (to offset part of the 5.25% it pays on the loan), and
Pay Libor (to end up with variable cost).
From the swap quote, if the company wants to receive fixed, it gets the lower rate: 4.50% (the bank's bid rate).
Cash flows:
Pay 5.25% fixed on the loan
Receive 4.50% fixed on the swap
Pay Libor (4.00%) on the swap
Net cost:
5.25%#4.50%+4.00%=0.75%+4.00%=4.75%5.25\% - 4.50\% + 4.00\% = 0.75\% + 4.00\% = 4.75\%5.25%#4.
50%+4.00%=0.75%+4.00%=4.75%
Answer to Q28: B. 4.75%

NEW QUESTION: 219
The Treasurer of Z intends to use interest rate options to set an interest rate cap on Z's borrowings.
Which of the following statement is correct?
A. The Treasurer should buy an interested rate floor and sell an interested cap ta the same time
B. The Treasurer will have to negotiate the options with Z's Dark

C. The Treasurer will retain the benefit of movcTcnt3 in interest ratc3 below the floor limit.
D. The cost of a collar is lower than the cost of a cap a one.
Answer: D (LEAVE A REPLY)

NEW QUESTION: 220
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

A. 22.8
B. 22.9
Answer: A (LEAVE A REPLY)

$ [22.8] million

NEW QUESTION: 221
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?
A. Company B's shareholders will be able to participate in the future growth of the combined business if it is a share exchange
B. 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
C. The method of finance chosen will not affect the post-acquisition earning per share of the combined business
D. Company A's weighted average cost of capital will fall if financing is with debt
E. Company A's gearing will increase following a share exchange.
Answer: B,D (LEAVE A REPLY)

NEW QUESTION: 222
STU has relatively few tangible assets and is dependent for profits and growth on the high-value individuals it employs. Which of the following statements best explains why the net asset valuator method's considered unstable for TU?
A. STU does not account for its tangible assets
B. STU does not account for its intangible assets.
C. STU accounts for its intangible assets at net realisable value.
D. STU accounts for its intangible assets at historical value.
Answer: B (LEAVE A REPLY)
STU's value is mainly in its people (human capital) and has few tangible assets. Net asset valuation relies on balance sheet assets, but internally generated intangibles like human capital are not recognised under normal accounting rules. So the accounts understate the real value of the business.

NEW QUESTION: 223
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.
Answer:
$?
2.02, 2.03

NEW QUESTION: 224
A company's annual dividend has grown steadily at an annual rate of 3% for many years. It has a cost of equity of 11%. The share price is presently $64.38.
The company is about to announce its latest dividend, which is expected to be $5.00 per share.
The Board of Directors is considering an attractive investment opportunity that would have to be funded by reducing the dividend to $4.50 per share. The board expects the project to enable future dividends to grow by
5% every year and the cost of equity to remain unchanged.
Calculate the change in share price, assuming that the directors announce their intention to proceed with this investment opportunity.
Give your answer to 2 decimal places.
Answer:
$?
14.37

NEW QUESTION: 225

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?
A. Using DDD's tangible assets.
B. Applying an industry P/E ratio to DDD's forecast earnings.
C. Discounting DDD's forecast cash flows using ABC's cost of equity.
D. Applying Company ABC's P/E ratio to DDD's forecast earnings.
Answer: B (LEAVE A REPLY)
Applying an industry P/E ratio to DDD's forecast earnings.

NEW QUESTION: 226
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?
A. The recent fall in the share price makes a rights issue more attractive to the company.
B. The WACC will decrease assuming Modigliani and Miller's Theory of Capital Structure without taxes applies.
C. The administrative costs of a rights issue will be lower.
D. The issue of bonds might limit the availability of debt finance in the future.
E. The rights issue will lead to less pressure on the operating cash flows of the programme.
Answer: D,E (LEAVE A REPLY)

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NEW QUESTION: 227

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.

A. $1.7

B. $2.0

C. $3.0

D. $3.2

Answer: C (**LEAVE A REPLY**)

Value of Company J at present

Earnings J = $80m

P/E J = 15

Equity value of J=80×15=$1,200m\text{Equity value of J} = 80 \times 15 = \$1{,}200\text{m}

Equity value of J=80×15=$1,200m Current value and number of shares of Company K Earnings K = $50m P/E K = 10 Current equity value of K=50×10=$500m\text{Current equity value of K} = 50 \times 10 = \$500\text{m} Current equity value of K=50×10=$500m Current share price K = $2, so:

Number of K shares=5002=250m shares\text{Number of K shares} = \frac{500}{2} = 250\text{m shares} Number of K shares=2500=250m shares Value of K if it is re-rated to J's P/E J believes it can turn K around so that the market applies J's P/E of 15 to K's earnings:
Post-acquisition value of K=50×15=$750m\text{Post-acquisition value of K} = 50 \times 15 = \ $750\text{m} Post-acquisition value of K=50×15=$750m Maximum total price J should pay To avoid destroying value, J should not pay more than the value it expects K to have in the merged group, i.e.
$750m.
Maximum price per share for K
Max price per K share=750250=$3.00\text{Max price per K share} = \frac{750}{250} = \$3.00 Max price per K share=250750=$3.00 So the highest price J should place on each of K's shares in negotiations is $3.0, answer C.

NEW QUESTION: 228
Providers of debt finance often insist on covenants being entered into when providing debt finance for companies.
Agreement and adherence to the specific covenants is often a condition of the loan provided by the lender.
Which THREE of the following statements are true in respect of covenants?
A. Covenants are entered into to penalise the company.
B. Covenants are entered into to give the lender added protection on the loan extended to the company.
C. Covenants are entered into to impose financial discipline on the company.
D. Covenants enable the lender to demand immediate repayment or to renegotiate terms if it is breached.
E. Covenants are entered into to eliminate the tax liability of the company.
Answer: B,C,D (LEAVE A REPLY)
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NEW QUESTION: 229
A company's main objective is to achieve an average growth in dividends of 10% a year.
In the most recent financial year:
Sales are expected to grow at 8% a year over the next 5 years.
Costs are expected to grow at 5% a year over the next 5 years.
What is the minimum dividend payout ratio in 5 years' time that would allow the company to achieve its objective?
A. 22.5%
B. 27.5%
C. 30.0%
D. 21.7%
Answer: D (LEAVE A REPLY)

NEW QUESTION: 230
The value of a call option will increase because of:
A. A decrease in the market value of the share
B. An increase in the time to expiry.
C. An increase in the strike price.
D. A decrease in the volatility of the share.
Answer: B (LEAVE A REPLY)

NEW QUESTION: 231
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)
$\frac{100 \times 8}{10}$
A. Option A
B. Option C
C. Option B
D. Option D
Answer: A (LEAVE A REPLY)

NEW QUESTION: 232
A company plans to acquire new machinery.
It has two financing options; buy outright using a bank loan, or a finance lease.
Which of the following is an advantage of a finance lease compared with a bank loan?
A. It is "off-balance sheet" and will not affect the company's gearing.

