Free Questions for CIMAPRA19-F03-1 by certsinside

Shared by Alford on 20-10-2022

For More Free Questions and Preparation Resources

Check the Links on Last Page

Question 1

Question Type: MultipleChoice

NNN is a company financed by both equity and debt. The directors of NNN wish to calculate a valuation of the company's equity and at a recent board meeting discussed various methods of business valuation.

Which THREE of the following are appropriate methods for the directors of NNN to use in this instance?

Options:

A- Total earnings multiplied by a suitable price-earnings ratio.

B- Cash flow to all investors discounted at WACC less the value of debt.

C- Cash flow to all investors discounted at WACC.

D- Cash flow to equity discounted at the cost of equity less the value of debt.

E- Cash flow to equity discounted at the cost of equity.

Answer:

A, B, E

Question 2

Question Type: MultipleChoice

A financial services company reported the following results in its most recent accounting period:

	$ million
Revenue	13.90
Operating costs	(6.15)
Profit before interest and tax	7.75
Interest	(1.50)
Profit before tax	6.25
Tax (20%)	1.25
Profit for the year	5.00

The company has an objective to achieve 5% earnings growth each year. The directors are discussing how this objective might be achieved next year.

Revenues have been flat over the last couple of years as the company has faced difficult trading conditions. Revenue is expected to stay constant in the coming year and so the directors are focussing efforts on reducing costs in an attempt to achieve earnings growth next year.

Interest costs will not change because the company's borrowings are subject to a fixed rate of interest.

What operating profit margin will the company have to achieve next year in order to just achieve its 5% earnings growth objective'?

Options:

A- 55.8%

B- 60.0%

C- 58.0%

D- 58.5%

Answer:

C

Question 3

Question Type: **MultipleChoice**

A company is based in Country Y whosefunctionalcurrency isY$. It has an investment in CountryZwhosefunctionalcurrency isZ$.

This year the company expects to generateZ$10 million profit after tax.

Tax Regime:

* Corporate income taxrate in country Yis 50%

* Corporate income tax rate in country Z is 20%

* Full double tax relief is available

Assume an exchange rate ofY$1 = Z$ 5.

What is the expected profit after tax in Y$ if the Z$ profit is remitted to Country Y?

Options:

A- Y$ 1.25 million

B- Y$ 1.00 million

C- Y$ 31.25 million

D- Y$ 4.00 million

Answer:

A

Question 4

Question Type: **MultipleChoice**

A company needs to raise $20 million to finance a project.

It has decided on a rights issue at a discount of 20% to its current market share price.

There are currently 20 million shares in issuewith a nominal value of $1 and a marketprice of $5per share.

Calculate the terms of the rights issue.

Options:

A- 1 new share for every 4 existing shares

B- 1 new share for every 20 existing shares

C- 1 new share for every 5 existing shares

D- 1 new share for every 25 existing shares

Answer:

A

Explanation:

Calc_Set2

Question 5

Question Type: **MultipleChoice**

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 tradeat $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 increasenext yearto 6% andit's Price/Earnings (P/E) ratioto move to 9.5 times by the end of next year.

What percentagereduction in the share pricewill occurby the end of next year iftheinterest rate increaseand theP/Emovementboth occur?

Options:

A- Reduction of 7%

B- Reduction of 5%

C- Reduction of 1%

D- Reduction of 0%

Answer:

A

Question 6

Question Type: **MultipleChoice**

Listed company R is in the process of making a cash offer for the equity of unlisted company S.

Company R has a market capitalisation of $200 million and a price/earnings ratio of 10.

Company S has a market capitalisation of $50 million and earnings of $7 million.

Company R intends to offer $60 million and expects to be able to realise synergistic benefits of $20 million by combining the two businesses. This estimate excludes the estimated $8 million cost of integrating the two businesses.

Which of the following figures need to be used when calculating thevalue of the combined entity in $ millions?

Options:

A- 8, 20, 50, 60, 200

B- 8, 20, 50, 200

C- 20, 50, 60, 200

D- 7, 10, 20, 50, 200

Answer:

A

Explanation:

Calculation_F0

Calc_Set1

Question 7

Question Type: **MultipleChoice**

A listed company has recently announced a profit warning.

The company's share price fell 20% on the day of the announcement but had been fairly static in the weeks leading up to the announcement.

Which form of efficient market is most likely to be indicated by this share price movement?

Options:

A- Weak form

B- Semi-strong form

C- Strong form

D- Random walk

Answer:

B

Question 8

Question Type: **MultipleChoice**

Aconsultancycompanyis dependent for profits and growth on the high value individuals it employs.

The company hasrelatively fewtangible assets.

Select the most appropriate reason for the net asset valuation method being considered unsuitable for such a company.

Options:

A- It does not account for the intangible assets.

B- It accounts for the intangible assets at historical value.

C- It accounts for intangible assets at net realisable value.

D- It does not account for tangible assets.

Answer:

A

Question 9

Question Type: MultipleChoice

A company is deciding whether to offer a scrip dividend or a cash dividend to its shareholders.

Although the company has excellent long-term growthprospects, it is experiencing short-term profit and cash flow problems.

Which of the following statements is most likely to be a reason for choosing the scrip dividend?

Options:

A- It is a way of raising additional finance to promote future growth.

B- It is a way of increasing earnings per share.

C- It is a way of encouraging shareholders to allow cash to be retained in the business.

D- It is a way of increasing dividend per share.

Answer:

C

Question 10

Question Type: **MultipleChoice**

A company has some 7% coupon bonds in issue and wishes tochangeitsinterest rate profile.

It has decided to do this by entering into a plain coupon interest rate swap with it's bank.

The bank has quoted a swap rate of: 6.0% - 6.5% fixed against LIBOR.

What will the company'snew interest rate profilebe?

Options:

A- VARIABLE at LIBOR

B- VARIABLE at LIBOR + 0.5%

C- VARIABLE at LIBOR + 1.0%

D- FIXED at 6.5%

Answer:

C