

CIMA F3 Sample Questions Pdf - Exam F3 Actual Tests

CIMA

Strategic Level

F3

Financial Strategy

**Exam
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CIMA F3 Financial Strategy Sample Questions (Q99-Q104):

NEW QUESTION # 99

Company A plans to acquire Company B, an unlisted company which has been in business for 3 years.

It has incurred losses in its first 3 years but is expected to become highly profitable in the near future.

No listed companies in the country operate the same business field as Company B, a unique new high-risk business process.

The future success of the process and hence the future growth rate in earnings and dividends is difficult to determine.

Company A is assessing the validity of using the dividend growth method to value Company B.

Which THREE of the following are weaknesses of using the dividend growth model to value an unlisted company such as Company B?

- A. The dividend growth model does not take the time value of money into consideration.
- B. The future growth rate in earnings and dividends will be difficult to accurately determine.
- C. The future projected dividend stream is used as the basis for the valuation.
- D. The cost of capital will be difficult to estimate.
- E. The company has been unprofitable to date and hence, there is no established dividend payment pattern.

Answer: B,C,D

NEW QUESTION # 100

A company plans to raise \$12 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 \$15.00 per share.

* There are currently 2 million shares in issue.

* The project is forecast to yield a positive NPV of \$6 million.

What is the yield-adjusted Theoretical Ex-Rights Price following the announcement of the rights issue?

- A. \$16.00
- B. \$11.00
- C. \$9.00
- D. \$14.00

Answer: A

NEW QUESTION # 101

Clinic A provides free healthcare to all members of the community, funded by the central Government.

Clinic B provides healthcare which has to be paid for by the individual patients. It is a listed company, owned by a large number of shareholders.

In comparing the above two organisations and their objectives, which THREE of the following statements are correct?

- A. Clinic A and B will have the same primary non financial objective - provision of quality of health care.
- B. Clinic B is likely to have a mixture of financial and non-financial objectives.
- C. The performance of X will be appraised primarily on the basis of value for money.
- D. Clinic A is a not-for-profit organisation while Y is a for-profit organisation.
- E. Clinic A and B have the same primary financial objective - to maximise shareholder wealth.

Answer: A,C,D

Explanation:

CIMA F3 clearly distinguishes between not-for-profit/public sector organisations and for-profit private sector organisations, particularly in relation to objectives, performance measurement, and stakeholder focus.

Statement A - Correct

Clinic A is funded by central government and provides free healthcare. This fits the CIMA F3 definition of a not-for-profit (public sector) organisation, whose primary purpose is service delivery rather than profit generation.

Clinic B is a listed company owned by shareholders and charges patients directly, making it a for-profit organisation.

Therefore, statement A is correct.

Statement B - Incorrect

Maximising shareholder wealth is the primary financial objective only of for-profit companies, such as Clinic B).

Public sector organisations like Clinic A do not have shareholders and therefore cannot have shareholder wealth maximisation as an objective.

Statement B is incorrect.

Statement C - Correct

CIMA F3 teaches that public sector organisations are primarily assessed on value for money, which incorporates:

Economy

Efficiency

Effectiveness

Since Clinic A is government-funded, its performance would be appraised mainly using value-for-money criteria rather than profitability.

Statement C is correct.

Statement D - Incorrect

While Clinic B may consider some non-financial objectives (such as service quality or reputation), its primary objectives are financial, particularly profit and shareholder wealth maximisation.

The statement implies equal weighting, which is inconsistent with CIMA F3 theory.

Statement D is incorrect.

Statement E - Correct

Despite differing ownership and funding, both organisations share the same primary non-financial objective: the provision of quality healthcare.

CIMA F3 highlights that organisations in the same sector often share common service objectives, regardless of profit motive.

Statement E is correct.

NEW QUESTION # 102

Modigliani and Miller are the main proponents of the view that the dividend policy is irrelevant to the value of a company's shares.

They argue that a company that continually reinvests its entire earnings would generate the same shareholder wealth if it engaged in a policy of high dividends and financed its expansion with funds obtained from rights issues.

Which THREE of the following statements are assumptions that are required in order to support this proposition?

- A. There are no transaction costs involved in the issue of new shares (including rights issues).
- B. Investors act in a rational manner.
- C. The capital markets are efficient markets.
- D. There is a multiplicity of corporate and personal income tax rates.
- E. Investors do not always have access to perfect information.

Answer: A,B,C

Explanation:

In CIMA F3, Modigliani and Miller's (MM) Dividend Irrelevance Theory is a core examinable concept under financial policy decisions. MM argue that dividend policy does not affect shareholder wealth, provided certain highly restrictive assumptions hold true. Under this theory, shareholders are indifferent between dividends and capital gains because they can create their own "homemade dividends" by selling shares if required.

To support this proposition, the following assumptions must apply:

A). There are no transaction costs involved in the issue of new shares (including rights issues)

Correct

CIMA F3 states that MM assume no flotation or transaction costs. If issuing new equity were costly, companies paying high dividends would incur extra costs when raising funds, which would affect shareholder wealth and invalidate dividend irrelevance.

C). Investors act in a rational manner

Correct

The theory assumes investors are rational and base decisions solely on wealth maximisation, not preferences for income versus capital gains. This assumption is explicitly stated in CIMA learning materials.

D). The capital markets are efficient markets

Correct

An efficient market ensures that share prices reflect all available information. CIMA F3 emphasises that efficiency is essential so that financing and dividend decisions do not distort share prices.

Why the other options are incorrect

B). There is a multiplicity of corporate and personal income tax rates

Incorrect

MM's original theory assumes no taxation, not multiple tax rates. Taxes would make dividends and capital gains unequal.

E). Investors do not always have access to perfect information

Incorrect

MM assume perfect information. Any information asymmetry would affect pricing and invalidate dividend irrelevance.
Discursive_F0

NEW QUESTION # 103

A company has some 7% coupon bonds in issue and wishes to change its interest rate profile. It has decided to do this by entering into a plain coupon interest rate swap with its bank. The bank has quoted a swap rate of 6.0% - 6.5% fixed against LIBOR. What will the company's new interest rate profile be?

- A. VARIABLE at LIBOR
- B. VARIABLE at LIBOR + 0.5%
- C. FIXED at 6.5%
- D. VARIABLE at LIBOR + 1.0%

Answer: D

Explanation:

Company currently pays fixed 7% on its bonds.

Swap quote 6.0%-6.5% fixed against LIBOR means:

Bank will pay 6.0% fixed and receive LIBOR, or

Receive 6.5% fixed and pay LIBOR.

To move from fixed to variable, the company should receive fixed and pay LIBOR, so it takes the 6.0% fixed leg.

Net position:

Pay 7% fixed on bond

Receive 6% fixed from swap

Pay LIBOR on swap

Total = (7% - 6%) + LIBOR = LIBOR + 1%

NEW QUESTION # 104

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