B. The interest rate offered might be more favourable because the lessor has the security of the asset.
C. Tax depreciation allowances may be passed on to the company by the lessor.
D. The lessor provides maintenance of the asset.
Answer: B (LEAVE A REPLY)
In CIMA F3, finance leases are analysed as a form of debt financing and are compared directly with bank loans when evaluating long-term funding options. The syllabus (under Financing Decisions and Leasing vs Buying) explains that a finance lease is economically similar to borrowing to purchase an asset, because the lessee assumes substantially all the risks and rewards of ownership.
Option B is correct because one key advantage of a finance lease over a bank loan is that the lessor retains legal ownership of the asset, which provides strong security for the lender. As a result, the lessor's risk is lower than that of a bank providing an unsecured or partially secured loan. CIMA F3 study guidance highlights that this reduced risk can allow the lessor to offer more favourable interest rates or financing terms than a conventional bank loan.
The other options are incorrect under current accounting and financial strategy principles:
A is incorrect because finance leases are not off-balance sheet. Under IFRS 16 (examined in F3), finance leases must be recognised on the statement of financial position, increasing both assets and liabilities and therefore affecting gearing.
C is incorrect because tax depreciation (capital allowances) normally remain with the legal owner, the lessor.
These benefits are not "passed on" directly, although they may be reflected indirectly in lease pricing.
D is incorrect because maintenance is a feature of operating leases, not finance leases. In a finance lease, the lessee is responsible for maintenance and insurance.

NEW QUESTION: 233
Which THREE of the following are considered in detail in IFRS 7 Financial Instruments: Disclosures?
A. Credit risk
B. Business risk
C. Market risk
D. Enterprise risk
E. Liquidity risk
Answer: A,C,E (LEAVE A REPLY)
IFRS 7 requires detailed disclosures of financial instrument risks, specifically:
Credit risk - exposure to counterparties failing to meet obligations.
Market risk - currency, interest rate, and other price risks.
Liquidity risk - ability to meet obligations as they fall due.
Business risk and enterprise risk are broader strategic concepts, not the focus of IFRS 7.

NEW QUESTION: 234

PYP is a listed courier company. It is looking to raise new finance to fit each of its delivery vans with new equipment to allow improved parcel tracking for customers The senior management team of PYP have decided on a 10-year secured bond to finance this investment- Which TWO of the following variables are most likely to decrease the yield to maturity of the bond?

A. The senior management team decide to issue a convertible bond rather than a conventional bond

B. The announcement of a new contract for PYP that will increase operating profits by 5% over the next 5 years.

C. Changing the term of the bond from 1 0 years to 5 years to match the expected life of the new equipment

D. The senior management team decide to issue an unsecured bond rather than a secured bond

Answer: A,C (LEAVE A REPLY)

NEW QUESTION: 235

A company generates and distributes electricity and gas to households and businesses. Forecast results for the next financial year are as follows:

	$ million
Revenue from electricity sales at $2.50 per Kilowatt	450
Costs	250
Net profit	200

The Industry Regulator has announced a new price cap of $2.00 per Kilowatt.

The company expects this to cause consumption to rise by 15% but costs would remained unaltered.

The price cap is expected to cause the company's net profit to fall to:

A. $126.50 million loss

B. $43.00 million profit

C. $164.00 million profit

D. $8.75 million profit

Answer: (SHOW ANSWER)

NEW QUESTION: 236

Company A is planning to acquire Company B at a price of $ 65 million by means of a cash bid. Company A is confident that the merged entity can achieve the same price earnings ratio as that of Company A.

	Company A	Company B
Share price ($)	5.00	4.00
EPS ($)	0.40	0.50
Number of shares in issue (million)	20	14

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What does Company A expect the value of the merged entity to be post acquisition?

A. $207.0 million

B. $187.5 million

C. $122.5 million

D. $156.0 million

Answer: C (LEAVE A REPLY)

NEW QUESTION: 237

A national airline has made an offer to acquire a smaller airline in the same country.

Which of the following would be of most concern to the competition authorities?

A. The acquisition is likely to result in significant redundancies of staff currently working for the smaller airline.

B. After the acquisition the board propose to increase prices significantly on routes where no other airlines operate.

C. The board informed a major institutional shareholder about the proposed acquisition before informing other shareholders.

D. After the acquisition the board propose to reduce the number of flight destinations from the country.

Answer: (SHOW ANSWER)

NEW QUESTION: 238

When valuing an unlisted company, a P/E ratio for a similar listed company may be used but adjustments to the P/E ratio may be necessary.

Which THREE of the following factors would justify a reduction in the proxy p/e ratio before use?

A. Unlisted companies being generally smaller and less established.

B. Control premium not being included within the proxy p/e ratio used.

C. The relative lack of marketability of unlisted company shares.

D. A lower level of scrutiny and regulation for unlisted companies.

E. The forecast earnings growth being relatively higher in the unlisted company.

F. A profit item within the unlisted company's latest earnings which will not reoccur.

Answer: A,C,D (LEAVE A REPLY)

NEW QUESTION: 239

A company's latest accounts show profit after tax of $20.0 million, after deducting interest of $5.0 million. The company expects earnings to grow at 5% per annum indefinitely.

The company has estimated its cost of equity at 12%, which is included in the company WACC of 10%.

Assuming that profit after tax is equivalent to cash flows, what is the value of the equity capital?

Give your answer to the nearest $ million.

$? million

A. 300, 300000000

B. 100, 300000000

Answer: (SHOW ANSWER)

NEW QUESTION: 240

An unlisted company.

* Is owned by the original founders and members of their families

* Pays annual dividends each year depending on the cash requirements of the dominant shareholders.

* Has earnings that are highly sensitive to underlying economic conditions.

* Is a small business in a large Industry where there are listed companies with comparable capital structures Which of the following methods is likely to give the most accurate equity value for this unlisted company?

A. Dividend valuation model.

B. Net asset valuation

C. P/E based valuation using the P/E of a similar company.

D. Discounted cash flow analysis at WACC (based on cash flows after tax but before financing) plus the market value of debt.

Answer: (SHOW ANSWER)

Dividends are set to suit family cash needs, so DDM (A) won't reflect value well.

NAV (B) ignores earnings power and intangibles for a going concern.
There are listed comparables with similar capital structures, so applying an industry P/E to this firm's earnings is standard practice for small private companies.
DCF at WACC (D) is theoretically strong but requires detailed, reliable forecasts; earnings are highly sensitive to the economy, so forecasts would be very uncertain.

