Free Questions for CIMAPRA19-F03-1 by dumpshq

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Question 1

Question Type: **MultipleChoice**

A large, listed company in the food and household goods industry needs to raise $50 million for a period of up to 6 months.

It has an excellent credit rating and there is almost no risk of the company defaulting on the borrowings. The company already has a commercial paper programme in place and has a good relationship with its bank.

Which of the following is likely to be the most cost effective method of borrowing the money?

Options:

A- Bank overdraft

B- 6 month term loan

C- Treasury Bills

D- Commercial paper

Answer:

D

Question 2

Question Type: **MultipleChoice**

A company is currently all-equity financed.

The directors are planning to raise long term debt to finance a new project.

The debt:equity ratio after the bond issue would be 30:60 based on estimated market values.

According to Modigliani and Miller's Theory of Capital Structurewithouttax, the company's cost of equity would:

Options:

A- stay the same.

B- decrease.

C- increase.

D- increase or decrease depending on the bond's coupon rate.

Answer:

C

Question 3

Question Type: MultipleChoice

A company's Board of Directors is assessing the likely impact of financing future new projects using either equity or debt.

The directors are uncertain of the effects on key variables.

Which THREE of the following statements are true?

Options:

A- The choice between using either equity or debt will have no impact on the amount of corporate income tax payable.

B- Retained earnings has no cost, and is therefore the cheapest form of equity finance.

C- Debt finance is always preferable to equity finance.

D- Debt finance will increase the cost of equity.

E- Equity finance will reduce the overall financialrisk.

F- Equity finance will increase pressure to pay a higher total future dividend.

Answer:

D, E, F

Question 4

Question Type: **MultipleChoice**

A company has in a 5% corporate bond in issue on which there are two loan covenants.

* Interest covermust not fall below 3 times

* Retained earnings for the yearmust not fall below $3.5 million

The Company has 200 million shares in issue.

The most recent dividend per share was $0.04.

The Company intends increasing dividends by 10% next year.

Financial projections for next year are as follows:

Advise the Board of Directors which of the following will be the status of compliance with the loan covenants next year?

Options:

A- The company will be in compliance with both covenants.

B- The company will be in breach of both covenants.

C- The company will breach the covenant in respect of retained earnings only.

D- The company will be in breach of the covenant in respect of interest cover only.

Answer:

C

Question 5

Question Type: **MultipleChoice**

The International Integrated Reporting Council (IIRC) was formed in August 2010 and brings together a cross-section of representatives from a wide variety of business sectors.

Theprimary purpose of theIIRC's framework is to help enable an organsation to communicate how it:

Options:

A- minimises the environmental impact of its business processes.

B- creates value in the short, medium and long term.

C- contributes positively to the economic well being of the environment in which it operates.

D- ensures that the conflicting needs of different stakeholder groups are met in an optimal manner.

Answer:

B

Question 6

Question Type: **MultipleChoice**

A company based inCountry D, whose currency is the D$, has an objective of maintaining an operating profit margin of at least 10% each year.

Relevant data:

* The companymakes sales to Country E whose currency is the E$. It also makes sales to Country F whose currency is the F$.

* All purchases are from Country G whose currency is the G$.

* The settlement of all transactions is in the currency of the customer or supplier.

Whichof the following changes wouldbe most likely to help the company achieve its objective?

Options:

A- The D$ strengthens against the E$ over time.

B- The F$ weakens against the D$ over time.

C- The D$ strengthens against the G$ over time.

D- The D$ weakens against the G$ over time.

Answer:

C

Question 7

Question Type: MultipleChoice

Providers of debt finance often insist on covenants being entered into when providing debt finance for companies.

Agreement and adherence to the specific covenants is often a condition of the loan provided by the lender.

Which THREE of the following statements are true in respect of covenants?

Options:

A- Covenants are entered into to penalise the company.

