First Section

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Question one (This question is compulsory (50 mark):

You are appointed the chief financial officer of international investments a multinational company which is quoted on an international stock exchange. The company has enjoyed a high rate of growth over the last three years as a result of its development of a single product in connection with mobile communication industry. The company does not have any new products development. As part of your preparation for the board meeting you prepared a draft accounts for the year ended 31 December 2016 and a projected income statement and statement of financial position for the year ended 31 December 2017 and a comparison of actual performance for the year ended 31 December 2015. These projections are based upon a number of assumptions taken from the company's strategic plan. Also the board will consider its dividends target for the coming year.

Income statement for the year ended 31 December (million dollars)

	2017(Projected)	**2016(draft)**	**2015(actual)**
	$ m	$ m	$ m
Revenue	288.1	261.9	220
Cost of sales	143.2	132.6	104
Gross profit	144.9	129.3	116
Less other operating costs	36.1	27	24
Operating profit	108.8	102.3	92
Finance cost	1.8	2.3	2.3
Profit before tax	107	100	89.7
Income tax expense (at 30%)	32.1	30	26.9
Profit for the period	74.9	70	62.8

Statement of financial position as at 31 December:

	2017 (Projected) $ m	2016 (Draft) $ m	2016 (Actual) $ m
Non-current assets (see note)			
Building, plant and machinery	168	116	96
Current assets			
Inventories	3.2	3.7	2.3
Receivables	25.6	29.1	19.6
Cash	151.8	155.8	121.7
Total Current assets	180.6	188.6	143.6
Total assets	348.6	304.6	239.6
Equity and liabilities			
Paid capital (ordering shares 25c)	25	25	20
Other reserves	12	12	10
Retained earnings	216.9	170	120
Less: dividends payable	0	(28)	(20)
Total equity	253.9	179	130
Current liabilities			
Trade payable	8.8	7.7	6.4
Tax payable	28.5	25.6	23.3
Interest	1.8	2.3	2.3
Less: Dividends payable	0	28	20
Total Current liabilities	39.1	63.6	52
Non-current liabilities			
Loans (long term)	35	45	45
Provisions (Deferred tax)	20.6	17	12.6
Total Non-current liabilities	55.6	62	57.6
Total equity and liabilities	348.6	304.6	239.6

Note:

	2017 $ m	2016 $ m	2015 $ m
Non-current assets	280	200	160
Less: accumulated depreciation	112	84	64
Net book value of non-current Assets	168	116	96

The projected figures assume:

i. $ 10 million of existing loans will be repaid during the year.
ii. Capital investment in plant and equipment of $80 million will be undertaken.

The company's beta value (based upon three years of monthly return capital data) is 1.40. The current risk free rate is 3% and the equity risk premium is 5%. The current share price is $ 16.20 and the sector price/earnings ratio is 24. The company assumes that the current cost of equity capital 5%remains unchanged over of the projection at 2017.

Required:

A- Prepare a cash flow forecast for the year ended 31 December 2017 (The format need not to comply with accounting standards).

(7 marks)

B- (i) Estimate the company's maximum dividend capacity after the target level of capital reinvestment is undertaken and making any working capital adjustments you deem necessary.

(6 marks)

(ii) Discuss whether international enterprises dividend policy is sustainable and whether dividends should be paid at the maximum capacity level or not.

(7 marks)

C- Draft a report for senior management which:

(i) Reviews the potential performance of the business in the year ended 31 December 2017 if the expectations contained within the strategic plan are fulfilled. You should use the economic value added (EVA) and any other performance measures you think appropriate.

(16 marks)

(ii) Explain the benefits and drawbacks of growth by acquisition and organic growth for international enterprises and make a recommendation for the most suitable method of growth.

(10 marks)

Professional marks for format, structure and presentation report**.**

(4 marks)

Total (50 marks)

Second Section

Answer only two questions from this section

Question Two:

Nubo Co has divisions operating in two diverse sectors: production of aircraft parts and supermarkets. Whereas the aircraft parts production division has been growing rapidly, the supermarkets division's growth has been slower. The company is considering selling the supermarkets division and focusing solely on the aircraft parts production division.

Extracts from the Nubo Co's most recent financial statements are as follows:

	Year ended 30 November 2013
	$m
Profit after tax	166
Non-current assets	550
Current assets	122
Non-current liabilities	387
Current liabilities	95

About 70% of Nubo Co's non-current assets and current assets are attributable to the supermarkets division and the remainder to the aircraft parts production division. Each of the two divisions generates roughly half of the total profit after tax. The market value of the two divisions is thought to be equivalent to the price-to-earnings (PE) ratios of the two divisions' industries. The supermarket industry's PE ratio is 7 and the aircraft parts production industry's PE ratio is 12.

Nubo Co can either sell the supermarkets division as a going concern or sell the assets of the supermarkets division separately. If the assets are sold separately, Nubo Co believes that it can sell the non-current assets for 115% of the book value and the current assets for 80% of the book value. The funds raised from the sale of the supermarkets division will be used to pay for all the company's current and non-current liabilities.

Following the sale of the supermarkets division and paying off the liabilities, Nubo Co will raise additional finance for new projects in the form of debt. It will be able to borrow up to a maximum of 100% of the total asset value of the new downsized company.

