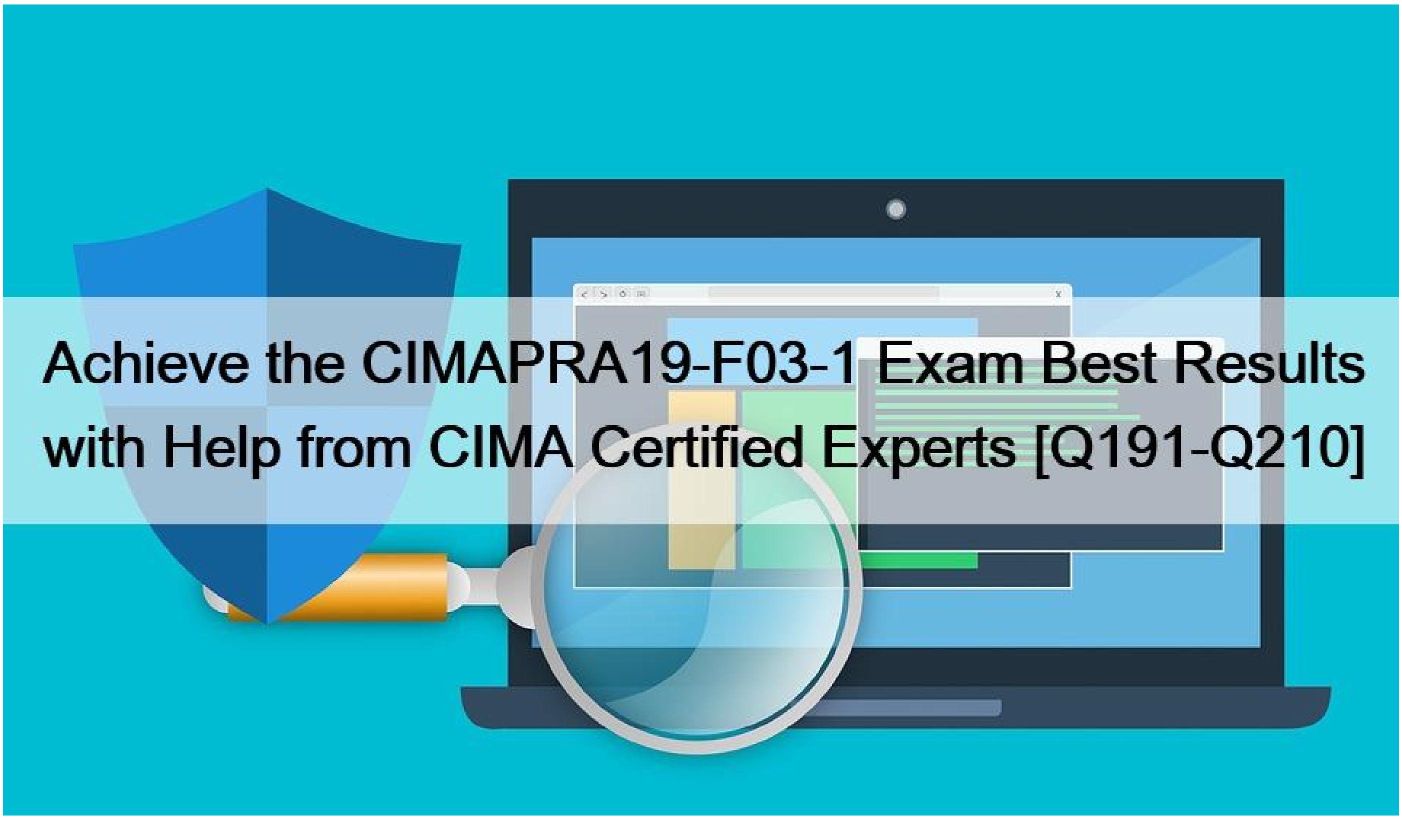
Achieve the CIMAPRA19-F03-1 Exam Best Results with Help from CIMA Certified Experts [Q191-Q210]



Achieve the CIMAPRA19-F03-1 Exam Best Results with Help from CIMA Certified Experts Provide CIMAPRA19-F03-1 Practice Test Engine for Preparation NEW QUESTION 191

Which THREE of the following methods of business valuation would give a valuation of the equity of an entity, rather than the value of the whole entity?
* Expected dividend in one year’s time / (cost of equity – growth rate).
* Total earnings x appropriate price-earnings ratio.
* Forecast future cash flows to all Investors, discounted at the weighted average cost of capital.
* Forecast future cash flows to equity, discounted at the cost of equity.
* Non-current assets, plus current assets, minus current liabilities

NEW QUESTION 192

A company s about to announce a new project that has a positive NPV.

