



# MACHAKOS UNIVERSITY

University Examinations for 2021/2022 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR

BACHELOR OF SCIENCE (AGRIBUSINESS MANAGEMENT AND TRADE)

AGB 412 CORPORATE INTERNATIONAL FINANCE

DATE: 9/12/2021

TIME: 2.00-4.00 PM

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## INSTRUCTIONS:

**Answer Question One and Any Other Two Questions**

### QUESTION ONE (COMPULSORY) (30 MARKS)

- a) What is capital structure and what is the significance of an optimal capital structure to a corporation? (4 marks)
- b) Safaricom is one of the leading blue chip companies in Kenya and beyond. Identify and clearly explain any five factors that might be key determinants of its capital structure. (10 marks)
- c) Explain the following Dividend theories:  
(i) Signaling Hypothesis  
(ii) Bird-In-The-Hand Theory  
(iii) Clientele Effect (6 marks)
- (d) Malili Flyers Ltd. uses a component which it buys from a supplier in its manufacturing process. The estimated annual usage is 25,000 units and these are used fairly steadily throughout the year. It is estimated that the various inventories holding costs amount Shs.1.8 per unit per year. Investigations indicate that it costs about Shs.50 to process each order for the component. Experience shows that delivery always occurs within one week of placing an order.

**Required:**

- (i) Calculate the Economic Order Quantity of the Component. (6 marks)
- (ii) Determine what inventories level the order should be placed in order to be confident that delivery would occur before the existing inventories of the components is all used. (4 marks)

**QUESTION TWO (20 MARKS)**

- (a) Amodil Manufacturing Co. is a reputable company operating in the heart of Nairobi city. It starts each period with 10,000 units in stock. This stock is depleted each month and is re-ordered. If the carrying cost per unit is Shs.100, and the fixed order cost is Shs.500,

**Required:**

- i. Calculate the Economic Order Quantity of Amodil Manufacturing.
  - ii. Determine the total carrying cost. (5 marks)
  - iii. Determine the total restocking cost (5 marks)
- (b) The following information relates to a company. The figures are in terms of millions.

Sales	Shs.40,000
Total assets	Shs.25,700
Retained Earnings	Shs.180
Total Liabilities	Shs.5,650
Working Capital	Shs1,800
Earnings Before Interest and Tax	Shs.2,610
Market Value of Equity	Shs.10,100
Book Value of Long Term Debt	Shs.5,050

**Required:**

Using Altmans Z-Score, assess the company's financial health. (9 marks)

**QUESTION THREE (20 MARKS)**

- (a) Explain the three basic forms of Acquisition. (6 marks)
- (b) Explain any three financing choices that companies choose basing your argument on pecking order theory of capital structure. (6 marks)
- (c) Describe eight factors that determine dividend policy (8 marks)

#### QUESTION FOUR (20 MARKS)

- (a) Explain the following theories of capital Structure
- (i) The pecking order theory
  - (ii) The trade-off theory (6 marks)
- (b) ABC Company has reported EBIT of Shs.120,000 in the current year and is forecasting that due to improved market conditions, it will increase this amount by Shs.60,000 in the following year. It has a Shs.200,000 bond with a 10% coupon rate of interest and 6,000 shares of preferred stock with annual dividend per share of Shs. 4. It also has 10,000 shares of common stock outstanding . Assume a tax rate of 30%.

#### Required

- (i) Calculate earnings per share for the two EBIT levels. (10 marks)
- (ii) Calculate the degree of Financial Leverage. (4 marks)

#### QUESTION FIVE (20 MARKS)

The domestic US beta of Billiton Ltd is 1.2 which is above beta risk level. The expected return on the US market portfolio is 10% and that the risk free rate is 5%.

- (a) Calculate the expected return on Billiton Ltd stock if the Australian Capital Markets are segmented from the rest of the world. (5 marks)
- (b) If US Capital Markets are integrated with the rest of the World and that the World beta measure of Billiton Stock is 1.0, assuming that the risk free rate is 5%, and the expected return on the world market portfolio is 10%, calculate the expected return on the Billiton Stock. (10 marks)
- (c) The ordinary shares of a Company are currently trading at Shs.20 (ex dividend) each in the capital market. Next years dividend is expected to be Shs.1.4 per share and subsequent dividends are expected to grow at an annual rate of 5% of the previous years dividend. What is the cost of equity? (5 marks)