NEW QUESTION: 241
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.
$?
A. 11.20, 11.2
B. 11.20, 11.3
Answer: A (LEAVE A REPLY)

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NEW QUESTION: 242
Which THREE of the following non-financial objectives would be most appropriate for a listed company in the food retailing industry?
A. Reduce customer complaints
B. Increase customer service quality
C. Reduce production time
D. Improve staff morale
E. Reduce raw material wastage
Answer: (SHOW ANSWER)

For a listed company in the food retailing industry, the most relevant non-financial objectives are typically focused on customers and people, because success depends heavily on service quality, shopping experience and motivated staff.
A). Reduce customer complaints - Very appropriate. Complaints are a direct indicator of service problems, product quality issues, or process failures. Reducing complaints improves reputation and customer retention.
B). Increase customer service quality - Core objective for food retailers. Better service quality (speed at checkout, helpful staff, availability of products) improves competitive position and supports long-term sales growth.
D). Improve staff morale - Also highly relevant. Retail is labour-intensive and customer-facing. Motivated staff deliver better service, are more productive, and turnover is reduced.
Options C (Reduce production time) and E (Reduce raw material wastage) are more typical of manufacturing businesses, not retailers, who primarily buy finished goods rather than "produce" them. A retailer might track stock wastage or shrinkage, but the wording "raw material wastage" points clearly to a production environment.
So the best three for a listed food retailer are A, B and D.

NEW QUESTION: 243
M is an accountant who wishes to take out a forward rate agreement as a hedging instrument but the company treasurer has advised that a short-term interest rate future would be a better option. Which of the following is true of a short-term interest rate future?
A. It interest rates have gone down the price of the future will have fallen.
B. It must be kept for ne whole duration of the contract
C. The date is flexible and the position can be closed quickly and easily.
D. It can be tailored to the exact reeds of the company.
Answer: B (LEAVE A REPLY)

NEW QUESTION: 244
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?
A. Any opportunity to benefit from future exchange rate movements is lost.
B. It can be tailored to match the size of the payment
C. It manages transaction risk
D. It offers a significantly better outcome than a forward contract
E. It avoids the need to find immediate finance

Answer: (SHOW ANSWER)
A). Any opportunity to benefit from future exchange rate movements is lost.
True - a money market hedge locks in the effective exchange rate now, so you remove both downside risk and upside potential.
B). It can be tailored to match the size of the payment.
True - you can structure the borrowing/lending and FX transaction to exactly match the foreign currency amount due.
C). It manages transaction risk.
True - transaction risk (uncertainty in the home currency value of a known future foreign-currency cash flow) is what a money market hedge directly addresses.
D). It offers a significantly better outcome than a forward contract.
False - under interest rate parity, a money market hedge and a forward contract should give similar effective rates (ignoring spreads and costs).
E). It avoids the need to find immediate finance.
False - for a payable, you normally borrow or use cash now as part of the hedge, so it does not avoid immediate financing; it actually requires it.

NEW QUESTION: 245
Modigliani and Miller are the main proponents of the view that the dividend policy is irrelevant to the value of a company's shares.
They argue that a company that continually reinvests its entire earnings would generate the same shareholder wealth if it engaged in a policy of high dividends and financed its expansion with funds obtained from rights issues.
Which THREE of the following statements are assumptions that are required in order to support this proposition?
A. There are no transaction costs involved in the issue of new shares (including rights issues).
B. There is a multiplicity of corporate and personal income tax rates.
C. Investors act in a rational manner.
D. The capital markets are efficient markets.
E. Investors do not always have access to perfect information.
Answer: A,C,D (LEAVE A REPLY)
Explanation
Discursive_F0

NEW QUESTION: 246
The Board of Directors of a listed company wish to estimate a reasonable valuation of the entire share capital of the company in the event of a takeover bid.
The company's current profit before taxation is $4.0 million.
The rate of corporate tax is 25%.
The average P/E multiple of listed companies in the same industry is 8 times current earnings.

The P/E multiple of recent takeovers in the same industry have ranged from 9 times to 10 times current earnings.
The average P/E multiple of the top 100 companies on the stock market is 15 times current earnings.
Advise the Board of Directors which of the following is a reasonable estimate of a range of values of the entire share capital in the event of a bid being made for the whole company?
A. Minimum = $36 million, and maximum = $40 million.
B. Minimum = $27 million, and maximum = $30 million.
C. Minimum = $32 million, and maximum = $60 million.
D. Minimum = $24 million, and maximum = $45 million.
Answer: B (LEAVE A REPLY)
Profit before tax = $4.0m
Tax at 25% # earnings = $4.0m × (1 # 0.25) = $3.0m
For a takeover, the most relevant comparators are recent takeover P/E multiples in the same industry: 9-10x.
Minimum value = 3.0 × 9 = $27m
Maximum value = 3.0 × 10 = $30m

NEW QUESTION: 247
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.
A. 6.0% p.a.
B. 6.0% p.a.The company:Borrows from bank P at Libor + 3%Enters a swap with bank Q: pay fixed 4.5%, receive Libor + 1.5%Combine the cash flows:Pay Libor + 3% (loan)Pay 4.5% (swap fixed leg)Receive Libor + 1.5% (swap floating leg)Net cost:(Libor+3%)+4.5%#(Libor+1.5%)=3% +4.5%#1.5%=6.0% (\text{Libor} + 3\%) + 4.5\% - (\text{Libor} + 1.5\%) = 3\% + 4.5\% - 1.5\% = 6.0\%(Libor+3%)+4.5%
#(Libor+1.5%)=3%+4.5%#1.5%=6.0% So the hedged borrowing rate is:
Answer: (SHOW ANSWER)

NEW QUESTION: 248
A company wishes to raise additional debt finance and is assessing the impact this will have on key ratios.
The following data currently applies:
* Profit before interest and tax for the current year is $500,000
* Long term debt of $300,000 at a fixed interest rate of 5%
* 250,000 shares in issue with a share price of $8
The company plans to borrow an additional $200,000 on the first day of the year to invest in new project which will improve annual profit before interest and tax by $24,000.

The additional debt would carry an interest rate of 3%.
Assume the number of shares in issue remain constant but the share price will increase to $8.50 after the investment.
The rate of corporate income tax is 30%.
After the investment, which of the following statements is correct?
A. Interest cover will fall; P/E ratio will rise.
B. Interest cover will rise; P/E ratio will fall.
C. Interest cover will rise; P/E ratio will rise.
D. Interest cover will fall; P/E ratio will fall.
Answer: (SHOW ANSWER)

NEW QUESTION: 249
A company is considering either directly exporting its product to customers in a foreign country or setting up a subsidiary in the foreign country to manufacture and supply customers in that country.
Details of each alternative method of supplying the foreign market are as follows:

	Sell to Foreign Customers from Domestic Market	Sell to Foreign Customers from New Foreign Subsidiary
Total revenue	A$100,000	B$104,500
Total costs	A$45,000	B$49,500
Corporate tax rate	25%	30%