If the market is semi-strong form efficient, which of the following statements is most Likely to be true?

The value of the company will.
* only change to incorporate historical information.
* Increase by the NPV of the project once the information has been announced

* already include the value of the project.
* increase only on completion of the project.

NEW QUESTION 193

RST wishes to raise at least $40 million of new equity by issuing up to 10 million new equity shares at a minimum price of $3.00 under an offer for sale by tender. It receives the following tender offers:

Share price	Number of equity shares asked for
$5.50	1 million
$5.00	3 million
$4.50	7 million
$4.00	9 million

What is the maximum amount that RST can raise by this share issue?

(Give your answer to the nearest $ million).

$ [ ] million

49

NEW QUESTION 194

ZZZ is a listed company based in Brinland. a European country. It is the largest owner and operator of residential care homes for elderly people in Brinland

Most of the residential care homes in Brinland are run by small private operators, and the standards of cafe are extremely variable However. 22Z has developed a good reputation because its client service is considered to be extremely good even though its prices are higher than those of most of its competitors.

ZZZ has expanded rapidly in the last few years, partly by acquisition and partly by organic growth consequently, the company’s share price now stands at a record high, and the dividend declared at the end of the most recent accounting period was 10% higher than the previous year’s dividend.

The Brinland government has recently set up a regulatory body to monitor the residential care homes industry. The regulatory body is considering introducing a variety of regulations to improve the customer experience in the industry. Following a period of consultation and investigation, the regulatory body is expected to announce a range of new regulations in the near future.

The directors of ZZZ are concerned that the new regulations may adversely affect their company

Which THREE of the following new regulations are likely to have the greatest negative impact on ZZTs performance?
* Imposition of a minimum staff to client ratio.
* Price controls, setting a maximum price that providers can charge
* Monopoly controls, forcing large operators to dispose of some care homes
* Imposition of a one-off “windfall” tax to fund training courses for carers across the industry
* Fines for companies that miss specified service level targets

