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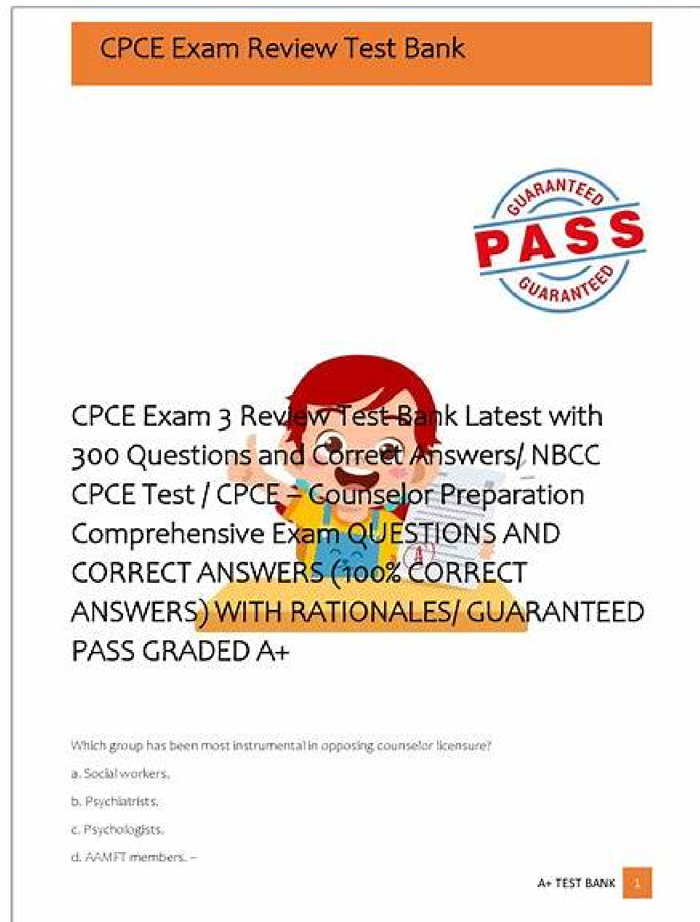

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CIMA F3 Financial Strategy Sample Questions (Q253-Q258):

NEW QUESTION # 253
Company HJK is planning to bid for listed company BNM
Financial data for BNM for the financial year ended 31 December 20X1:
HJK is not forecasting any growth in these figures for the foreseeable future Profit and cost data above should be assumed to be equivalent to cash flow data when answenng this question Which THREE of the following approaches would be most appropriate for HJK to use to value the equity of BNM?

- A. Cash flows of $30 million (= S40 million net of tax at 25%) discounted at WACC minus the value of debt
- B. Share price x number of shares in issue
- C. Cash flows of S24 million discounted at the cost of equity
- D. Cash flows of S14 million discounted at the cost of equity
- E. Share price x number of shares in issue plus retained profits

Answer: A,B,E

NEW QUESTION # 254
The directors of the following four entities have been discussing dividend policy:
Which of these four entities is most likely to have a residual dividend policy?

- A. B
- B. D
- C. A
- D. C

Answer: A

NEW QUESTION # 255
Company A is unlisted and all-equity financed. It is trying to estimate its cost of equity.
The following information relates to another company, Company B, which operates in the same industry as Company A and has similar business risk:
Equity beta = 1.6
Debt:equity ratio 40:60
The rate of corporate income tax is 20%.
The expected premium on the market portfolio is 7% and the risk-free rate is 5%.
What is the estimated cost of equity for Company A?
Give your answer to one decimal place.

Answer:

Explanation:
? %
A. 12.3, 12.30Company B's equity beta = 1.6, D:E = 40:60, tax = 20%.Ungear B's beta to get the asset beta:#A=#E×EE+D(1#T)=1.6×6060+40(1#0.2)=1.6×6060+32=1.6×6092=1.6×1523=2423#1.04\beta_A = \beta_E \times \frac{E}{E + D(1-T)} = 1.6 \times \frac{60}{60 + 40(1-0.2)} = 1.6 \times \frac{60}{60+32} = 1.6 \times \frac{60}{92} = 1.6 \times \frac{15}{23} = \frac{24}{23} \approx 1.04
#A=#E×E+D(1#T)E=1.6×60+40(1#0.2)60=1.6×60+3260=1.6×9260=1.6×2315=2324#1.04 Company A is all-equity, so its equity beta = asset beta = 1.04.Use CAPM:Ke=Rf+#(Rm#Rf)=5%+1.0435×7%#5%
+7.30%=12.3%K_e = R_f + \beta (R_m - R_f) = 5\% + 1.0435 \times 7\% \approx 5\% + 7.30\% = 12.3
\%Ke=Rf+#(Rm#Rf)=5%+1.0435×7%#5%+7.30%=12.3%
B. 12.3%

NEW QUESTION # 256

Company A has made an offer to acquire Company Z.
Both companies are quoted and their current market share prices are:
* Company A - $4
* Company Z - $5
Shareholders in company Z have been given three alternative offers:
* Cash of $5.50 per share
* Share for share exchange on the basis of 3 for 2
* 10.5% long dated bond for every 20 shares
The bond is has a nominal value of $100 and the expected yield on bonds of similar risk is 10%.
You are advising a Company Z shareholder on the three offers.
She requires a 15% premium if she is to accept the offer.
In providing your advice, which of the following statements is correct?

- A. The share for share exchange is the only offer which is above the acceptance threshold.
- B. The value of the consideration given by the cash and bond offers is certain, unlike the share offer.
- C. The bond offer is only worth $100 which represents a zero premium and should be rejected.
- D. The bond offer is above the minimum threshold and should be accepted.

Answer: A

NEW QUESTION # 257
A company's main objective is to achieve an average growth in dividends of 10% a year.
In the most recent financial year:
Sales are expected to grow at 8% a year over the next 5 years.
Costs are expected to grow at 5% a year over the next 5 years.
What is the minimum dividend payout ratio in 5 years' time that would allow the company to achieve its objective?

- A. 22.5%
- B. 21.7%
- C. 30.0%
- D. 27.5%

Answer: B

Explanation:
Current dividend = $6m.
Target dividend in 5 years:
6×1.105=6×1.61051#9.66m6 \times 1.10

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