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Question 1

Question Type: **MultipleChoice**

WX, an advertising agency, has just completed the all-cash acquisition of a competitor, YZ. This was seen by the market as a positive strategic move byWX.

Which THREE of the following will WX's shareholders expect the company's directors to prioritise following the acquisition?

Options:

A- The integration and retention of key employees of YZ.

B- The development of a dividend policy to meet the expectations of the YZ's shareholders.

C- The regulatory approval required to complete the acquisition.

D- The retention of YZ's key customers.

E- The realisation of anticipated post-acquisition synergies.

Answer:

A, C, E

Question 2

Question Type: **MultipleChoice**

Which THREE of the following statements are true of a money market hedge?

Options:

A- They offer roughly the same outcome as a forward contract.

B- They leave the company exposed to currency risks.

C- They may be a little more flexible in comparison to a forward contract.

D- They are more complex than forward contracts.

E- They are easy to set up.

Answer:

A, B, D

Question 3

Question Type: **MultipleChoice**

F Co. is a large private company, the founder holds 60% of the company's share capital and her 2 children each hold 20% of the share capital.

The company requires a large amount of long-term finance to pursue expansion opportunities, the finance is required within the next 3 months. The family has agreed that an Initial Public Offering (IPO) should not be pursued at this time, because it would take up to 12 months to arrange.

The existing shareholders are currently considering raising the required finance from an established Venture Capitalist in the form of debt and equity. The Venture Capitalist has agreed to provide the required finance provided it can earn a return on investment of 25% per year. In addition, the Venture Capitalist requires 60% of the equity capital, a directorship in the company and a veto on all expenditure of a capital or revenue nature above a specified limit.

From the perspective of the family, which of the following are advantages of raising the required finance from the Venture Capitalist?

Select all that apply.

Options:

A- The cost of the finance under the Venture Capital investment.

B- The changes in shareholding as a result of the Venture Capital investment.

C- The veto on expenditure above a specified level of a revenue or capital nature.

D- The speed with which the finance can be obtained.

E- The experience of the Venture Capitalist with growing businesses.

Answer:

A, C

Question 4

Question Type: MultipleChoice

Which THREE of the following statements are correct in respect of the issuance of debt securities.

Options:

A- A bond issuer must appoint at least one market-maker to ensure that there is a liquid market in its traded bonds.

B- The redemption yield on a corporate bond can be determined by calculating the internal rate of return based on the cash flows arising during the duration of the bond.

C- Investors in traded bonds have an ownership (or equity stake) in the company which issued the bonds.

D- A corporate entity coming to the bond market for the first time will find it easier to issue corporate bonds than to arrange a conventional term loan.

E- Governments are the most frequent issuers of bonds and the proceeds are used to fund government expenditure or service the national debt.

Answer:

C, D, E

Question 5

Question Type: MultipleChoice

A company is considering a divestment via either a management buyout (MBO) or sale to a private equity purchaser. Which of the following is an argument in favour of the MBO from the viewpoint of the original company?

Options:

A- Better co-operation post divestment.

B- Enhanced big data opportunities.

C- Improved relationships with management buyout team in the event of a sale to the private equity purchaser.

D- Higher price due to synergistic benefits.

Answer:

A

Question 6

Question Type: **MultipleChoice**

A company has stable earnings of S2 million and its shares are currently trading on a price earnings multiple {PIE) of 10 times. It has10 million shares in issue.

The company is raising S4 million debt finance to fund an expansion of its existing business which is forecast to increase annual earnings straight away by 25% and then remain at that level for the foreseeable future. The corporation tax rate is 20%. It is expected that the P/E will reduce to 8 times over the next year.

What is the most likely change in shareholder wealth resulting from this plan?

Options:

A- Shareholder wealth will increase by $4 million.

B- Shareholder wealth will increase by $3.2 million.

C- Shareholder wealth will increase by $5 million

D- No change in shareholder wealth.

Answer:

A

Question 7

Question Type: **MultipleChoice**

G purchased a put option that grants the right to cap the interest on a loan at 10.0%. Simultaneously, G sold a call option that grants the holder the benefits of any decrease if interest rates fall below 8.5%.

Which THREE possible s would be consistent with G's behavior?

Options:

A- G is willing to risk the loss of savings from a fall in interest rates if that offsets the cost of limiting the cost of rises.

B- G's strategy is to ensure that its interest rates lie between 8.5% and 10.0%.

C- G is concerned that interest rates may rise above 10.0%.

D- G is concerned that interest rates may rise above 8.5%.

E- G is concerned that interest rates may fall below 10%.

Answer:

A, B, C