There is an import tax on product entering the foreign country of 10% of sales value.
This import duty is a tax-allowable deduction in the company's domestic country.
The exchange rate is A$1.00 = B$1.10
Which alternative yields the highest total profit after taxation?
A. Foreign subsidiary: A$35,000
B. Domestic: A$33,750
C. Domestic: A$41,250
D. Foreign subsidiary: A$38,500
Answer: A (LEAVE A REPLY)

NEW QUESTION: 250
A company is considering whether to lease or buy an asset.
The following data applies:

* The bank will charge interest at 7.14% per annum
* The asset will cost $1 million
* Tax-allowable depreciation is available on a straight line basis over 5 years
* There is no residual value
* Corporate tax is paid at 30% in the year when the profit is earned
What is the NPV of the buy option?
Give your answer to the nearest $000.
$?
Answer:
740

NEW QUESTION: 251
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:
A. rights issue.
B. share repurchase.
C. scrip dividend.
D. cash dividend.
Answer: C (LEAVE A REPLY)

NEW QUESTION: 252
An all equity financed company plans an issue of new ordinary shares to the general public to raise finance for a new project
The following data applies:
* 10 million ordinary shares are currently in issue with a market value of S3 each share
* The new project will cost S2.88 million and is expected to give a positive NPV of S1 million
* The issue will be priced at a AaA discount to the current share price.
What gam or loss per share will accrue to the existing shareholders?
A. Gain of 0.18
B. Loss of $0.08
C. Gain of $0.08
D. Loss of $0.18
Answer: C (LEAVE A REPLY)

NEW QUESTION: 253
A venture capitalist is most likely to take which THREE of the following exit routes?

A. Trade sale to another company.
B. Flotation via a stock market listing.
C. Raising long-term debt from the company.
D. Selling back to the original owners.
E. Liquidation of the company.
Answer: A,B,E (LEAVE A REPLY)

NEW QUESTION: 254
A company is wholly equity funded. It has the following relevant data:
* Dividend just paid $4 million
* Dividend growth rate is constant at 5%
* The risk free rate is 4%
* The market premium is 7%
* The company's equity beta factor is 1.2
Calculate the value of the company using the Dividend Growth Model.
Give your answer in $ million to 2 decimal places.
Answer:
$? million
56.76, 56.75Working:Cost of equity using CAPMke=Rf+#(Rm#Rf)k_e = R_f + \beta (R_m - R_f)ke=Rf+# (Rm#Rf) ke=4%+1.2×7%=4%+8.4%=12.4%k_e = 4\% + 1.2 \times 7\% = 4\% + 8.4\% = 12.4\%ke=4%+1.
2×7%=4%+8.4%=12.4% Dividend Growth Model (Gordon):Firm is all-equity, so equity value = firm value.
D0=4 millionD_0 = 4\ \text{million}D0=4 millionGrowth g=5%=0.05g = 5\% = 0.05g=5%=0.05So D1=D0 (1+g)=4×1.05=4.2 millionD_1 = D_0 (1+g) = 4 \times 1.05 = 4.2\ \text{million}D1=D0(1+g)=4×1.05=4.
2 millionValue=D1ke#g=4.20.124#0.05=4.20.074#56.76 million\text{Value} = \frac{D_1}{k_e - g} = \frac
{4.2}{0.124 - 0.05} = \frac{4.2}{0.074} \approx 56.76\ \text{million}Value=ke#gD1=0.124#0.054.2=0.
0744.2#56.76 million So the company value is $56.76 million to two decimal places.

NEW QUESTION: 255
ZZZ wishes to borrow at a floating rate and has been told that it can use swaps to reduce the effective interest rate it pays. ZZZ can borrow floating at the risk-free rate + 1, and fixed at 10%.
Which of the following companies would be the most appropriate for ZZZ to enter into a swap with?
A. Company DDA - it can borrow at risk-free rate + 1 Vz and fixed at 10.5%
B. Company BBA - it can borrow floating at risk-free rate +VA and fixed at 12%
C. Company CCA - it can borrow at risk-free rate + Y% and fixed at 9%
D. Company AAB - it can borrow floating at risk-free rate + % and fixed at 9.5%

Answer: B,C,D (LEAVE A REPLY)

NEW QUESTION: 256

A company has in a 5% corporate bond in issue on which there are two loan covenants.

* Interest cover must not fall below 3 times

* Retained earnings for the year must not fall below $3.5 million

The Company has 200 million shares in issue.

The most recent dividend per share was $0.04.

The Company intends increasing dividends by 10% next year.

Financial projections for next year are as follows:

	$ million
Profit before interest and taxation	20.0
Interest ($100 million @ 5%)	5.0
Profit before taxation	15.0
Taxation @ 20%	3.0
Earnings	12.0

Advise the Board of Directors which of the following will be the status of compliance with the loan covenants next year?

A. The company will be in breach of the covenant in respect of interest cover only.

B. The company will breach the covenant in respect of retained earnings only.

C. The company will be in compliance with both covenants.

D. The company will be in breach of both covenants.

Answer: B (LEAVE A REPLY)

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NEW QUESTION: 257

Company ABC's management has noticed that Company BCD has quickly built up a 20% stake by buying shares in Company ABC and are concerned that this is the start of a hostile bid.
This build-up of shares triggers the poison pill provision which automatically converts the rights to buy future preference shares previously issued to existing shareholders in Company ABC to full ordinary shares What is the most likely impact of the triggering of a poison pill strategy at this stage in the bidding process?

A. Company ABC becomes less attractive due to a fall in value of the shares as a result of the discount.

B. Company BCD loses value on its shareholding and has to sell at a loss before losing more value

C. The threat of a hostile takeover is reduced because Company ABC becomes more expensive to buy.

D. It is too late for a poison pill strategy to have any impact on a hostile takeover because Company BCD has already built up a significant stake in Company ABC.

Answer: (SHOW ANSWER)

NEW QUESTION: 258

A company needs to raise $20 million to finance a project.
It has decided on a rights issue at a discount of 20% to its current market share price.
There are currently 20 million shares in issue with a nominal value of $1 and a market price of $5 per share.

	The Overall Stock Market	The Retail Sector	Recent Takeovers in the Retail Sector
P/E multiples	20.0 times	10.0 times	13.0 times

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Calculate the terms of the rights issue.

A. 1 new share for every 20 existing shares

B. 1 new share for every 5 existing shares

C. 1 new share for every 4 existing shares

D. 1 new share for every 25 existing shares

Answer: C (LEAVE A REPLY)

NEW QUESTION: 259

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?

A. The diversification will give Company A greater protection from transaction risk.

B. The diversification into another product market will lower business risk

C. The diversification will give Company A protection from political risk

D. The diversification will enable Company A to enjoy production scale economies

E. The diversification will give Company A greater protection from translation risk

Answer: A,C,E (LEAVE A REPLY)

NEW QUESTION: 260

An all equity financed company plans an issue of new ordinary shares to the general public to raise finance for a new project The following data applies:

* 10 million ordinary shares are currently in issue with a market value of S3 each share

* The new project will cost S2.88 million and is expected to give a positive NPV of S1 million

* The issue will be priced at a AaA discount to the current share price.

