CIMA 2019 Professional Examinations

Strategic Level

Subject F3

Financial Strategy

EXAM PRACTICE KIT

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CONTENTS

	Page
Index to questions and answers	P.4
Exam techniques	P.5
Syllabus guidance, learning objectives and verbs	P.7
Approach to revision	P.11
Syllabus grids	P.13

Section

1	Objective test questions	1
2	Answers to objective test questions	61

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INDEX TO QUESTIONS AND ANSWERS

OBJECTIVE TEST QUESTIONS

	Page number	
	Question	***Answer***
Syllabus section A: Financial policy decisions	1	61
Syllabus section B: Sources of long-term funds	11	67
Syllabus section C: Financial risks	26	77
Syllabus section D: Business valuation	36	84

EXAM TECHNIQUES

COMPUTER-BASED ASSESSMENT

Golden rules

1 Make sure you have completed the compulsory 15-minute tutorial before you start the test. This tutorial is available through the CIMA website and focusses on the functionality of the exam. You cannot speak to the invigilator once you have started.

2 These exam practice kits give you plenty of exam style questions to practise so make sure you use them to fully prepare.

3 Attempt all questions, there is no negative marking.

4 Double check your answer before you put in the final answer although you can change your response as many times as you like.

5 Not all questions will be multiple choice questions (MCQs) – you may have to fill in missing words or figures.

6 Identify the easy questions first and get some points on the board to build up your confidence.

7 Attempt ‘wordy’ questions first as these may be quicker than the computation style questions. This will relieve some of the time pressure you will be under during the exam.

8 If you don't know the answer, flag the question and attempt it later. In your final review before the end of the exam try a process of elimination.

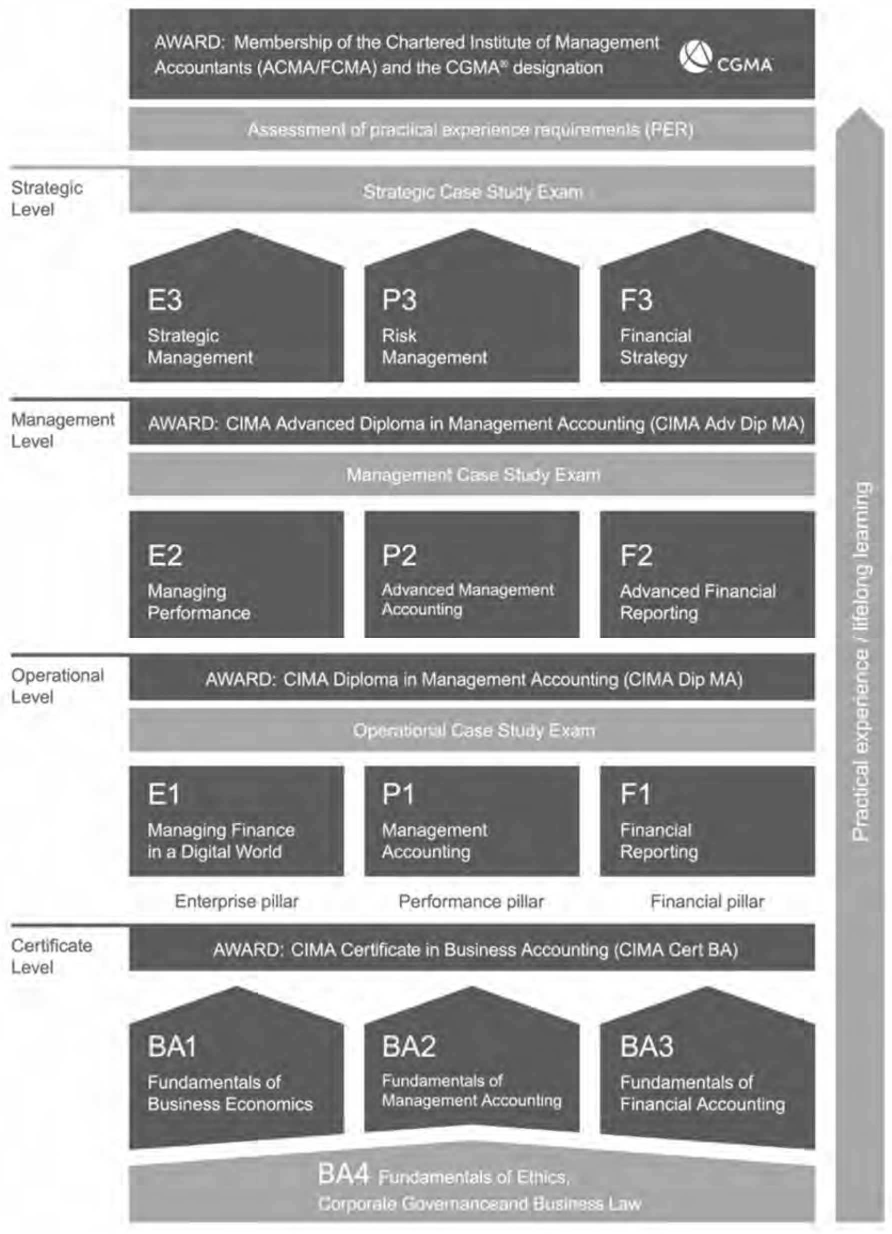
9 Work out your answer on the whiteboard provided first if it is easier for you. There is also an onscreen ‘scratch pad’ on which you can make notes. You are not allowed to take pens, pencils, rulers, pencil cases, phones, paper or notes into the testing room.

