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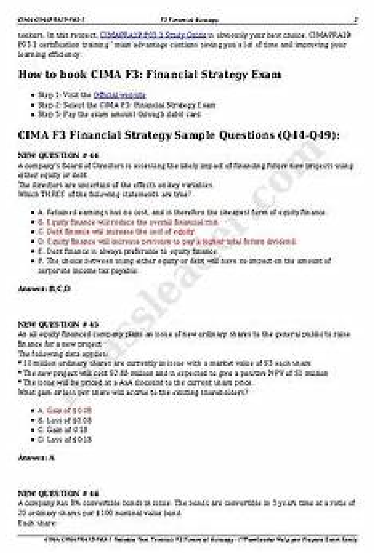

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CIMA F3 Financial Strategy Sample Questions (Q44-Q49):

NEW QUESTION # 44

Answer: B,C,D

NEW QUESTION # 45

Answer: A

NEW QUESTION # 46

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CIMA F3 Financial Strategy Sample Questions (Q217-Q222):

NEW QUESTION # 217
An aerospace company is planning to diversify into car manufacturing.
Relevant data:
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. 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%

Answer: A,B

NEW QUESTION # 218
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. Discounted cash flow analysis based on forecast future free cash flows.
- B. Asset based approach including intangibles.
- C. P/E ratio of a listed company in the same industry.
- D. Divided valuation method.

Answer: A

Explanation:
Because the company is unlisted, growing faster than the industry, and pays only a fixed dividend (not linked to performance), dividend or simple P/E methods won't capture its value properly. A DCF based on future free cash flows is most suitable.

NEW QUESTION # 219
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. Combining the pre-acquisition market capitalisation of each company
- D. Adding together the current post-tax earnings of each company and multiplying this by the price /earnings ratio of the bidder

Answer: D

Explanation:
"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 # 220
Which of the following statements is true of a spin-off (or demerger)?

- A. Raises finance to fund new projects.
- B. Increases the risk of a takeover bid for the core entity.
- C. Changes the ownership structure of the core entity by introducing new shareholders.
- D. Allows investors to identify the true value of the demerged business.

Answer: D

Explanation:
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 # 221
Which THREE of the following would be of most interest to lenders deciding whether to provide long-term debt to a company?

- A. Dividend cover
- B. Quality of current management
- C. Earnings per share
- D. interest cover on existing debt
- E. Current gearing ratio

Answer: B,D,E

Explanation:
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 # 222
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