What gam or loss per share will accrue to the existing shareholders?

A. Gain of 0.18

B. Loss of $0.08

C. Gain of $0.08

D. Loss of $0.18

Answer: B (LEAVE A REPLY)

Current equity value = 10m × $3 = $30m

Issue price at a 40% discount: 3 × (1 # 0.40) = $1.80

New shares issued = 2.88 / 1.80 = 1.6m

Total shares after issue = 10 + 1.6 = 11.6m

Total value after project and issue (exam approach):

30 + 2.88 (cash raised) + 1 (NPV) = $33.88m

Ex-issue price = 33.88 / 11.6 # $2.92

Gain/loss per share = 2.92 # 3.00 = #$0.08

NEW QUESTION: 261
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$.
When the company reports under IFRS 7 for the first time, the share price is most likely to:
A. Increase due to greater clarity of information available on the extent of US$ risks and how they are managed.
B. Stay the same since US$ risk can already be quantified from segmental analysis disclosures included elsewhere in the annual report.
C. Decrease since investors place a lower value on higher risk businesses.
D. Either increase or decrease depending on market reaction to new information on how financial risk is managed.
Answer: D (LEAVE A REPLY)

NEW QUESTION: 262
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?
A. The dividend cashflow used should have been $500,000 rather than $540,000.
B. The cost of equity used in the calculation should have been 12% (15% subtract 3%).
C. The cost of equity used in the calculation should have been 15%; no adjustment was necessary.
D. The dividend growth rate is unsuitable given that earning growth is lower than dividend growth.
Answer: (SHOW ANSWER)

NEW QUESTION: 263
Integrated reporting is designed to make visible the capitals on which the organisation depends, and how the organisation uses those capitals to create value in the short, medium and long term
Which THREE of the following capitals are specifically identified in the Integrated Reporting <IR> Framework?
A. Manufactured

B. Research and Development
C. Community
D. Human
E. Financial
Answer: A,D,E (LEAVE A REPLY)
The <IR> Framework identifies six capitals: financial, manufactured, intellectual, human, social & relationship, and natural. From the options given, those that match are:
Manufactured #
Human #
Financial #

NEW QUESTION: 264
M is an accountant who wishes to take out a forward rate agreement as a hedging instrument but the company treasurer has advised that a short-term interest rate future would be a better option.
Which of the following is true of a short-term interest rate
A. It can be tailored to the exact reeds of the company.
B. The date is flexible and the position can be closed quickly and easily.
C. It must be kept for ne whole duration of the contract
D. It interest rates have gone down the price of the future will have fallen.
Answer: C (LEAVE A REPLY)

NEW QUESTION: 265
A financial services company reported the following results in its most recent accounting period:

	$ million
Revenue	13.90
Operating costs	(6.15)
Profit before interest and tax	7.75
Interest	(1.50)
Profit before tax	6.25
Tax (20%)	1.25
Profit for the year	5.00

The company has an objective to achieve 5% earnings growth each year. The directors are discussing how this objective might be achieved next year.
Revenues have been flat over the last couple of years as the company has faced difficult trading conditions.
Revenue is expected to stay constant in the coming year and so the directors are focussing efforts on reducing costs in an attempt to achieve earnings growth next year.
Interest costs will not change because the company's borrowings are subject to a fixed rate of interest.
What operating profit margin will the company have to achieve next year in order to just achieve its 5% earnings growth objective'?
A. 58.5%
B. 60.0%
C. 55.8%

D. 58.0%

Answer: (SHOW ANSWER)

NEW QUESTION: 266

A financial services company reported the following results in its most recent accounting period:

	$ million
Revenue	13.90
Operating costs	(6.15)
Profit before interest and tax	7.75
Interest	(1.50)
Profit before tax	6.25
Tax (20%)	1.25
Profit for the year	5.00

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Revenue is expected to stay constant in the coming year and so the directors are focussing efforts on reducing costs in an attempt to achieve earnings growth next year.

Interest costs will not change because the company's borrowings are subject to a fixed rate of interest.

What operating profit margin will the company have to achieve next year in order to just achieve its 5% earnings growth objective'?

A. 55.8%

B. 60.0%

C. 58.0%

D. 58.5%

Answer: C (LEAVE A REPLY)

NEW QUESTION: 267

Where a company acquires another company, which THREE of the following offer the greatest potential for enhancing shareholder wealth?

A. Achieving more press coverage for the company

B. Acquiring intellectual property assets

C. Exploiting production synergies.

D. Creating new opportunities for employees.

E. Achieving greater cultural diversity

F. Elimination of existing competition.

Answer: B,C,F (LEAVE A REPLY)

NEW QUESTION: 268
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?
A. Company L
B. Company M
C. Company O
D. Company N
Answer: (SHOW ANSWER)

NEW QUESTION: 269
In the context of the Integrated Reporting <IR=> Framework which THREE of the following statements are correct?
A. The primary purpose of an integrated report is to ensure that management take environmental issues into consideration when making decisions.
B. Under integrated reporting 'natural capital' refers to the renewable and non-renewable resources and processes which provide goods or services that support the organisation in the conduct of its business.
C. The primary purpose of an integrated report is to explain to providers of financial capital how an entity creates value over time.
D. An integrated report integrates economic, environmental and social reports and is issued alongside the annual financial statements.
E. Sustainability reporting is an intrinsic component of an integrated report
Answer: B,C,E (LEAVE A REPLY)

NEW QUESTION: 270
The primary objective of a public sector entity is to ensure value for money is generated.
Value for money is defined as performing an activity so as to simultaneously achieve economy, efficiency and effectiveness
Efficiency is defined as:
A. spending funds so as to achieve the objectives of the entity.

B. obtaining quality inputs at minimum cost.
C. performing activities in the least amount of time possible
D. obtaining maximum output from minimum inputs
Answer: C (LEAVE A REPLY)

NEW QUESTION: 271
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	
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:
A. rise to 27.0%.
B. fall to 23.3%.
C. fall to 22.7%.

D. rise to 30.3%.

Answer: B (LEAVE A REPLY)

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NEW QUESTION: 272

Company W has received an unwelcome takeover bid from Company B.

The offer is a share exchange of 3 shares in Company B for 5 shares in Company W or a cash alternative of $5.70 for each Company W share.

Company B is approximately twice the size of Company W based on market capitalisation.

Although the two companies have some common business interested the main aim of the bid is diversification for Company B.

Company W has substantial cash balances which the directors were planning to use to fund an acquisition.

These plans have not been announced to the market.

The following share price information is relevant.

	Company B	Company W
	$	$
3 months ago	11.40	4.50
1 month ago	10.20	4.90
Today	9.30	5.40

Which of the following would be the most appropriate action by Company W's directors following receipt of this hostile bid?

