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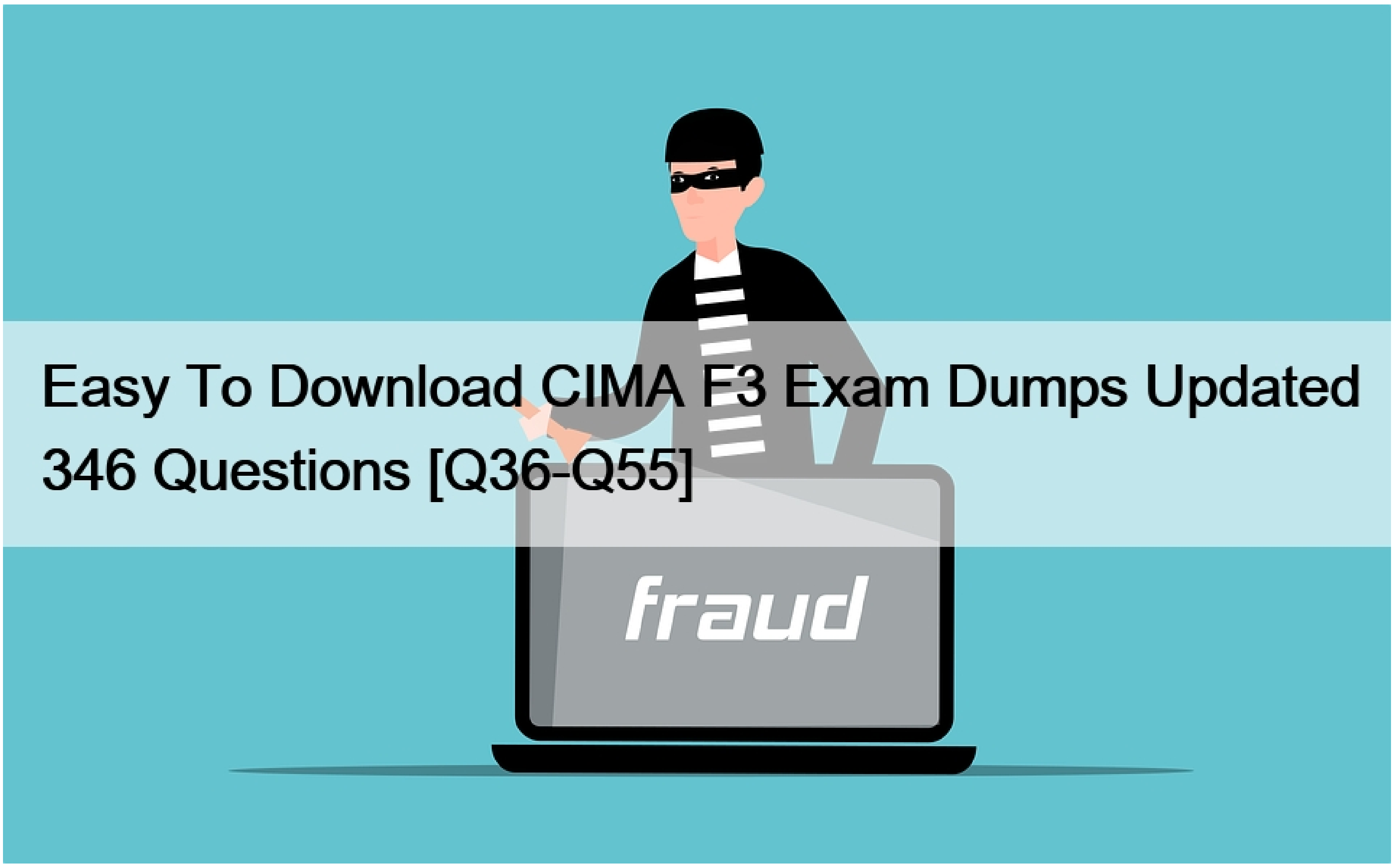

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New Updated F3 Exam Questions 2023

CIMA F3 exam, also known as the F3 Financial Strategy exam, is a crucial part of the CIMA Professional Qualification. F3 exam focuses on developing the skills and knowledge required to formulate and implement financial strategies that align with the overall objectives of an organization. The F3 exam is designed to help candidates understand how to create long-term financial strategies that not only help the organization achieve its goals but also ensure its financial sustainability.

