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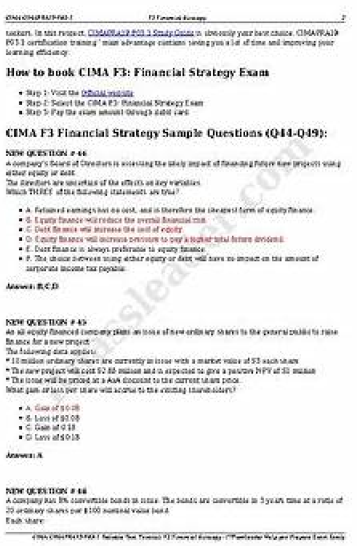

How to book CIMA F3: Financial Strategy Exam

CIMA F3 Financial Strategy Sample Questions (Q44-Q49):

NEW QUESTION # 44

Answer: B,C,D

NEW QUESTION # 45

Answer: A

NEW QUESTION # 46

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CIMA CIMAPRA19-F03-1 (F3 Financial Strategy) Certification Exam is a globally recognized certification exam designed for finance professionals who want to enhance their skills and knowledge in the field of finance strategy. F3 Financial Strategy certification exam is offered by the Chartered Institute of Management Accountants (CIMA), a leading professional body that provides training and certification programs for finance professionals worldwide. The CIMAPRA19-F03-1 Exam is aimed at individuals who want to develop their strategic financial management skills and demonstrate their expertise to their employers and clients.

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CIMA F3 Financial Strategy Sample Questions (Q48-Q53):

NEW QUESTION # 48
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.

Answer:

Explanation:
34, 35, 34000000, 35000000

NEW QUESTION # 49
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 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. It can be tailored to the exact reeds of the company.
- D. The date is flexible and the position can be closed quickly and easily.

Answer: B

NEW QUESTION # 50
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. increase the market value of the company's equity.
- C. decrease the company's equity beta.
- D. increase shareholder wealth.

Answer: D

Explanation:
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 # 51
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. $20.0 million profit
- C. $27.5 million profit
- D. $35.0 million loss

Answer: A

NEW QUESTION # 52
G purchased a put option that grants the right to cap the interest on a loan at 10.0%. Simultaneously, G sold a call option that grants the holder the benefits of any decrease if interest rates fall below 8.5%.
Which THREE possible explanations would be consistent with G's behavior?

- A. G is concerned that interest rates may fall below 10%.
- B. G is concerned that interest rates may rise above 10.0%.
- C. G's strategy is to ensure that its interest rates lie between 8.5% and 10.0%.
- D. G is willing to risk the loss of savings from a fall in interest rates if that offsets the cost of limiting the cost of rises.
- E. G is concerned that interest rates may rise above 8.5%.

Answer: B,C,D

Explanation:
G has effectively created an interest rate collar:

Buys a cap at 10% (protects against high rates).
Sells a floor at 8.5% (gives up benefit if rates fall too low, to reduce cost).
So:
A - True: G sacrifices gains from falling rates to help fund the cap.
B - True: the structure keeps G's effective borrowing rate between 8.5% and 10%.
C - True: the main concern is rates rising above 10%, hence the cap.
D and E misinterpret the direction of the concern.

NEW QUESTION # 53
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