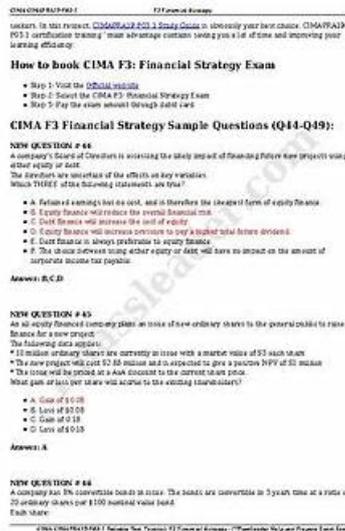


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The F3 Financial Strategy exam covers a wide range of topics related to financial management, including capital investment appraisal, business valuation, risk management, and financial instruments. F3 exam is divided into two sections: Section A and Section B. Section A consists of objective test questions, while Section B involves case study-style questions that require candidates to apply their knowledge and skills to real-life scenarios.

CIMA F3 exam is designed to test the candidate's ability to analyze and interpret financial information, and use it to make strategic decisions. F3 Exam covers a wide range of topics, including financial management, investment appraisal, risk management, and strategic management accounting. Candidates are expected to have a thorough understanding of financial statements, costing techniques, and budgeting, as well as the ability to apply this knowledge to real-world scenarios.

CIMA F3 Financial Strategy Sample Questions (Q157-Q162):

NEW QUESTION # 157

The table below shows the forecast for a company's next financial year:

	\$ million
Revenue	520
Operating costs	(400)
Profit from operations	120
Interest	(20)
Corporate income tax	(25)
Profit after tax	75

The forecast incorporates the following assumptions:

- * 25% of operating costs are variable
- * Debt finance comprises a \$400 million fixed rate loan at 5%
- * Corporate income tax is paid at 25%

The company plans to do the following next year from the forecast earnings on the assumption that earnings will be equivalent to free cash flow:

* Pay a total dividend of \$20 million

* Invest \$40 million in new projects

What is the maximum % reduction in operating activity that could occur next year before the company's dividend and investment plans are affected?

Give your answer to the nearest 0.1%.

- A. 4.8, 4.7, 4.9, 5.0, 4.6, 4.80, 4.70, 4.90, 5.00, 4.60% Current forecast profit after tax = \$75m Planned uses of cash next year: Dividends = \$20m Investment = \$40m Total required = \$60m So profit (and cash) can fall by at most 75 # 60 = \$15m before these plans are affected. Let xxx = proportionate reduction in operating activity (and hence in revenue and variable costs). Revenue = 520(1 # x) Operating costs: fixed = 75% of 400 = 300; variable = 25% of 400 = 100(1 # x) Profit from operations = 520(1 # x) # 100(1 # x) # 300 = 420(1 # x) # 300 = 120 # 420x Profit before tax = (120 # 420x) # 20 = 100 # 420x Profit after tax = (100 # 420x) × (1 # 0.25) = 0.75(100 # 420x) = 75 # 315x Set this equal to the minimum acceptable profit (60): 75 # 315x = 60 315x = 60 / 75 = 15 / 315 = 1 / 21 # 0.0476x = 15 / 315 = 1 / 21 # 0.0476 So the maximum reduction in operating activity is about 4.8%.
- B. 4.8%

Answer: A,B

NEW QUESTION # 158

The competition authorities are investigating the takeover of Company Z by a larger company, Company Y.

Both companies are food retailers.

The takeover terms involve using a part cash, part share exchange means of payment.

Company Z is resisting the bid, arguing that it undervalues its business, while lobbying extensively among politicians to sway public opinion against the bidder.

Which of the following actions by Company Y is most likely to persuade the competition authorities to approve the acquisition?

- A. Company Y undertakes to pass on any cost savings to customers.
- B. Company Y increases the cash element of its bid offer.
- C. Company Y agrees to dispose of specified outlets which geographically overlap those of Company Z.
- D. Company Y guarantees to preserve employment at its central distribution depot.

Answer: C

Explanation:

Competition authorities focus primarily on market structure and competition, not on whether the bid is generous or on employment promises. Their concern is: Will this merger substantially lessen competition?

In food retailing, a key issue is local market concentration - for example, a single group owning too many supermarkets in particular towns or regions. A classic remedy is for the bidder to divest overlapping outlets so that effective competition remains.

B). Agreeing to dispose of specified outlets which overlap geographically directly addresses the competition authority's main concern and is the standard structural remedy used in practice.

A (more cash) is irrelevant to competition issues.

C (job guarantees) is mainly a political/employment concern, not an antitrust one.

D (promise to pass on cost savings) is difficult to monitor and enforce and is normally viewed as less credible than structural remedies.

So the action most likely to persuade the competition authorities is B.

NEW QUESTION # 159

Company MB is in negotiations to acquire the entire share capital of Company BBA. Information about each company is as follows:

	AAB/MA	BBA
Number of equity shares	100 million	40 million
Earnings	\$120 million	\$26 million
Current share price	\$12.00	\$7.20

It is expected that Company BBA's profit before interest and tax will be \$30 million in each of the two years after acquisition. Company AAB is considering how best to structure the offer. Company AAB's discount factor and appropriate cost of equity for use in valuing Company BBA is 10%. Shareholders' taxation implications should be ignored. Which of the following provides the shareholders of Company BBA with the highest offer price?

- A. A cash offer of \$290 million now.
- B. A share-for-share exchange of five shares in Company AAB for every eight shares in Company BBA.
- C. A cash offer at 105% of the share price of Company BBA.
- **D. Cash of \$270 million now plus 60% of Company BBA's profit before interest and tax for the two years after acquisition, paid in 2 years' time.**

Answer: D

NEW QUESTION # 160

Company A is a listed company that produces pottery goods which it sells throughout Europe. The pottery is then delivered to a network of self-employed artists who are contracted to paint the pottery in their own homes. Finished goods are distributed by network of sales agents. The directors of Company A are now considering acquiring one or more smaller companies by means of vertical integration to improve profit margins.

Advise the Board of Company A which of the following acquisitions is most likely to achieve the stated aim of vertical integration?

- A. A company in a similar market to Company A.
- B. A pottery factory in the Middle East.
- C. A company that produces accessories.
- **D. A listed international logistics firm.**

Answer: D

Explanation:

Vertical integration means moving up or down the value chain (suppliers or distributors), not acquiring similar producers (horizontal integration) or unrelated accessory businesses. Buying a listed international logistics firm brings distribution in-house and so is the clearest example of vertical integration that could improve margins.

NEW QUESTION # 161

A company plans to raise finance for a new project.

It is considering either the issue of a redeemable cumulative preference share or a Eurobond.

Advise the directors which of the following statements would justify the issue of preference shares over a bond?

- A. The company can claim tax relief on the dividend paid on the preference share at a higher rate than the interest paid on the Eurobond.
- B. Preference shares are not secured against the assets of the business - however, the Eurobond would be.
- C. The issue of the preference share would reduce the company's gearing - however, the Eurobond would increase it.
- **D. If profits are poor, dividends do not have to be paid on the preference share - however, interest would need to be paid on the Eurobond.**

Answer: D

NEW QUESTION # 162

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