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These F3 Financial Strategy (F3) practice test covers all the topics of the F3 test and includes real F3 questions. If you are attempting the F3 examination for the first time, you will get an exact idea about the F3 exam and how you can clear it with flying colors. These CIMA F3 Questions are available in desktop F3 practice exam software, web-based F3 practice test, and F3 Financial Strategy (F3) dumps pdf format.

CIMA F3 Financial Strategy Sample Questions (Q353-Q358):

NEW QUESTION # 353
Company A is planning to acquire Company B.
Company A's managers think they can improve the performance of Company B to the extent that its own P/E ratio should be applied to Company B's earnings.
Relevant Data:
What is the expected synergy if the acquisition goes ahead?
Give your answer to the nearest $ million.

$? million

Answer:

Explanation:
8, 8000000

NEW QUESTION # 354
A company is financed by debt and equity and pays corporate income tax at 20%.
Its main objective is the maximisation of shareholder wealth.
It needs to raise $200 million to undertake a project with a positive NPV of $10 million.
The company is considering three options:
* A rights issue.
* A bond issue.
* A combination of both at the current debt to equity ratio.
Estimations of the market values of debt and equity both before and after the adoption of the project have been calculated, based upon Modigliani and Miller's capital theory with tax, and are shown below:
Under Modigliani and Miller's capital theory with tax, what is the increase in shareholder wealth?

- A. $210 million if financed by equity
- B. $160 million if financed by a mixture of debt and equity
- C. $50 million if financed by debt
- D. $10 million irrespective of finance

Answer: C

NEW QUESTION # 355
Company S is planning to acquire Company T.
The shareholders in Company T will receive new shares in Company S in an all-share consideration.
Relevant information:
The shareholders in Company T want sufficient shares to receive a 25% premium on the pre-acquisition value of their shares, based on the pre-acquisition share price.
Which of the following share-for-share offers will achieve the desired result?

- A. 2 shares in Company S for 1 share in Company T
- B. 1 share in Company S for 1 share in Company T
- C. 1 share in Company S for 2 shares in Company T
- D. 10 shares in Company S for 4 shares in Company T

Answer: B

Explanation:
The pre-acquisition share prices are:
Company S: $5.00
Company T: $4.00
Shareholders in Company T want a 25% premium on the value of their shares, based on T's current price:
Required value per T share=4.00×1.25=$5.00\text{Required value per T share} = 4.00 \times 1.25 = \$5.00 Required value per T share=4.00×1.25=$5.00 Now value each offer using Company S's pre-acquisition share price of $5:
A). 2 S shares for 1 T share
Value received = 2×5=$102 \times 5 = \$102×5=$10 # 150% premium (too high)
B). 1 S share for 1 T share
Value received = 1×5=$51 \times 5 = \$51×5=$5 #
Premium =5#44=25%= \frac{5 - 4}{4} = 25\%=45#4=25% #
C). 1 S share for 2 T shares
That's 0.5 S per T # 0.5×5=$2.500.5 \times 5 = \$2.500.5×5=$2.50 # actually a discount
D). 10 S shares for 4 T shares
That's 2.5 S per T # 2.5×5=$12.502.5 \times 5 = \$12.502.5×5=$12.50 # huge premium (>200%) Only offer B gives T's shareholders exactly a 25% premium.
Correct answer: B - 1 share in Company S for 1 share in Company T.

NEW QUESTION # 356
An all-equity financed company currently generates total revenue of $50 million.
Its current profit before interest and taxation (PBIT) is $10 million.
Due to difficult trading conditions, the company expects its total revenue to be constant next year, although some margins will reduce.
It forecasts next year's PBIT will fall to 18% on 40% of its revenue, but that the PBIT on the other 60% of its revenue will be unaffected.
The rate of corporate tax is 20%.
What is the forecast percentage reduction in next year's Earnings?

- A. Reduction of 0.8%
- B. Reduction of 0%
- C. Reduction of 2.0%
- D. Reduction of 4.0%

Answer: D

Explanation:
Current year:
Revenue = $50m
PBIT = $10m # margin = 10/50 = 20%
Tax = 20%
Earnings = 10 × (1 # 0.20) = $8m
Next year:
Revenue still $50m
40% of revenue = $20m # margin falls to 18%
PBIT on this part=20×18%=3.6\text{PBIT on this part} = 20 \times 18\% = 3.6PBIT on this part=20×18%=3.
6
60% of revenue = $30m # margin stays 20%
PBIT on this part=30×20%=6.0\text{PBIT on this part} = 30 \times 20\% = 6.0PBIT on this part=30×20%=6.
0
Total PBIT next year:
3.6+6.0=9.6 million3.6 + 6.0 = 9.6\ \text{million}3.6+6.0=9.6 million
Earnings after tax next year:
9.6×(1#0.20)=9.6×0.8=7.68 million9.6 \times (1 - 0.20) = 9.6 \times 0.8 = 7.68\ \text{million}9.6×(1#0.20)=9.
6×0.8=7.68 million
Percentage reduction in earnings:
8.00#7.688.00=0.328=0.04=4%\frac{8.00 - 7.68}{8.00} = \frac{0.32}{8} = 0.04 = 4\%8.008.00#7.68=80.
32=0.04=4%
Correct option:
C). Reduction of 4.0%\boxed{\text{C. Reduction of 4.0\%}}C. Reduction of 4.0%

NEW QUESTION # 357
Company W has received an unwelcome takeover bid from Company B.
The offer is a share exchange of 3 shares in Company B for 5 shares in Company W or a cash alternative of $5.70 for each Company W share.
Company B is approximately twice the size of Company W based on market capitalisation. Although the two companies have some common business interested the main aim of the bid is diversification for Company B.
Company W has substantial cash balances which the directors were planning to use to fund an acquisition.
These plans have not been announced to the market.
The following share price information is relevant.
Which of the following would be the most appropriate action by Company W's directors following receipt of this hostile bid?

- A. Pay a one-off special dividend.
- B. Write to shareholders explaining fully why the company's share price is under valued.
- C. Refer the bid to the country's competition authorities.
- D. Change the Articles of Association to increase the percentage of shareholder votes required to approve a takeover.

Answer: B

NEW QUESTION # 358
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