A. Write to shareholders explaining fully why the company's share price is under valued.

B. Refer the bid to the country's competition authorities.

C. Pay a one-off special dividend.

D. Change the Articles of Association to increase the percentage of shareholder votes required to approve a takeover.

Answer: A (LEAVE A REPLY)

NEW QUESTION: 273

The following information relates to Company A's current capital structure:

Debt:Equity (Market value)	Asset beta	Equity beta	Cost of equity	Pre-tax cost of debt
20:80	1.01	1.20	11.40%	3.00%

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.
A. 12.3%
B. 10.1%
C. 9.3%
D. 11.4%
Answer: A (LEAVE A REPLY)

NEW QUESTION: 274
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?
A. Deducting $400 million for the value of the company's corporate bond.
B. Using the company's weighted average cost of capital to discount cash flows attributable to shareholders.
C. Including retained earnings from the Statement of Financial Position.
D. Using cash flows to equity rather than expected dividends as the initial cash flows.
E. Deducting replacement capital expenditure
Answer: (SHOW ANSWER)

NEW QUESTION: 275
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 ([LEAVE A REPLY](#))

According to Modigliani and Miller with tax, the value of a levered firm is:

VL=VU+Tc×DV_L = V_U + T_c \times DVL=VU+Tc×D

where TcT_cTc is the corporate tax rate and DDD is the market value of debt. With corporate income tax, interest is tax-deductible, so increasing debt creates a tax shield and increases total firm value.

Initially:

Debt = 40

Equity = 60

Total value = 100

Tax rate = 20%.

If the company increases debt and uses the proceeds to buy back shares until debt equals equity, then:

New structure: D=ED = ED=E

Total firm value rises because Tc×DT_c \times DTc×D increases.

The extra value (PV of the additional tax shield) accrues to shareholders, even though the accounting market value of equity after the buyback may fall in absolute terms; shareholders have also received cash from the buyback, so their total wealth increases.

Business risk (and therefore asset beta) is unchanged; however equity beta would rise, not fall, because of higher financial leverage. Therefore the only correct statement is that the plan would increase shareholder wealth - answer C.

NEW QUESTION: 276

Company Y plans to diversify into an activity where Company X has an equity beta of 1.6, a debt beta of zero and gearing of 50% (debt/debt plus equity).

The risk-free rate of return is 5% and the market portfolio is expected to return 10%.

The rate of corporate income tax is 30%.

What would be the risk-adjusted cost of equity if Company Y has 60% equity and 40% debt?

A. 9.1%

B. 11.6%

C. 13%

D. 11.9%
Answer: (SHOW ANSWER)

NEW QUESTION: 277
A company in country T is considering either exporting its product directly to customers in country P or establishing a manufacturing subsidiary in country P.
The corporate tax rate in country T is 20% and 25% tax depreciation allowances are available
Which TIIRCC of the following would be considered advantages of establishing a subsidiary in country T?
A. There are restrictions on companies wishing to remit profit from country P
B. Year 1 tax depreciation allowances of 100% are available in country P.
C. There are high customs cuties payable of products entering country P.
D. The corporate tsx rate in country P is 40%.
E. There is a double tax treaty between country T and country P.
Answer: B,C,E (LEAVE A REPLY)

NEW QUESTION: 278
Under traditional theory, an increase in a company's WACC would cause the value of the company to:
A. Increase
B. Decrease
C. Stay the same
D. Either increase or decrease
Answer: B (LEAVE A REPLY)
Under traditional (pre-Modigliani & Miller) capital structure theory, there is an assumed inverse relationship between WACC and company value. The idea is:
As a firm moves towards its optimal capital structure, the WACC falls, and the total value of the firm (equity
+ debt) rises.
Beyond that optimal point, extra gearing increases financial risk, so the required return from both debt and equity goes up, causing WACC to rise and firm value to fall.
So, within this framework, if a company's WACC increases, that means it has moved away from its optimal capital structure, and the value of the company will decrease.
Therefore, under traditional theory, an increase in WACC # decrease in company value, so the correct answer is B.

NEW QUESTION: 279
A company is planning a share repurchase programme with the following details:
* Repurchased shares will be immediately cancelled.
* The shares will be purchased at a premium to the market share price.
The current market share price is greater than the nominal value of the shares.

Which of the following statements about the impact of the share repurchase programme on the company's financial statements is correct?

A. The premium to the nominal value would be charged to retained earnings.

B. The share capital figure would reduce by the nominal value of the shares purchased.

C. The total value of the equity in its Statement of Financial Position would remain unchanged.

D. The premium to the market value would be charged to the Income Statement.

Answer: B (LEAVE A REPLY)

The company is repurchasing and cancelling its own shares.

When shares are cancelled:

Share capital is reduced by the nominal value of the shares bought back. # Any amount paid above nominal value reduces equity reserves (such as share premium and/or retained earnings), but it does not go through the Income Statement.

Total equity does decrease by the full repurchase amount (so option C is wrong).

No element of the repurchase (including any "premium to market value") is treated as an expense in the Income Statement under IFRS - it's purely an equity transaction (so D is wrong).

Option A is too specific and not strictly correct, because the premium over nominal is not necessarily all charged only to retained earnings - it can also be charged to share premium / other reserves.

So the one fully correct statement is:

B). The share capital figure would reduce by the nominal value of the shares purchased.

NEW QUESTION: 280

A company is planning a share buyback. In which of the following circumstances would a share buyback be appropriate?

A. The company wants to reduce its gearing.

B. The company wants to reduce the nominal value of its shares to make them more marketable.

C. The country in which the company operates taxes capital gains at a higher rate than income.

D. The company has a one off cash surplus and no available investment opportunities.

Answer: D (LEAVE A REPLY)

A buyback is appropriate when the company has a one-off cash surplus and no good investment opportunities.

NEW QUESTION: 281

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

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What is the expected synergy if the acquisition goes ahead?
Give your answer to the nearest $ million.

Answer:

$? million

8, 8000000

NEW QUESTION: 282

A company's latest accounts show profit after tax of $20.0 million, after deducting interest of $5.0 million. The company expects earnings to grow at 5% per annum indefinitely.
The company has estimated its cost of equity at 12%, which is included in the company WACC of 10%.
Assuming that profit after tax is equivalent to cash flows, what is the value of the equity capital?
Give your answer to the nearest $ million.

Answer:

$? million

300, 300000000

NEW QUESTION: 283

Company A needs to raise AS500 mi lion to invest in a new project and is considering using a pub ic issue of bonds to finance the investment.