CIMA CIMAPRA19-F03-1 exam is highly respected in the financial industry and is often a requirement for individuals seeking senior financial management roles in organizations. F3 Financial Strategy certification is globally recognized and is highly valued by employers. F3 Financial Strategy certification demonstrates a candidate's ability to implement financial strategies and make informed financial decisions.

QUESTION 36

Company P is a large unlisted food-processing company.

Its current profit before interest and taxation is $4 million, which it expects to be maintainable in the future.

It has a $10 million long-term loan on which it pays interest of 10%.

Corporate tax is paid at the rate of 20%.

The following information on P/E multiples is available:

	Overall Stock Market	Food-Processing sector
P/E multiple	20.0 times	10.0 times

Which of the following is the best indication of the equity value of Company P?
* $80 million
* $40 million
* $48 million
* $24 million

QUESTION 37

BBA is a wholly owned subsidiary of AAB BBA operates in country B where the currency is the B$.

The following is an extract from BBA’s financial statements at 31 December 20X1:

	B$ million
Share capital (nominal value B$1)	20
Reserves	40
5% Bonds ($100 nominal value)	50

The following Information is relevant:

” The bonds were trading at $110 per $100 on 31 December 20X1. “Operating profit of BBA for the year ended 31 December 20X1 was S15 million

* The P/E ratio is 8

* Corporate income tax rate is 20%.

The tax authorities m country B Implemented thin capitalisation rules based on the level of gearing of the subsidiary, calculated as book value o(debt lo book value of equity The cut-off point for gearing used by the tax authorities for a company to be thinly capitalised is 75%.

Which of the following statements is correct as at 31 December 20X1?
* Gearing Is 71.43%. thin capitalisation rules are not breached

* Gearing is 250%. thin capitalisation rules are breached
* Gearing is 83.33%. thin capitalisation rules are breached
* Gearing is 83.33%. thin capitalisation rules are not breached

QUESTION 38

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 company in a similar market to Company A.
* A pottery factory in the Middle East.
* A company that produces accessories.
* A listed international logistics firm.

QUESTION 39

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)

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

C)

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

D)

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

* Option A
* Option B
* Option C
* Option D

QUESTION 40

Which of the following would be a reason for a company to adopt a low dividend pay-out policy?
* High profitability
* A lack of alternative sources of finance
* A lack of investment opportunities
* Using dividends to give a signal to the stock market

QUESTION 41

A company is based in Country Y whose functional currency is Y$. It has an investment in Country Z whose functional currency is Z$.

This year the company expects to generate Z$ 10 million profit after tax.

Tax Regime:

* Corporate income tax rate in country Y is 50%

* Corporate income tax rate in country Z is 20%

* Full double tax relief is available

Assume an exchange rate of Y$ 1 = Z$ 5.

What is the expected profit after tax in Y$ if the Z$ profit is remitted to Country Y?
* Y$ 1.25 million
* Y$ 1.00 million
* Y$ 31.25 million
* Y$ 4.00 million

QUESTION 42

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.

104

QUESTION 43

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.

$?
* 14.37
* 14.38

QUESTION 44

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:
* $47.5 million profit
* $27.5 million profit
* $20.0 million profit
* $35.0 million loss

QUESTION 45

A company’s dividend policy is to pay out 50% of its earnings.

Its most recent earnings per share was $0.50, and it has just paid a dividend per share of $0.25.

Currently, dividends are forecast to grow at 2% each year in perpetuity and the cost of equity is 10.5%.