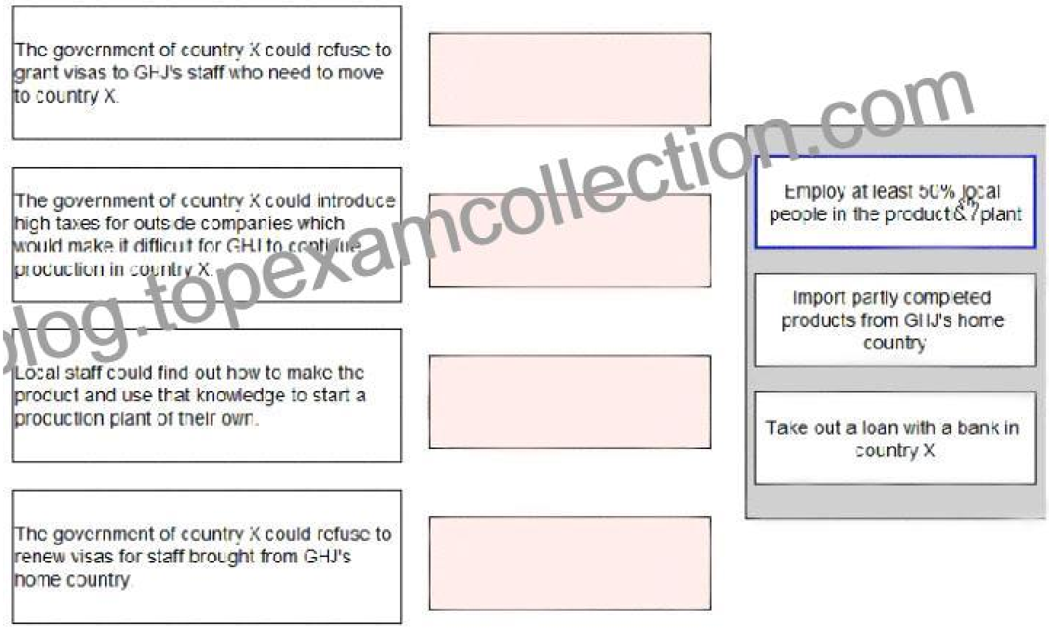
NEW QUESTION 195

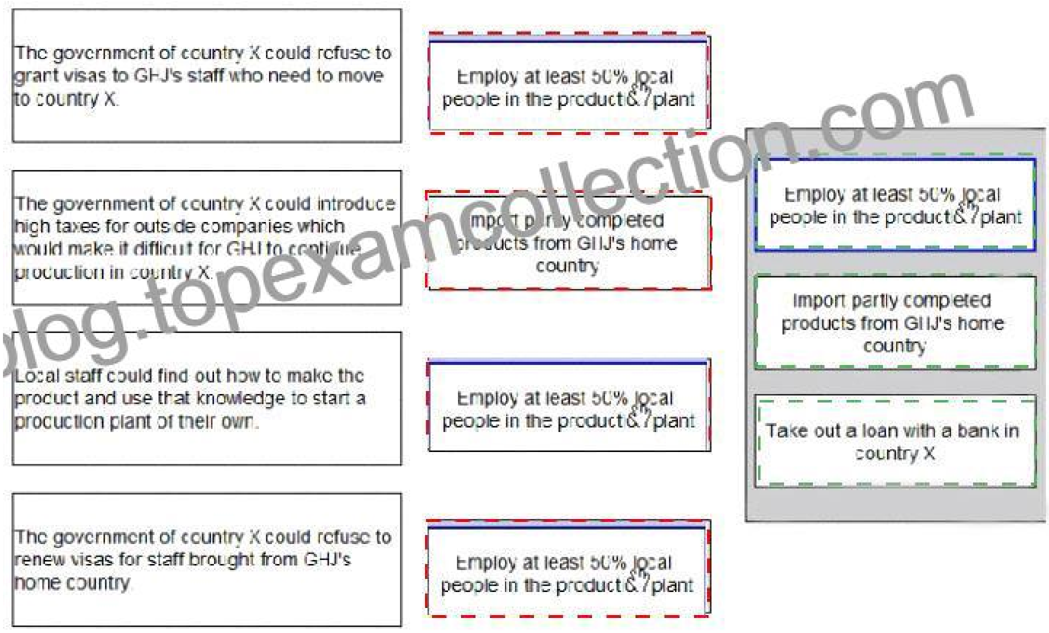
CI IJ has decided to move its production plant to overseas country X.

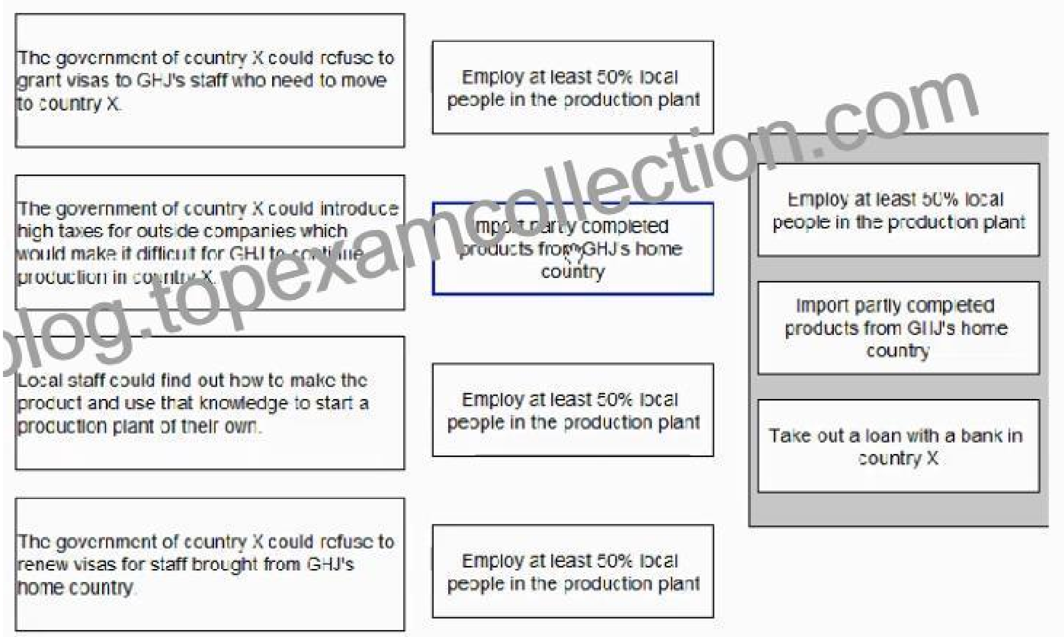
This would make the product cheaper to produce. The technology used to make the product is very advanced and some of the skilled staff would have to move to country X.