Which THREE of the following statements-relating to this bond issue are true?
A. Bonds issues in the corporate debt market are underwritten.
B. The largest issuer of bond i3 the government.
C. Purchasing bonds in the capital markets enables entities to borrow large amounts of finance.
D. The bond market is unregulated making it easier to raise finance
E. A company must be listed before it can issue bones.
Answer: (SHOW ANSWER)

NEW QUESTION: 284
Which THREE of the following statements about stock market listings are correct?
A. The reporting requirements for listed companies are more onerous than those for private companies
B. When seeking a listing to raise capital companies typically must ensure they include any costs of underwriting shares they need to issue.when determining the number of
C. Listed companies may be viewed more favorably by suppliers and consequently granted more generous payment terms than private companies
D. The increased scrutiny that applies to listed companies makes them less attractive to investors.
E. A prerequisite to obtaining a listing is that a public company must reregister as a private company first.
Answer: A,B,C (LEAVE A REPLY)
A - True: listed companies face more onerous reporting and disclosure.
B - True: flotation planning must allow for issue/underwriting costs when deciding how much capital to raise.
C - True: listing can enhance reputation and credit standing, often improving supplier terms.
D - False: increased scrutiny usually reassures investors.
E - False: a company must become/remain a public company to list, not re-register as private.
Answer (Q118): A, B, C

NEW QUESTION: 285
A company plans to acquire new machinery.
It has two financing options; buy outright using a bank loan, or a finance lease.
Which of the following is an advantage of a finance lease compared with a bank loan?
A. The interest rate offered might be more favourable because the lessor has the security of the asset.
B. It is "off-balance sheet" and will not affect the company's gearing.
C. The lessor provides maintenance of the asset.
D. Tax depreciation allowances may be passed on to the company by the lessor.
Answer: A (LEAVE A REPLY)

NEW QUESTION: 286

The value of a call option will increase because of:

A. An increase in the strike price.

B. A decrease in the volatility of the share.

C. An increase in the time to expiry.

D. A decrease in the market value of the share

Answer: (SHOW ANSWER)

The value of a call option increases when:

The underlying share price increases

The strike price decreases

The time to expiry increases

Volatility increases

Risk-free rate increases

Looking at the options:

A). Increase in strike price # reduces call value

B). Decrease in volatility # reduces call value

C). Increase in time to expiry # increases call value #

D). Decrease in share price # reduces call value

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NEW QUESTION: 287

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. D

B. A

C. C

D. B

Answer: C (LEAVE A REPLY)

NEW QUESTION: 288

A company generates operating profit of $17.2 million, and incurs finance costs of $5.7 million. It plans to increase interest cover to a multiple of 5-to-1 by raising funds from shareholders to repay some existing debt. The pre-tax cost of debt is fixed at 5%, and the refinancing will not affect this.

Assuming no change in operating profit, what amount must be raised from shareholders?

Give your answer in $ millions to the nearest one decimal place.

Answer:

$?

45.2

NEW QUESTION: 289

A company proposes to value itself based on the net present value of estimated future cash flows.

Relevant data:

* The cash flow for the next three years is expected to be £100 million each year
* The cash flow after year 3 will grow at 2% to perpetuity
* The cost of capital is 12%

The value of the company to the nearest $ million is:

A. $966 million

B. $1,260 million

C. $889 million

D. $834 million

Answer: A (LEAVE A REPLY)

Cash flows:

Years 1-3: 100, 100, 100

From year 4: grow at 2% forever. Cost of capital = 12%.

PV of years 1-3:

PV1#3=1001.12+1001.122+1001.123#240\text{PV}_{1-3} = \frac{100}{1.12} + \frac{100}{1.12^2} + \frac

{100}{1.12^3} \approx 240PV1#3=1.12100+1.122100+1.123100#240

Terminal value at end of year 3:

Year 4 CF = 100×1.02=102100 \times 1.02 = 102100×1.02=102

TV3=1020.12#0.02=1020.10=1,020\text{TV}_3 = \frac{102}{0.12 - 0.02} = \frac{102}{0.10} = 1{,}

020TV3=0.12#0.02102=0.10102=1,020
PV of terminal value:
PV(TV)=1,0201.123#726\text{PV(TV)} = \frac{1{,}020}{1.12^3} \approx
726PV(TV)=1.1231,020#726 Total value # 240+726=966240 + 726 = 966240+726=966.
So the value is $966 million # Option A.

NEW QUESTION: 290
On 1 January:
* Company ABB has a value of $55 million
* Company BBA has a value of $25 million
* Both companies are wholly equity financed
Company ABB plans to take over Company BBA by means of a share exchange Following the acquisition the post-tax cashflow of Company ABB for the foreseeable future is estimated to be $10 million each year The post-acquisition cost of equity is expected to be 10% What is the best estimate of the value of the synergy that would arise from the acquisition?
A. $125 million
B. $30 million
C. $75 million
D. $20 million
Answer: D (LEAVE A REPLY)
Pre-acquisition standalone values:
ABB = $55m
BBA = $25m
Total pre-deal value = $80m.
After the acquisition, ABB (the combined business) is expected to generate post-tax cash flows of $10m per year in perpetuity. Cost of equity = 10%, and the firm is all-equity financed, so:
Post-acquisition value=100.10=$100m\text{Post-acquisition value} = \frac{10}{0.10} = \$100\text{m}Post- acquisition value=0.1010=$100m Synergy value = value of combined firm # sum of standalone values:
Synergy=100#80=$20m\text{Synergy} = 100 - 80 = \$20\text{m}Synergy=100#80=$20m So the best estimate of the synergy from the acquisition is $20 million.

NEW QUESTION: 291
Under traditional theory, an increase in a company's WACC would cause the value of the company to:
A. Stay the same
B. Decrease
C. Either increase or decrease
D. Increase
Answer: (SHOW ANSWER)

NEW QUESTION: 292

Company A plans to acquire Company B, an unlisted company which has been in business for 3 years.

It has incurred losses in its first 3 years but is expected to become highly profitable in the near future.

No listed companies in the country operate the same business field as Company B, a unique new high-risk business process.

The future success of the process and hence the future growth rate in earnings and dividends is difficult to determine.

Company A is assessing the validity of using the dividend growth method to value Company B.

Which THREE of the following are weaknesses of using the dividend growth model to value an unlisted company such as Company HHG?

A. The future projected dividend stream is used as the basis for the valuation.

B. The future growth rate in earnings and dividends will be difficult to accurately determine.

C. The dividend growth model does not take the time value of money into consideration.

D. The cost of capital will be difficult to estimate.

E. The company has been unprofitable to date and hence, there is no established dividend payment pattern.

Answer: (SHOW ANSWER)

NEW QUESTION: 293

ZZZ is a listed company based in Brinland. a European country. It is the largest owner and operator of residential care homes for elderly people in Brinland Most of the residential care homes in Brinland are run by small private operators, and the standards of cafe are extremely variable However. 22Z has developed a good reputation because its client service is considered to be extremely good even though its prices are higher than those of most of its competitors.

ZZZ has expanded rapidly in the last few years, partly by acquisition and partly by organic growth consequently, the company's share price now stands at a record high, and the dividend declared at the end of the most recent accounting period was 10% higher than the previous year's dividend.

The Brinland government has recently set up a regulatory body to monitor the residential care homes industry.