SYLLABUS GUIDANCE, LEARNING OBJECTIVES AND VERBS

A CIMA 2019 PROFESSIONAL QUALIFICATION

Details regarding the content of the CIMA 2019 professional qualification can be located within the CIMA 2019 professional qualification syllabus document.

You can use the following diagram showing the whole structure of your qualification to help you keep track of your progress. Make sure you carefully review the 2019 CIMA syllabus transition rules and seek appropriate advice if you are unsure about your progression through the qualification.



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B STUDY WEIGHTINGS

A percentage weighting is shown against each exam content area in the exam blueprint. This is intended as a guide to the proportion of study time each topic requires.

All component learning outcomes will be tested.

The weightings do not specify the number of marks that will be allocated to topics in the examination.

C LEARNING OUTCOMES

Each subject within the qualification is divided into a number of broad syllabus topics. The topics contain one or more lead learning outcomes, related component learning outcomes and indicative knowledge content.

A learning outcome has two main purposes:

1 to define the skill or ability that a well-prepared candidate should be able to exhibit in the examination

2 to demonstrate the approach likely to be taken by examiners in examination questions.

The learning outcomes are part of a hierarchy of learning objectives. The verbs used at the beginning of each learning outcome relate to a specific learning objective, e.g. Evaluate alternative approaches to budgeting.

The verb 'evaluate' indicates a high-level learning objective. As learning objectives are hierarchical, it is expected that at this level students will have knowledge of different budgeting systems and methodologies and be able to apply them.

The examination blueprints and representative task statements

CIMA have also published examination blueprints giving learners clear expectations regarding what is expected of them. This can be accessed here www.cimaglobal.com/examblueprints

The blueprint is structured as follows:

- Exam content sections (reflecting the syllabus document)
- Lead and component outcomes (reflecting the syllabus document)
- Representative task statements.

A representative task statement is a plain English description of what a CIMA finance professional should know and be able to do.

The content and skill level determine the language and verbs used in the representative task.

CIMA will test up to the level of the task statement in the objective test (an objective test question on a particular topic could be set at a lower level than the task statement in the blueprint).

The format of the objective test blueprints follows that of the published syllabus for the 2019 CIMA Professional Qualification.

Weightings for content sections are also included in the individual subject blueprints.

A list of the learning objectives and the verbs that appear in the syllabus learning outcomes and examinations follows and these will help you to understand the depth and breadth required for a topic and the skill level the topic relates to.