The Production Director has identified that there are some political risks in moving to county X.

For each of the political risks of moving to country X shown below, select the correct method for reducing the risk.







NEW QUESTION 196

A is a listed company. Its shares trade on a stock market exhibiting semi-strong form efficiency.

Which of the following is most likely to increase the wealth of A’s shareholders?
* Announcing that a project will be undertaken generating a positive net present value.
* Announcing that the final dividend will remain unchanged from the previous 3 years.
* Announcing that a non-current asset will be revalued in the statement of financial position.
* Announcing that inventory will be impaired.

NEW QUESTION 197

Company A is planning to acquire Company B. Both companies are listed and are of similar size based on market capitalisation No approach has yet been made to Company B’s shareholders as the directors of Company A are undecided about the most suitable method of financing the offer Two methods are under consideration a share exchange or a cash offer financed by debt.

Company A currently has a gearing ratio (debt to debt plus equity) of 30% based on market values. The average gearing ratio (debt to debt plus equity) for the industry is 50% Although no formal offer has been made there have been market rumours of the proposed bid. which is seen as favorable to Company A.

As a consequence. Company As share price has risen over the past few weeks while Company B’s share price has fallen.

Which THREE of the following statements are most likely to be correct?
* Based on current share price movements, a share exchange would mean Company A has to issue fewer shares to acquire Company B than it would have done a few weeks ago
* Company B’s shareholders will be able to participate in the future growth of the combined business if it is a share exchange
* The method of finance chosen will not affect the post-acquisition earning per share of the combined business
* Company A’s weighted average cost of capital will fall if financing is with debt
* Company A’s gearing will increase following a share exchange.

NEW QUESTION 198

Company Y plans to diversify into an activity where Company X has an equity beta of 1.6, a debt beta of zero and gearing of 50% (debt/debt plus equity).

The risk-free rate of return is 5% and the market portfolio is expected to return 10%.

The rate of corporate income tax is 30%.

What would be the risk-adjusted cost of equity if Company Y has 60% equity and 40% debt?
* 11.6%
* 11.9%
* 9.1%
* 13%

NEW QUESTION 199

A company is considering either directly exporting its product to customers in a foreign country or setting up a subsidiary in the foreign country to manufacture and supply customers in that country.

Details of each alternative method of supplying the foreign market are as follows:

	Sell to Foreign Customers from Domestic Market	Sell to Foreign Customers from New Foreign Subsidiary
Total revenue	A$100,000	B$104,500
Total costs	A$45,000	B$49,500
Corporate tax rate	25%	30%

There is an import tax on product entering the foreign country of 10% of sales value.

This import duty is a tax-allowable deduction in the company’s domestic country.

The exchange rate is A$1.00 = B$1.10

Which alternative yields the highest total profit after taxation?
* Domestic: A$41,250
* Domestic: A$33,750
* Foreign subsidiary: A$35,000

* Foreign subsidiary: A$38,500

NEW QUESTION 200

A listed company plans to raise $350 million to finance a major expansion programme.

The cash flow projections for the programme are subject to considerable variability.

Brief details of the programme have been public knowledge for a few weeks.

The directors are considering two financing options, either a rights issue at a 20% discount to current share price or a long term bond.

The following data is relevant:

The company’s share price has fallen by 5% over the past 3 months compared with a fall in the market of

3% over the same period.

The directors favour the bond option.

However, the Chief Accountant has provided arguments for a rights issue.

Which TWO of the following arguments in favour of a right issue are correct?
* The issue of bonds might limit the availability of debt finance in the future.
* The recent fall in the share price makes a rights issue more attractive to the company.
* The rights issue will lead to less pressure on the operating cash flows of the programme.
* The WACC will decrease assuming Modigliani and Miller’s Theory of Capital Structure without taxes applies.
* The administrative costs of a rights issue will be lower.

NEW QUESTION 201

A company’s dividend policy is to pay out 50% of its earnings.

Its most recent earnings per share was $0.50, and it has just paid a dividend per share of $0.25.

Currently, dividends are forecast to grow at 2% each year in perpetuity and the cost of equity is 10.5%.

In order to grow its earnings and dividends, the company is considering undertaking a new investment funded entirely by debt finance. If the investment is undertaken:

* Its cost of equity will immediately increase to 12% due to the increased finance risk.

* Its earnings and dividends will immediately commence growing at 4% each year in perpetuity.

