

# Free Questions for CIMAPRA19-F03-1 by certsdeals

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## **Question 1**

### **Question Type:** MultipleChoice

An unlisted company has the following data:

Earnings in the last financial year	\$6 million
Share price	\$2
Number of \$1 shares in issue	40 million
Retained earnings	\$20 million
Share capital	\$40 million
Revaluation reserve	\$4 million

A listed company in the same industry has a P/E of 11.

The value of the unlisted company based on the P/E of this listed company is:

11 x \$	million
11 ΛΨ	11111111011

Give your answer to the nearest whole number.

### **Options:**



**B-** 8

#### **Answer:**

Α

## **Question 2**

### **Question Type:** MultipleChoice

Company XXY operates in country X with the X\$ as its currency. It is looking to acquire company ZZY which operates in country Z with the Z\$ as its currency.

The assistant accountant at Company XXY has started to prepare an initial valuation of Company ZZY's equity for the first 3 years, however their valuation is incomplete. TBC' in the table below indicates that her calculations have yet to be completed.

	Year 1	Year 2	Year 3
Forecast free cash flow to all investors Z\$ million	200	220	240
Forecast exchange rate	TBC	TBC	TBC
Forecast free cash flow to all investors X\$ million	TBC	TBC	TBC
Discount factor @ 8%	0.926	0.857	0.794
Present value X\$ million	TBC	TBC	TBC

The following information is relevant:

Current exchange rate	Z\$ 1 = X\$ 2
Rate of inflation in country X	2%
Rate of inflation in country Z	4%

What is the correct figure (to the nearest million S) to include in year 3 as the present value in X\$ million?

## **Options:**

- A- X\$453 million
- B- X\$504 million
- C- X\$401 million
- D- X\$360 million

#### **Answer:**

D

## **Question 3**

### **Question Type:** MultipleChoice

A company intends to sell one of its business units. Company W, by a management buyout (MBO). A selling price of S200 million has been agreed.

The managers are discussing with a bank and a venture capital company (VCC) the following financing proposal.

	\$ million
Managers – equity	10
VCC - equity	50
VCC - debt	80
Bank loan	60
Total	200

place.	
S	million
Options:	
<b>A-</b> 65	
<b>B-</b> 55	
Answer:	
A	
Question 4	
uestion Type: MultipleChoice	

The VCC requires a minimum return on its equity investment In the MBO of 35% a year on a compound basis over 5 years. What is the minimum total equity value of Company W in 5 years time in order to meet the VCC's required return? Give your answer to one decimal

Company A has agreed to buy all the share capital of Company B.

The Board of Directors of Company A believes that the post-acquisition value of the expanded business can be computed using the "boot-strapping" concept.

Which of the following most accurately describes "boot-strapping" in this context?

### **Options:**

- A- Forecasting the future free cash flows of the combined entities and discounting these at the bidder's Weighted Average Cost of Capital
- B- Adding together the current post tax earnings of each company and multiplying this by the price earnings ratio of the acquired entity
- C- Adding together the current post-tax earnings of each company and multiplying this by the price/earnings ratio of the bidder
- D- Combining the pre-acquisition market capitalisation of each company

#### **Answer:**

С

## **Question 5**

**Question Type:** MultipleChoice

A company is located in a single country. The company manufactures electrical goods for export and for sale in its home country. When exporting, it invoices in its customers' currency. What currency risks is the company exposed to?

### **Options:**

- A- Transaction risk only
- B- Transaction, economic and translation risks.
- C- Transaction and economic risks
- D- Translation and economic risks.

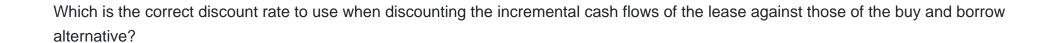
#### **Answer:**

В

## **Question 6**

#### **Question Type:** MultipleChoice

A geared and profitable company is evaluating the best method of financing the purchase of new machinery. It is considering either buying the machinery outright, financed by a secured bank borrowing and selling the machinery at the end of a fixed period of time or obtain the machinery under a lease for the same period of time.



### **Options:**

- A- The post-tax cost of the bank borrowing
- B- The company's cost of equity
- **C-** The company's WACC.
- D- The pre-tax cost of the bank borrowing

### **Answer:**

С

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