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Question 1

Question Type: **MultipleChoice**

PYP is a listed courier company. It is looking to raise new finance to fit each of its delivery vans with new equipment to allow improved parcel tracking for customers The senior management team of PYP have decided on a 10-year secured bond to finance this investment-

Which TWO of the following variables are most likely to decrease the yield to maturity of the bond?

Options:

A- Changing the term of the bond from 1 0 years to 5 years to match the expected life of the new equipment

B- The announcement of a new contract for PYP that will increase operating profits by 5/o over the next 5 years.

C- The senior management team decide to issue a convertible bond rather than a conventional bond

D- The senior management team decide to issue an unsecured bond rather than a secured bond

Answer:

A, C

Question 2

Question Type: **MultipleChoice**

A private company was formed five years ago and is currently owned and managed by its five founders. The founders, who each own the same number of shares have generally co-operated effectively but there have also been a number of areas where they have disagreed

The company has grown significantly over this period by re-investing its earnings into new investments which have produced excellent returns

The founders are now considering an Initial Public Offering by listing 70% of the shares on the local stock exchange

Which THREE of the following statements about the advantages of a listing are valid?

Options:

A- Reduces agency conflict

B- Increases dividend payouts

C- Helps access to wider sources of finance.

D- Provides an exit route for the founders

E- Increases the profile and reputation of the business.

Answer:

C, D, E

Question 3

Question Type: **MultipleChoice**

DFG is a successful company and its shares are listed on a recognised stock exchange. The company's gearing ratio is currently in line with the industry average and the directors of DFG do not want to increase the company's financial risk. The company does not carry a large cash balance and its shareholders are not expected to be willing to support a rights issue at this time

LMB is a small services company owned and managed by a small board of directors who are going to retire within the next year

DFG wishes to purchase LMB and has approached LMB's owners, who are broadly open to the proposal, to discuss the bid and the consideration to be offered by DFG. LMB's owners explain to DFG that they are also keen to defer any tax liabilities they would be subject to on receipt of the consideration.

Based on the information provided, which of the following types of consideration would be most suitable to finance the acquisition?

Options:

A- Loan stock in DFG for the current value of LMB

B- DFG shares for the current value of LMB

C- Cash for the current value of LMB

D- DFG shares for a percentage of the current value of LMB plus a three year earn-out arrangement

Answer:

B

Question 4

Question Type: MultipleChoice

Which TWO of the following situations offer arbitrage opportunities?

A)

Spot rate F$1 = K$1.40
12 month forward rate F$1 = K$1.44
Interest rates on 12 month deposits = 5% on F$ and 8% on K$

B)

Current spot rates
F$1 = K$1.40
K$1 = L$2.10
L$1 = F$0.34

C)

I Current spot rates
F$1 = K$1.40
K$1 = L$2.10
L$1 = F$0.40

D)

Spot rate F$1 = K$1.40
12 month forward rate F$1 = K$1.44
Interest rates on 12 month deposits = 5% on F$ and 9% on K$

Options:

A- Option A

B- Option B

C- Option C

D- Option D

Answer:

B

Question 5

Question Type: **MultipleChoice**

LPM Company is based in Country C. whose currency is the CS

It has entered Into a contract to buy a machine in three months' time. The supplier is overseas and the payment is to be made in a different currency from the CS

The treasurer at LPM Company is considering using a money market hedge to manage the transaction risk associated with a payment.

The assumptions of interest rate parity apply

Which THREE of the following statements concerning the use of a money market hedge for this supplier payment are correct?

Options:

A- Any opportunity to benefit from future exchange rate movements is lost.

B- It can be tailored to match the size of the payment

C- It manages transaction risk

D- It offers a significantly better outcome than a forward contract

E- It avoids the need to find immediate finance

Answer:

B, C, D

Question 6

Question Type: **MultipleChoice**

A company currently has a 5.25% fixed rate loan but it wishes to change the interest style of the loan to variable by using an interest rate swap directly with the bank.

The bank has quoted the following swap rate:

* 4.50% - 455% in exchange for Libor

Libor is currently 4%.

If the company enters into the swap and Libor remains at 4%. what will the company's interest cost be?

Options:

A- 4.70%

B- 4.75%

C- 5.25%

D- 4.00%

Answer:

D

Question 7

Question Type: MultipleChoice

Companies L. M N and O:

* are based in a country that uses the RS as its currency

* have an objective to grow operating profit year on year

* have the same total levels of revenue and cost

* trade with companies or individuals in the United States. All import and export trade with companies or individuals in the United States is priced in US$.

Typical import/export trade for each company in a year are as follows:

Company	L	M	N	O
Imports in US$ millions	10	-	25	15
Exports in US$ millions	20	18	21	-

Which company's growth objective is most sensitive to a movement in the USS / RS exchange rate?

Options:

A- Company L

B- Company M

C- Company N

D- Company O

Answer:

A

Question 8

Question Type: **MultipleChoice**

Company A operates in country A with the AS as its functional currency. Company A expects to receive BS500.000 in 6 months' time from a customer in Country B which uses the B$.

Company A intends to hedge the currency risk using a money market hedge

The following information is relevant:

Spot rate	A$1 = B$15.00
Six-month forward rate	A$1 = B$15.50

What is the AS value of the BS expected receipt in 6 months' time under a money market hedge?

Options:

A- AS32, 532

B- AS31, 790

C- AS32, 051

D- AS31, 482

Answer:

C

Question 9

Question Type: **MultipleChoice**

A company plans to raise S15 million to finance an expansion project using a rights issue Relevant data

* Shares will be offered at a 20% discount to the present market price of S12 50 per share

* There are currently 3 million shares in issue

* The project is forecast to yield a positive NPV of $9 million

What is the yield-adjusted Theoretical Ex-Rights Price following the announcement of the rights issue?

Options:

A- $11.67

B- $11 25

C- $9.50

D- $13.67

Answer:

A