Which of the following is the expected percentage change in the share price if the new investment is undertaken?
* Increase = 8.3%
* Increase = 2%
* Increase = 10.5%
* Decrease = 7.7%

NEW QUESTION 202

A company’s annual dividend has grown steadily at an annual rate of 3% for many years. It has a cost of equity of 11%. The share price is presently $64.38.

The company is about to announce its latest dividend, which is expected to be $5.00 per share.

The Board of Directors is considering an attractive investment opportunity that would have to be funded by reducing the dividend to $4.50 per share. The board expects the project to enable future dividends to grow by 5% every year and the cost of equity to remain unchanged.

Calculate the change in share price, assuming that the directors announce their intention to proceed with this investment opportunity.

Give your answer to 2 decimal places.

$?
14.37

NEW QUESTION 203

Company A, a listed company, plans to acquire Company T, which is also listed.

Additional information is:

* Company A has 100 million shares in issue, with market price currently at $8.00 per share.

* Company T has 90 million shares in issue,. with market price currently at $5.00 each share.

* Synergies valued at $60 million are expected to arise from the acquisition.

* The terms of the offer will be 2 shares in A for 3 shares in B.

Assuming the offer is accepted and the synergies are realised, what should the post-acquisition price of each of Company A’s shares be?

Give your answer to two decimal places.

$? .
* 8.19, 8.18
* 8.19, 6.18

NEW QUESTION 204

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

NEW QUESTION 205

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?
* Interest rates on deposit accounts are currently at an historic low and are expected to remain low
* Taxation is payable on realised capital gains.
* Company YZZ Is not expected to change *s dividend policy post-acquisition
* Cash consideration is certain whereas Company YZZ’s future share price performance is uncertain
* There will be no opportunity to participate in the future economic success of Company YZZ

NEW QUESTION 206

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

These are expected to remain constant for the forseeable 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 it’s 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?
* Reduction of 7%
* Reduction of 5%
* Reduction of 1%
* Reduction of 0%

NEW QUESTION 207

RR has agreed to sell goods to XX for S20.000 XX will pay when the goods are delivered in 6 months time.

RR’s home currency is the £- The current exchange rate is 4.3 £/S. The projected inflation rate for the S is

2.8%, and for the E 4 6%.

When RR receives payment for its goods, what will the value be to the nearest pound?
* £87.506
* £85,243
* £86 760
* £84.520

NEW QUESTION 208

A new company was set up two years ago using the personal financial resources of the founders.

These funds were used to acquire suitable premises.

The company has entered into a long-term lease on the premises which are not yet fully fitted out.

The founders are considering requesting loan finance from the company’s bank to fund the purchase of custom-made advanced technology equipment.

No other companies are using this type of equipment.

The company expects to continue to be profitable for the forseeable future.

It re-invests some of its surplus cash in on-going essential research and development.

Which THREE of the following features are likely to be considered negatives by the bank when assessing the company’s credit-worthiness?
* The equipment is advanced technology custom-made equipment.
* The company will continue to remain profitable and to generate net cash.
* The company premises are on a long-term lease but are not yet fully fitted out.
* The founders invested their personal financial resources in the company.
* Essential on-going research and development expenditure is required.

NEW QUESTION 209

Company A has just announced a takeover bid for Company B. The two companies are large companies in the same industry_ The bid is considered to be hostile.

Company B’s Board of Directors intends to try to prevent the takeover as they do not consider it to be in the best interests of shareholders

Which THREE of the following are considered to be legitimate post-offer defences?
* Have all the assets independently professionally revalued to demonstrate that the offer undervalues the company
* Alter the memorandum and articles of association to state that a minimum of 75% of shareholders must agree to the bid before it can proceed
* Make a counter bid for Company A provided such an acquisition could enhance Company B’s shareholder wealth
* Publish very optimistic financial forecasts for Company B even though the Board of Directors realises that these are highly unlikely to be achievable
* Refer the bid to the competition authorities to try to have the bid prohibited on competition grounds

NEW QUESTION 210

A listed company follows a policy of paying a constant dividend. The following information is available:

* Issued share capital (nominal value $0.50) $60 million

* Current market capitalisation $480 million

The shareholders are requesting an increased dividend this year as earnings have been growing. However, the directors wish to retain as much cash as possible to fund new investments. They therefore plan to announce a 1-for-10 scrip dividend to replace the usual cash dividend.

Assuming no other influence on share price, what is the expected share price following the scrip dividend?

Give your answer to 2 decimal places.

$?
3.64, 3.63, 3.65

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