Changing the Concept of F3 Exam Preparation 2022 [Q148-Q163

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Q148. A national airline has made an offer to acquire a smaller airline in the same country.

Which of the following would be of most concern to the competition authorities?
* After the acquisition the board propose to reduce the number of flight destinations from the country.
* The board informed a major institutional shareholder about the proposed acquisition before informing other shareholders.
* After the acquisition the board propose to increase prices significantly on routes where no other airlines operate.
* The acquisition is likely to result in significant redundancies of staff currently working for the smaller airline.

Q149. Company A has made an offer to take over all the shares in Company B on the following terms:

* For every 20 shares currently held, Company B’s shareholders will receive $100 bond with a coupon rate of 3%

* The bond will be repaid in 10 years’ time at its par value of $100.

* The current yield on 10 year bonds of similar risk is 6%.

What is the effective offer price per share being made to Company B’s shareholders?
* $6.43
* $4.50
* $3.89
* $6.89

Q150. The primary objective of a public sector entity is to ensure value for money is generated.

Value for money is defined as performing an activity so as to simultaneously achieve economy, efficiency and effectiveness
Efficiency is defined as:
* spending funds so as to achieve the objectives of the entity.
* performing activities in the least amount of time possible
* obtaining maximum output from minimum inputs
* obtaining quality inputs at minimum cost.

Q151. Company E is a listed company. Its directors are valuing a smaller listed company, Company F, as a possible acquisition.

The two companies operate in the same markets and have the same business risk.

Relevant data on the two companies is as follows:

Both companies are wholly equity financed and both pay corporate tax at 30%.

The directors of Company E believe they can “bootstrap” Company F’s earnings to improve performance.

Calculate the maximum price that Company E should offer to Company F’s shareholders to acquire the company.

Give your answer to the nearest $million.
* 3,150
* 1,890
* 4,500
* 2,700

Q152. A UK based company is considering investing GBP1 ,000,000 in a project it the USA. It is anticipated that the project will yield net cash inflows of USD580.000 each year for the next three years. These surplus cash flows will be remitted to the UK at the end of each year.

Currently GBP1.00 is worth USD1.30.

The expected inflation rates in the two countries ever the next four years are 2% in the UK and 4% in the USA.

Applying the purchasing power parity theory, which of the following represents the expected remittance at the end of year three, in GBP whole the nearest whole GBP)?
* GBP568,846
* GBP450,906
* GBP472,916
* GBP546,547

Q153. Two companies that operate in the same industry have different Price/Earnings (P/E) ratios as follows:

	P/E ratio
Company A	8
Company B	15

Which of the following is the most likely explanation of the different P/E ratios?
* Company B has a greater profit this year than Company A.
* Company B has higher business risk than Company A.
* Company B has higher expected future growth than Company A.
* Company B has higher gearing than Company A.

Q154. Company A is a listed company that produces pottery goods which it sells throughout Europe. The pottery is then delivered to a network of self employed artists who are contracted to paint the pottery in their own homes. Finished goods are distributed by network of sales agents.The directors of Company A are now considering acquiring one or more smaller companies by means of vertical integration to improve profit margins.

Advise the Board of Company A which of the following acquisitions is most likely to achieve the stated aim of vertical integration?
* A company in a similar market to Company A.
* A pottery factory in the Middle East.
* A company that produces accessories.
* A listed international logistics firm.

Q155. 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.

Which is the correct discount rate to use when discounting the incremental cash flows of the lease against those of the buy and borrow alternative?
* The post-tax cost of the bank borrowing
* The company’s cost of equity
* The company’s WACC.
* The pre-tax cost of the bank borrowing

Q156. Company E is a listed company. Its directors are valuing a smaller listed company, Company F, as a possible acquisition.

The two companies operate in the same markets and have the same business risk.

Relevant data on the two companies is as follows:

	Company E	Company F
Pre tax profits ($million)	2,000	300
P/E ratio	15	9

Both companies are wholly equity financed and both pay corporate tax at 30%.

The directors of Company E believe they can “bootstrap” Company F’s earnings to improve performance.

Calculate the maximum price that Company E should offer to Company F’s shareholders to acquire the company.

Give your answer to the nearest $million.
* 3,150
* 1,890
* 4,500
* 2,700

Q157. Company A has a cash surplus.

The discount rate used for a typical project is the company’s weighted average cost of capital of 10%.

No investment projects will be available for at least 2 years.

Which of the following is currently most likely to increase shareholder wealth in respect of the surplus cash?
* Investing in a 2 year bond returning 5% each year.
* Investing in the local money market at 4% each year.
* Maintaining the cash in a current account.
* Paying the surplus cash as a dividend at the earliest opportunity.

Calc_Set4

Q158. A company proposes to value itself based on the net present value of estimated future cash flows.

Relevant data:

* The cash flow for the next three years is expected to be £100 million each year

* The cash flow after year 3 will grow at 2% to perpetuity

* The cost of capital is 12%

The value of the company to the nearest $ million is:
* $966 million

* $1,260 million
* $889 million
* $834 million

Q159. Company A plans to acquire Company B, an unlisted company which has been in business for 3 years.

It has incurred losses in its first 3 years but is expected to become highly profitable in the near future.

No listed companies in the country operate the same business field as Company B, a unique new high- risk business process.

The future success of the process and hence the future growth rate in earnings and dividends is difficult to determine.

Company A is assessing the validity of using the dividend growth method to value Company B.

Which THREE of the following are weaknesses of using the dividend growth model to value an unlisted company such as Company B?
* The company has been unprofitable to date and hence, there is no established dividend payment pattern.
* The future projected dividend stream is used as the basis for the valuation.
* The future growth rate in earnings and dividends will be difficult to accurately determine.
* The dividend growth model does not take the time value of money into consideration.
* The cost of capital will be difficult to estimate.

Q160. A company wishes to raise new finance using a rights issue to invest in a new project offering an IRR of

10%

The following data applies:

* There are currently 1 million shares in issue at a current market value of $4 each.

* The terms of the rights issue will be $3.50 for 1 new share for 5 existing shares.

* The company’s WACC is currently 8%.

What is the yield-adjusted theoretical ex-rights price (TERP)?

Give your answer to 2 decimal places.

$?
4.06, 4.060

Q161. A company is deciding whether to offer a scrip dividend or a cash dividend to its shareholders.

Although the company has excellent long-term growth prospects, 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?
* It is a way of raising additional finance to promote future growth.
* It is a way of increasing earnings per share.
* It is a way of encouraging shareholders to allow cash to be retained in the business.
* It is a way of increasing dividend per share.

Q162. 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?
* Bank overdraft
* 6 month term loan
* Treasury Bills
* Commercial paper

Q163. The Treasurer of Z intends to use interest rate options to set an interest rate cap on Z’s borrowings.

Which of the following statement is correct?
* The Treasurer should buy an interested rate floor and sell an interested cap ta the same time
* The Treasurer will retain the benefit of movcTcnt3 in interest ratc3 below the floor limit.
* The cost of a collar is lower than the cost of a cap a one.
* The Treasurer will have to negotiate the options with Z’s Dark