In order to grow its earnings and dividends, the company is considering undertaking a new investment funded entirely by debt finance. If the investment is undertaken:

* Its cost of equity will immediately increase to 12% due to the increased finance risk.

* Its earnings and dividends will immediately commence growing at 4% each year in perpetuity.

Which of the following is the expected percentage change in the share price if the new investment is undertaken?
* Increase = 8.3%
* Increase = 2%
* Increase = 10.5%
* Decrease = 7.7%

QUESTION 46

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?
* The corporate tax rate in the foreign country is 40%.
* There is a double tax treaty between the company’s domestic country and the foreign country.
* Year 1 tax depreciation allowances of 100% are available in the foreign country.
* There are high customs duties payable on products entering the foreign country.
* There are restrictions on companies wishing to remit profit from the foreign country.

QUESTION 47

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	

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?
* Yes, PBIT would increase by A$ 48 million.
* No, PBIT would fall by A$ 48 million.
* Yes, PBIT would increase by A$ 150 million.
* No, PBIT would fall by A$ 150 million.

QUESTION 48

Company X plans to acquire Company Y.

Pre-acquisition information:

	Shares in issue	Earnings	P/E Multiple	Share price	Market capitalisation
Company X	100 million	$50 million	10 times	$5.00	$500 million
Company Y	50 million	$15 million	10 times	$3.00	$150 million
Total		$65 million			$650 million

Post-acquisition information:

Total combined earnings are expected to increase by 10%

Total combined P/E multiple will remain at 10 times

Which of the following share-for-share exchanges will result in an increase of 10% in Company X’s share price post-acquisition?
* 1 share in Company X for 2.75 shares in Company Y
* 3 shares in Company X for 5 shares in Company Y
* 2 shares in Company X for 1 shares in Company Y
* 1 share in Company X for 2 shares in Company Y

QUESTION 49

Company P is a large unlisted food-processing company.

Its current profit before interest and taxation is $4 million, which it expects to be maintainable in the future.

It has a $10 million long-term loan on which it pays interest of 10%.

Corporate tax is paid at the rate of 20%.

The following information on P/E multiples is available:

Which of the following is the best indication of the equity value of Company P?
* $80 million
* $40 million
* $48 million
* $24 million

QUESTION 50

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
8

QUESTION 51

A UK company enters into a 5 year borrowing with bank P at a floating rate of GBP Libor plus 3%

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

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

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

QUESTION 52

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?
* $11.67
* $11 25
* $9.50
* $13.67

QUESTION 53

At the last financial year end, 31 December 20X1, a company reported:

	$ million
Profit before interest and tax for the year	25
Total long term liabilities comprising:Bank borrowings at 5% annual interest	60

The corporate income tax rate is 30% and the bank borrowings are subject to an interest cover covenant of 4 times.

The results are presently comfortably within the interest cover covenant as they show interest cover of 8.3 times. The company plans to invest in a new product line which is not expected to affect profit in the first year but will require additional borrowings of $20 million at an annual interest rate of 10%.

What is the likely impact on the existing interest cover covenant?
* Interest cover would reduce to 3 times and the covenant would be breached.
* Interest cover would reduce to 3 times and the covenant would NOT be breached.
* Interest cover would reduce to 5 times and the covenant would be breached.
* Interest cover would reduce to 5 times and the covenant would NOT be breached.

QUESTION 54

Company A is unlisted and all-equity financed. It is trying to estimate its cost of equity.

The following information relates to another company, Company B, which operates in the same industry as Company A and has similar business risk:

Equity beta = 1.6

Debt:equity ratio 40:60

The rate of corporate income tax is 20%.

The expected premium on the market portfolio is 7% and the risk-free rate is 5%.

What is the estimated cost of equity for Company A?

Give your answer to one decimal place.
? %

12.3, 12.30

QUESTION 55

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:

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

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