The regulatory body is considering introducing a variety of regulations to improve the customer experience in the industry. Following a period of consultation and investigation, the regulatory body is expected to announce a range of new regulations in the near future.

The directors of ZZZ are concerned that the new regulations may adversely affect their company

Which THREE of the following new regulations are likely to have the greatest negative impact on ZZTs performance?

A. Imposition of a minimum staff to client ratio.

B. Price controls, setting a maximum price that providers can charge

C. Monopoly controls, forcing large operators to dispose of some care homes

D. Imposition of a one-off "windfall" tax to fund training courses for carers across the industry
E. Fines for companies that miss specified service level targets
Answer: A,B,C (LEAVE A REPLY)
Regulations likely to hurt ZZZ most:
A). Minimum staff-to-client ratio - raises operating costs, particularly for a large operator.
B). Maximum price controls - directly restrict ZZZ's ability to charge premium prices.
C). Monopoly controls forcing disposals - may force ZZZ to sell homes and shrink.
D is a one-off hit, and E is less of a threat to a high-quality provider.

NEW QUESTION: 294
Clinic A provides free healthcare to all members of the community, funded by the central Government.
Clinic B provides healthcare which has to be paid for by the individual patients. It is a listed company, owned by a large number of shareholders.
In comparing the above two organisations and their objectives, which THREE of the following statements are correct?
A. Clinic A is a not-for-profit organisation while Y is a for-profit organisation.
B. Clinic A and B have the same primary financial objective - to maximise shareholder wealth.
C. The performance of X will be appraised primarily on the basis of value for money.
D. Clinic B is likely to have a mixture of financial and non-financial objectives.
E. Clinic A and B will have the same primary non financial objective - provision of quality of health care.
Answer: A,C,E (LEAVE A REPLY)
CIMA F3 clearly distinguishes between not-for-profit/public sector organisations and for-profit private sector organisations, particularly in relation to objectives, performance measurement, and stakeholder focus.
Statement A - Correct
Clinic A is funded by central government and provides free healthcare. This fits the CIMA F3 definition of a not-for-profit (public sector) organisation, whose primary purpose is service delivery rather than profit generation.
Clinic B is a listed company owned by shareholders and charges patients directly, making it a for-profit organisation.
Therefore, statement A is correct.
Statement B - Incorrect
Maximising shareholder wealth is the primary financial objective only of for-profit companies, such as Clinic
B).
Public sector organisations like Clinic A do not have shareholders and therefore cannot have shareholder wealth maximisation as an objective.
Statement B is incorrect.
Statement C - Correct

CIMA F3 teaches that public sector organisations are primarily assessed on value for money, which incorporates:
Economy
Efficiency
Effectiveness
Since Clinic A is government-funded, its performance would be appraised mainly using value-for-money criteria rather than profitability.
Statement C is correct.
Statement D - Incorrect
While Clinic B may consider some non-financial objectives (such as service quality or reputation), its primary objectives are financial, particularly profit and shareholder wealth maximisation.
The statement implies equal weighting, which is inconsistent with CIMA F3 theory.
Statement D is incorrect.
Statement E - Correct
Despite differing ownership and funding, both organisations share the same primary non-financial objective:
the provision of quality healthcare.
CIMA F3 highlights that organisations in the same sector often share common service objectives, regardless of profit motive.
Statement E is correct.

NEW QUESTION: 295
A company's annual dividend has grown steadily at an annual rate of 3% for many years. It has a cost of equity of 11%. The share price is presently $64.38.
The company is about to announce its latest dividend, which is expected to be $5.00 per share.
The Board of Directors is considering an attractive investment opportunity that would have to be funded by reducing the dividend to $4.50 per share. The board expects the project to enable future dividends to grow by 5% every year and the cost of equity to remain unchanged.
Calculate the change in share price, assuming that the directors announce their intention to proceed with this investment opportunity.
Give your answer to 2 decimal places.
$?
A. 14.37
B. 14.38
Answer: A (LEAVE A REPLY)

NEW QUESTION: 296
Using the CAPM, the expected return for a company is 11%. The market return is 8% and the risk free rate is 2%.
What does the beta factor used in this calculation indicate about the risk of the company?
A. It has lower risk than the average market risk.

B. It has the same risk as the average market risk.
C. It is not possible to tell from CAPM.
D. It has greater risk than the average market risk.
Answer: D (LEAVE A REPLY)

NEW QUESTION: 297
Which of the following statements is true of a spin-off (or demerger)?
A. Raises finance to fund new projects.
B. Changes the ownership structure of the core entity by introducing new shareholders.
C. Allows investors to identify the true value of the demerged business.
D. Increases the risk of a takeover bid for the core entity.
Answer: C (LEAVE A REPLY)
A spin-off/demerger normally involves separating a division or subsidiary and giving its shares to the existing shareholders. It doesn't in itself raise finance (A), it doesn't introduce new shareholders to the core entity (B), and it does not inherently increase takeover risk (D). Its main advantage is that it allows the market to value the demerged business separately, revealing its "true" value - C is correct.

NEW QUESTION: 298
The Board of Directors of a small listed company engaged in exploration are currently considering the future dividend policy of the company. Exploration is considered a high-risk business and consequently the company has a low level of debt finance.
Forecasts indicate a period of profit fluctuation in the next few years as the company is planning to embark on a major capital investment project. Debt finance is unlikely to be available due to the project's high business risk.
Which THREE of the following are practical considerations when determining the company's dividend/retention policy?
A. The timing and size of the cash flow requirements for the new investment.
B. The fluctuating nature of the projected future profits.
C. The legislation and regulation governing distributable profits.
D. The dividend policies of mature listed multinational companies in the exploration industry.
E. The general level of interest rates and the tax savings on interest costs relating to debt finance.
Answer: A,B,C (LEAVE A REPLY)
Explanation
Discursive_F0

NEW QUESTION: 299
A company generates and distributes electricity and gas to households and businesses.
Forecast results for the next financial year are as follows:

	$ million
Revenue from electricity sales at $2.00 per Kilowatt	300
Costs	200
Net profit	100

The Industry Regulator has announced a new price cap of $1.50 per Kilowatt.
The company expects this to cause consumption to rise by 10% but costs would remained unaltered.
The price cap is expected to cause the company's net profit to fall to:
A. $20.0 million profit
B. $27.5 million profit
C. $35.0 million loss
D. $47.5 million profit
Answer: D (LEAVE A REPLY)

NEW QUESTION: 300
The directors of the following four entities have been discussing dividend policy:

Entity name	Description of entity
A	A government-owned (public sector) entity.
B	A large company whose shares are traded on a major stock exchange
C	A small company whose shares are traded on a small company stock exchange and are owned by investors seeking maximum capital growth on their investment.
D	A small family-owned private company whose shareholders rely on their dividend income as their main source of income.

Which of these four entities is most likely to have a residual dividend policy?

A. D

B. C

C. A

D. B

Answer: (SHOW ANSWER)

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