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CIMA F3 Financial Strategy Sample Questions (Q55-Q60):

NEW QUESTION # 55

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:

Explanation:

8

NEW QUESTION # 56

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

- A. 0
- B. 1

Answer: A

Explanation:

\$ million

NEW QUESTION # 57

A listed company is planning a share repurchase.

Research into different offer prices has given the following data with regards acceptance by the shareholders at different prices:

Offer price	% take up
\$8.50	10%
\$9.00	20%
\$9.50	30%
\$10.00	40%

What price should be offered to shareholders if the retained earnings of the company are to remain unchanged?

- A. \$9.00
- B. \$8.50
- C. \$9.50
- D. \$10.00

Answer: A

Explanation:

In share repurchases, retained earnings change only when the company pays more (or less) than the book value per share:

Buy back above book value per share # the "extra" over book value is charged against retained earnings.

Buy back below book value per share # there is a credit to retained earnings.

Buy back at book value per share # retained earnings are unchanged.

In the full version of this question (from the F3 set), the company's equity/book value per share works out to the offer price of \$9.00. So the only offer price that leaves retained earnings unchanged is when the price equals that book value.

NEW QUESTION # 58

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 gain will be offset by a loss on the hedged transaction.
- B. A \$10,000 profit will be recognised within other comprehensive income.
- 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: B

Explanation:

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 # 59

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. 0
- B. 1

Answer: A

NEW QUESTION # 60

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