CIMA verb hierarchy

Skill level	Verbs used	Definition
Level 5 Evaluation How you are expected to use your learning to evaluate, make decisions or recommendations	Advise	Counsel, inform or notify
	Assess	Evaluate or estimate the nature, ability or quality of
	Evaluate	Appraise or assess the value of
	Recommend	Propose a course of action
	Review	Assess and evaluate in order, to change if necessary
Level 4 Analysis How you are expected to analyse the detail of what you have learned	Align	Arrange in an orderly way
	Analyse	Examine in detail the structure of
	Communicate	Share or exchange information
	Compare and contrast	Show the similarities and/or differences between
	Develop	Grow and expand a concept
	Discuss	Examine in detail by argument
	Examine	Inspect thoroughly
	Interpret	Translate into intelligible or familiar terms
	Monitor	Observe and check the progress of
	Prioritise	Place in order of priority or sequence for action
	Produce	Create or bring into existence
Level 3 Application How you are expected to apply your knowledge	Apply	Put to practical use
	Calculate	Ascertain or reckon mathematically
	Conduct	Organise and carry out
	Demonstrate	Prove with certainty or exhibit by practical means
	Prepare	Make or get ready for use
	Reconcile	Make or prove consistent/compatible
Level 2 Comprehension What you are expected to understand	Describe	Communicate the key features of
	Distinguish	Highlight the differences between
	Explain	Make clear or intelligible/state the meaning or purpose of
	Identify	Recognise, establish or select after consideration
	Illustrate	Use an example to describe or explain something
Level 1 Knowledge What you are expected to know	List	Make a list of
	State	Express, fully or clearly, the details/facts of
	Define	Give the exact meaning of
	Outline	Give a summary of

D OBJECTIVE TEST

Objective test

Objective test questions require you to choose or provide a response to a question whose correct answer is predetermined.

The most common types of objective test question you will see are:

- Multiple choice, where you have to choose the correct answer(s) from a list of possible answers. This could either be numbers or text.
- Multiple response, for example, choosing two correct answers from a list of eight possible answers. This could either be numbers or text.
- Fill in the blank, where you fill in your answer within the provided space.
- Drag and drop, for example, matching a technical term with the correct definition.
- Hot spots, where you select an answer by clicking on graphs/diagrams.

Guidance re CIMA on-screen calculator

As part of the CIMA objective test software, candidates are now provided with a calculator. This calculator is on-screen and is available for the duration of the assessment. The calculator is available in each of the objective tests and is accessed by clicking the calculator button in the top left hand corner of the screen at any time during the assessment. Candidates are permitted to utilise personal calculators as long as they are an approved CIMA model. CIMA approved model list is found here: https://www.cimaglobal.com/Studying/study-and-resources/.

All candidates must complete a 15-minute exam tutorial before the assessment begins and will have the opportunity to familiarise themselves with the calculator and practise using it. The exam tutorial is also available online via the CIMA website. Candidates can use their own calculators providing it is included in CIMA's authorised calculator listing.

Fundamentals of objective tests

The objective tests are 90-minute assessments comprising 60 compulsory questions, with one or more parts. There will be no choice and all questions should be attempted. All elements of a question must be answered correctly for the question to be marked correctly. All questions are equally weighted.

SYLLABUS GRIDS

F3: Financial Strategy

Create financial strategy, evaluate and manage financial risk and assess organisational value

Content weighting

Content area		Weighting
A	Financial policy decisions	15%
B	Sources of long-term funds	25%
C	Financial risks	20%
D	Business valuation	40%
		100%

