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F3 Financial Strategy

Questions&AnswersPDF

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Question: 1

A listed company is planning to raise \$21.6 million to finance a new project with a positive net present value of \$5 million. The finance is to be raised via a rights issue at a 10% discount to the current share price. There are currently 100 million shares in issue, trading at \$2.00 each. Taking the new project into account, what would the theoretical ex-rights price be? Give your answer to two decimal places.
\$?

- A. 2.02, 2.03
- B. 2.02, 1.03

Answer: A

Question: 2

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

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

What is the expected synergy if the acquisition goes ahead?
 Give your answer to the nearest \$ million.
 \$? million

- A. 8, 8000000
- B. 7, 8000000

Answer: A

Question: 3

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

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

Answer: A, D, E

Question: 4

On 31 October 20X3:

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

On 31 December 20X3, the financial year end, the fair value of the forward contract was \$10,000 (asset). How should the increase in the fair value of the forward contract be treated within the financial statements for the year ended 31 December 20X3?

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

Answer: D

Question: 5

A company is funded by:

- \$40 million of debt (market value)
- \$60 million of equity (market value)

The company plans to:

- Issue a bond and use the funds raised to buy back shares at their current market value.
- Structure the deal so that the market value of debt becomes equal to the market value of equity.

According to Modigliani and Miller's theory with tax and assuming a corporate income tax rate of 20%, this plan would:

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

Answer: C



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