

# Test F3 Sample Questions - F3 Test Dumps Demo

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CIMAPRA19-F03-1 exam focuses on the application of advanced financial management techniques to a range of organizational contexts. F3 exam covers topics such as risk management, investment appraisal, and financial instruments, among others. Candidates are expected to demonstrate their ability to analyze financial data, develop financial strategies, and evaluate the impact of financial decisions on an organization's performance.

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## F3 Test Dumps Demo - F3 Latest Exam Online

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updated. They are using outdated materials resulting in failure and loss of money and time. So to solve all these problems, Exam4Docs offers actual F3 Questions to help candidates overcome all the obstacles and difficulties they face during F3 examination preparation.

## CIMA F3 Financial Strategy Sample Questions (Q308-Q313):

### NEW QUESTION # 308

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?

- A. \$24 million
- B. \$80 million
- C. \$40 million
- D. \$48 million

**Answer: A**

### NEW QUESTION # 309

Z wishes to borrow at a floating rate and has been told that it can use swaps to reduce the effective interest rate it pays. Z can borrow floating at  $L + 1\%$ , and fixed at 10%.

Which of the following companies would be the most appropriate for Z to enter into a swap with?

- A. Company D - it can borrow at  $L + 1\%$  and fixed at 10.5%
- B. Company C - it can borrow at  $L + 1\%$  and fixed at 9%
- C. Company E - it can borrow floating at  $L + 1\%$  and fixed at 12%
- D. Company A - it can borrow floating  $L + 1\%$  and fixed at 9.5%

**Answer: B**

### NEW QUESTION # 310

A company is concerned about the interest rate that it will be required to pay on a planned bond issue.

It is considering issuing bonds with warrants attached.

Advise the directors which of the following statements about warrants is NOT correct?

- A. Warrants can potentially be very expensive because they can involve the issue of shares at a discount in the future if exercised.
- B. Warrants give the holder the right to buy ordinary shares in the company at a fixed price at a future date.
- C. Warrants are a debt sweetener attached to the bond to drive down the interest rate payable on the bond.
- D. Warrants can be sold back to the issuing company for the nominal value of the share if no longer required by the bond holder.

**Answer: D**

### NEW QUESTION # 311

Company YZZ has made a bid for the entire share capital of Company ZYY

Company YZZ is offering the shareholders in Company ZYY the option of either a share exchange or a cash alternative

Which THREE of the following would be considered disadvantages of accepting the cash consideration for the shareholders of Company ZYY?

- A. Cash consideration is certain whereas Company YZZ's future share price performance is uncertain
- B. Taxation is payable on realised capital gains.
- C. Company YZZ is not expected to change its dividend policy post-acquisition
- D. Interest rates on deposit accounts are currently at an historic low and are expected to remain low

- E. There will be no opportunity to participate in the future economic success of Company YZZ

Answer: B,D,E

### NEW QUESTION # 312

A company's current earnings before interest and taxation are \$5 million.

These are expected to remain constant for the foreseeable future.

The company has 10 million shares in issue which currently trade at \$3.60.

It also has a \$10 million long term floating rate loan.

The current interest rate on this loan is 5%.

The company pays tax at 20%.

The company expects interest rates to increase next year to 6% and its Price/Earnings (P/E) ratio to move to 9.5 times by the end of next year.

What percentage reduction in the share price will occur by the end of next year if the interest rate increase and the P/E movement both occur?

- A. Reduction of 5%
- B. Reduction of 1%
- C. Reduction of 7%
- D. Reduction of 0%

Answer: C

Explanation:

Let's walk it through carefully.

1. Current earnings and EPS

EBIT = 5m

Current interest (5% × 10m) = 0.5m

Profit before tax = 5.0 # 0.5 = 4.5m

Tax (20%) = 0.9m

Earnings = 4.5 # 0.9 = 3.6m

Shares = 10m # EPS# = 3.6 / 10 = 0.36

Current share price = 3.60 # current P/E = 3.60 / 0.36 = 10 (matches the question context).

2. Earnings next year with higher interest

New interest rate = 6% # interest = 10m × 6% = 0.6m

Profit before tax = 5.0 # 0.6 = 4.4m

Tax (20%) = 0.88m

Earnings = 4.4 # 0.88 = 3.52m

EPS# = 3.52 / 10m = 0.352

3. New share price using new P/E

Expected P/E next year = 9.5

Price<sub>1</sub> = EPS<sub>1</sub> × P/E<sub>1</sub> = 0.352 × 9.5 = 3.344

4. Percentage reduction in share price

Current price = 3.60

New price # 3.344

Drop = 3.60 # 3.344 = 0.256

% reduction =  $\frac{0.256}{3.60} \approx 7.1\%$

So the closest option is A. Reduction of 7%.

### NEW QUESTION # 313

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