F3A: Financial policy decisions

The overall strategy of the organisation must be supported by how its finances are organised. This requires an understanding of the different strategic financial objectives and policy options that are open to organisations. The choice of these objectives and policy options will be heavily influenced by the financial market requirements and the regulatory environment in which the organisation operates. This section examines these issues.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Advise on strategic financial objectives.	a. Analyse different types of organisations and their objectives. b. Advise on financial objectives. c. Advise on non-financial objectives.	• Profit and not-for-profit organisations • Quoted and unquoted companies • Private and public sector organisations • Value for money, maximising shareholder wealth • Earnings growth, dividend growth • Impact of underlying economic conditions and business variables on financial objectives • Enhancing the value of other non-financial capitals (human capital, intellectual capital and social and relationship capital) • United Nations Sustainability Development Goals	This section is about aligning financial objectives and policies to the strategies of the organisation. The key aim is to make sure that the organisation has a proper basis to determine what types of funds to access and how to use those funds. To do this effectively finance professionals must be able to evaluate the opportunities and constraints placed on them in the operating environment – particularly financial market requirements, the impact of taxation and the requirements of industry and financial market regulators.
2. Analyse strategic financial policy decisions.	Analyse the following policy decision areas: a. Investment b. Financing c. Dividends d. Interrelationships between policy decision areas	• Use of policy decisions to meet cash needs of entity • Sensitivity of forecast financial statements and future cash position to these policy decisions • Consideration of the interests of stakeholders	
3. Discuss the external influences on financial strategic decisions.	Discuss the influence of the following on financial strategic decisions a. Market requirements b. Taxation c. Regulatory requirements	• Lenders' assessment of creditworthiness • Consideration of domestic and international tax regulations • Consideration of industry regulations such as price and service controls	

F3B: Sources of long-term funds

What types of funds are available to organisations to finance the implementation of their strategies? How much of each type should they go for? And what is the impact on the organisation? Where and how do they get these funds? And how do they provide incentives to providers of such funds so that the funds are available at the right time, in the right quantities and at the right cost? These are some of the questions covered by this section.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Evaluate the capital structure of a firm.	Evaluate: a. Choice of capital structure b. Changes in capital structure	• Capital structure theories (traditional theory and Miller and Modigliani (MM) theories) • Calculation of cost of equity and weighted cost of capital to reflect changes in capital structure • Impact of choice of capital structure on financial statements • Structuring debt/equity profiles of companies in a group	How should important elements of the financial statement be treated in the books? What principles should underpin these? How do financial reporting standards help to ensure this? Using financial reporting standards terminology this part will be looking at issues of recognition and measurement. The most important issues will be considered here.
2. Analyse long-term debt finance.	Analyse: a. Selecting debt instruments b. Target debt profile c. Issuing debt securities d. Debt covenants e. Tax considerations	• Types of debt instruments and criteria for selecting them • Managing interest, currency and refinancing risks with target debt profile • Private placements and capital market issuance of debt • Features of debt covenants	
3. Evaluate equity finance.	a. Evaluate methods of flotation b. Discuss rights issues	• Methods of flotation and implications for management and shareholders • Rights issues, choice of discount rates and impact on shareholders • Calculation of theoretical ex-rights price (TERP) and yield adjusted TERP	
4. Evaluate dividend policy.	Evaluate policy in the following areas: a. Cash dividends b. Scrip dividends c. Share repurchase programmes	• Features and criteria • Impact on shareholder value and entity value, financial statements and performance	

F3C: Financial risks

There is always a risk that the organisation will not be able to attract enough funds to finance its operations and in extreme conditions will fail to survive as a result. This section covers the sources of such risks and how to evaluate and manage such financial risks appropriately.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Discuss the sources and types of financial risks.	Discuss: a. Sources of financial risk b. Types of financial risk	• Economic risk • Political risk • Currency risk • Interest rate risk	Managing risks related to finances is similar to managing other types of risks in general approach and methodology. However, there are specific differences such as the sources and types of financial risks, how they can be quantified and ways in which they are managed. This section looks at the very specific issues related to managing financial risks within a general risk management framework
2. Evaluate financial risks.	a. Evaluate how financial risks are quantified	• Theory and forecasting of exchange rates (e.g. interest rate parity, purchasing power parity and the Fisher Effect) • Value at risk	
3. Recommend ways of managing financial risks.	a. Recommend ways to manage economic and political risks b. Discuss currency risk instruments c. Discuss interest rate risk instruments	• Responses to economic transaction and translation risks • Operations and features of swaps, forward contracts, money market hedges, futures and options • Techniques for combining options in order to achieve specific risk profile such as caps, collars and floors • Internal hedging techniques	

F3D: Business valuation

The primary objective of all strategic activity is to create and preserve value for organisations. How does the organisation know whether it has succeeded in this objective? Sometimes, in order to implement strategies, organisations have to acquire other organisations. How does the acquirer determine the value of its acquisition? This section covers how to use techniques in business valuation to answer such questions.