B- Covenants are entered into to give the lender added protection on the loan extended to the company.

C- Covenants are entered into to impose financial discipline on the company.

D- Covenants enable the lender to demand immediate repayment or to renegotiate terms if it is breached.

E- Covenants are entered into to eliminate the tax liability of the company.

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Answer:

B, C, D

Question 8

Question Type: **MultipleChoice**

The Board of Directors of a listed company is considering the company's dividend/retentions policy.

The inflation rate in the economy is currently high and is expected to remain so for the foreseeable future.

The board are unsure what impact the high level of inflation might have on the dividend policy.

Which THREE of the following statements are true?

Options:

A- The high inflation rate does not need to be considered when determining the dividend policy.

B- Consideration should be given to the fact that shareholders will have a desire for real growth in dividend.

C- Retained earnings for reinvestment will have to earn a return in excess of the inflation level.

D- The impact of inflation on the cash flows should be considered when formulating the dividend policy.

E- In periods of high inflation 100% of earnings should always be paid out as dividends so that shareholders can protect their wealth against the impact of inflation.

Answer:

B, C, D

Question 9

Question Type: MultipleChoice

The Board of Directors of Company T is considering a rights issue to fund a new investment opportunity which has a zero NPV.

The Board of Directors wishes to explain to shareholders what the theoretical impact on their wealth will be as a result of different possible actions during the rights issue.

Which THREE of the following statements in respect of theoreticalshareholder wealth are true?

Options:

A- If shareholders exercise their full rights there will be no impact on their wealth.

B- If the shareholders allow their rights to lapse (do nothing) there will be no impact on their wealth.

C- If shareholders sell their entire rights entitlement there will be no impact on their wealth.

D- If the shareholders only partially exercise their rights and allow the remainder to lapse there will be no impact on their wealth.

E- If shareholders partially exercise their rights and sell the remaining rights entitlement there will be no impact on their wealth.

Answer:

A, C, E

Question 10

Question Type: MultipleChoice

A listed company in a high growth industry, where innovation is a key driver of success hasalways operated a residual dividend policy, resulting involatility in dividends due to periodic significant investments in research and development.

The company has recently come under pressure from some investors to change its dividend policy so that shareholders receive a consistent growing dividend. In addition, they suggested that the company should use more debt finance.

If the suggested change is made to the financial policies, which THREE of the following statements are true?

Options:

A- It may give a signal to the market that the company is entering a period of stable growth.

B- There may be a change to the shareholder profile due to'the clientele effect'.

C- The directors will not have to take shareholder dividend preferences into consideration in future.

D- Retained earnings have a lower cost than debt finance.

E- The company's financial risk will increasedue to its increased use of debt finance.

Answer:

A, B, E

Question 11

Question Type: **MultipleChoice**

A listed company in the retail sector has accumulated excess cash.

In recent years, it has experienced uncertainly with forecasting the required level of cash for capital expenditure due to unpredictable economic cycles.

Its excess cash is on deposit earning negligible returns.

The Board of Directors is considering the company's dividend policy, and the need to retain cash in the company.

Which THREE of the followingare advantages of retaining excess cash in the company?

Options:

A- Retaining excess cash may make the company vulnerable to hostile takeover.

B- The excess cash is earning a negligible return.

C- The company will be in a position to respond promptly to unexpected investment opportunities.

D- Liquidity problems are less likely to be experienced if there is a downturn in business.

E- The market may interpret the return of excess cash as a sign of weak growth prospects.

Answer:

C, D, E

Question 12

Question Type: **MultipleChoice**

A listed company with a growing share priceplans to finance a four-yearresearchprojectwith debt.

The main criterion for the finance is to minimise the annual cashflow payments on the debt.

The research will be sold at the end of the project.

Which of the following would be the most suitable financing method for the company?

Options:

A- Bonds with warrants

B- Finance lease

C- Standard bonds

D- Bank loan

Answer:

A