Lead outcome	Component outcome	Topics to be covered	Explanatory notes
1. Discuss the context of valuation.	Discuss: a. Listing of firms b. Mergers and acquisitions (M&A) c. Demergers and divestments	• Reasons for M&A and divestments • Taxation implications • Process and implications of management buy-outs • Acquisition by private equity and venture capitalist	This section looks at the conditions under which organisations need to calculate their own value or the value of other organisations or sub-units thereof. It introduces candidates to valuation techniques. Of particular importance in the digital world is the valuation of intangibles. This links also to how to report intangible value and their drivers in integrated reporting. In addition, how should digital assets be valued? One of the reasons for valuation is when merging or acquiring firms. How should such deals be structured, implemented and closed? For example what should the forms of the consideration be? What are the terms of the acquisition? How does one enable benefit realisation, particularly for synergies once the acquired organisation has been integrated into the acquiring organisation?
2. Evaluate the various valuation methods.	a. Evaluate different valuation methods b. Discuss the strengths and weaknesses of each valuation method	• Asset valuation • Valuation of intangibles • Different methods of equity valuation (share prices, earnings valuation, dividend valuation, discounted cash flow valuation) • Capital Asset Pricing Model (CAPM) • Efficient market hypothesis	
3. Analyse pricing and bid issues.	Analyse: a. Pricing issues b. Bid issues	• Forms of consideration • Terms of acquisition • Target entity debt • Methods of financing cash offer and refinancing target entity debt • Bid negotiation	
4. Discuss post-transaction issues.	Discuss: a. Post-transaction value b. Benefit realisation	• Post-transaction value incorporating effect of intended synergies • M&A integration and synergy benefit realisation • Exit strategies	

Section 1

OBJECTIVE TEST QUESTIONS

SYLLABUS SECTION A: FINANCIAL POLICY DECISIONS

1 TTT is a listed company.

In its recent annual report, TTT has defined its three financial objectives as follows:

- To increase dividends by 10% a year.
- To keep gearing below 40%.
- To expand by internal growth and/or by horizontal integration via acquisition of companies operating in the same industry sector.

Which of the following is NOT a valid criticism of TTT's financial objectives?

A There should be a specific reference made to maximising shareholder wealth

B The gearing objective is too vague

C The expansion objective should contain numbers so that its achievement can be measured

D The dividend growth objective should be linked to company performance

2 Which TWO of the following are valid differences between the objectives of for-profit and not-for-profit entities?

A For-profit entities primarily aim to maximise shareholder wealth whereas not-for-profit entities don't

B Not-for-profit entities aim to satisfy a wide range of stakeholders whereas for-profit entities only aim to satisfy shareholders

C Not-for-profit entities don't have financial objectives but for-profit entities do

D Not-for-profit entities tend to be most concerned about value for money whereas for-profit entities tend to prioritise shareholder wealth maximisation

3 Grand Co reported a profit before interest and tax of $5 million in its most recent accounts. The company is mainly equity financed, but has a $3 million bank borrowing on which it pays 15% per year in interest. The rate of corporate income tax is 20%.

Assuming that Grand Co has an objective to increase post-tax profit by 10% per year, what should be the company's target profit before interest and tax in the current accounting period?

A $5.455 million

B $5.500 million

C $5.250 million

D $5.005 million

4 Heaton Co is a geared company, with 500,000 $1 shares in issue, and a 7% fixed interest rate bank borrowing of $400,000.

It's most recent accounts show a profit before interest and tax of $75,000. The corporate income tax rate is 20%.

In order to achieve an interest cover ratio of 3 next year, what percentage change in profit before interest and tax is required?

A 12.0% increase

B 10.7% increase

C 10.7% decrease

D 12.0% decrease