One of the new projects which Nubo Co is considering is a joint venture with Airospace Co to produce an innovative type of machinery which will be used in the production of light aircraft and private jets. Both companies will provide the expertise and funding required for the project equally. Representatives from both companies will make up the senior management team and decisions will be made jointly. Legal contracts will be drawn up once profit-sharing and other areas have been discussed by the companies and agreed on.

Airospace Co has approached Qater Islamic Bank for the finance it requires for the venture, based on Islamic finance principles.

Qater Islamic Bank has agreed to consider the request from Airospace Co, but because the financing requirement will be for a long period of time and because of uncertainties surrounding the project, Qater Islamic Bank wants to provide the finance based on the principles of a Musharaka contract, with Qater Islamic Bank requiring representation on the venture's senior management team. Normally Qater Islamic Bank provides funds based on the principles of a Mudaraba contract, which the bank provides for short-term, low-risk projects, where the responsibility for running a project rests solely with the borrower.

Required:

- **a.** Advise Nubo Co whether it should sell the supermarkets division as a going concern or sell the assets separately and estimate the additional cash and debt funds which could be available to the new, downsized company. Show all relevant calculations.

  (7 marks)

- **b.** An alternative to selling the supermarkets division would be to demerge both the divisions. In this case, all of Nubo Co's liabilities would be taken over by the demerged supermarkets division. Also, either of the demerged companies can borrow up to 100% of their respective total asset values.

Required:

Discuss whether a demerger of the supermarkets division may be more appropriate than a sale.

(6 marks)

- **c.** Discuss why Qater Islamic Bank may want to consider providing the finance based on a Musharaka contract instead of a Mudaraba contract, and the key concerns Nubo Co may have from the arrangement between Airospace Co and Qater Islamic Bank.

  (12 marks)

(25 marks)

Question Three:

Lima Co is a large company manufacturing hand-held electronic devices such as mobile phones and tablet computers. The company has been growing rapidly over the last few years, but it also has high research and development expenditure. It is involved in a number of projects worldwide, developing new and innovative products and systems in a rapidly changing industry. Due to the nature of the industry, this significant growth in earnings has never been stable, but has depended largely on the success of the new innovations and competitor actions. However, in the last two years it seems that the rapid period of growth is slowing, with fewer products coming to market compared to previous years.

Lima Co has never paid dividends and has financed projects through internally generated funds and with occasional rights issues of new share capital. It currently has insignificant levels of debt. The retained cash reserves have recently grown because of a drop in the level of investment in new projects.

The company has an active treasury division which invests spare funds in traded equities, bonds and other financial instruments; and releases the funds when required for new projects. The division also manages cash flow risk using money and derivative markets. The treasury division is currently considering investing in three companies with the following profit after tax (PAT) and dividend history:

Year	**Siga co.**		**Weata co.**		**Capo co.**	
	PAT $000	**Dividends $000**	**PAT $000**	**Dividends $000**	**PAT $000**	**Dividends $000**
2017	57,100	22,840	93,300	69,560	162,400	44,100
2016	54,400	21,760	90,600	57,680	141,500	34,200
2016	52,800	21,120	88,000	54,840	108,900	26,300
2015	48,200	19,280	85,400	52,230	105,700	20,250
2013	45,500	18,200	82,900	49,740	78,300	15,700

All of the three companies' share capital has remained largely unchanged since 2013.

Recently, Lima Co's Board of Directors (BOD) came under pressure from the company's larger shareholders to start returning some of the funds, currently retained by the company, back to the shareholders. The BOD thinks that the shareholders have a strong case to ask for repayments. However, it is unsure whether to pay a special, one-off large dividend from its dividend capacity and retained funds, followed by small annual dividend payments; or to undertake a periodic share buyback scheme over the next few years.

Lima Co is due to prepare its statement of profit or loss shortly and estimates that the annual sales revenue will be $600 million, on which its profit before tax is expected to be 23% of sales revenue. It charges depreciation of 25% on a straight-line basis on its non-current assets of $220 million. It estimates that $67 million investment in current and non-current assets was spent during the year. It is due to receive $15 million in dividends from its subsidiary companies, on which annual tax of 20% on average has been paid. Lima Co itself pays annual tax at 26%, and the tax authorities where Lima Co is based charge tax on dividend remittances made by overseas subsidiary companies, but give full credit on tax already paid on those remittances. In order to fund the new policy of returning funds to shareholders, Lima Co's BOD wants to increase the current estimated dividend capacity by 10%, by asking the overseas subsidiary companies for higher repatriations.

Required:

A) Discuss Lima Co's current dividend, financing and risk management policies, and suggest how the decision to return retained funds back to the shareholders will affect these policies.

(8 marks)

B) Evaluate the dividend policies of each of the three companies that Lima Co is considering investing in, and discuss which company Lima Co might select.

(8 marks)

C) Calculate, and briefly comment on, how much the dividends from overseas companies need to increase by, to increase Lima Co's dividend capacity by 10%.

(6 marks)

D) Discuss the benefits to Lima Co's shareholders of receiving repayments through a share buyback scheme as opposed to the dividend scheme described above.

(**3 marks)**

(25 marks)

<u>Question Four:</u>

A- Explain the aims and roles of the international monetary fund (IMF).
(IMF) impose certain economical policies on countries who need financial support. Explain some of these policies and its effects on those countries. Explain why these policies are criticised.

(7 marks)

B- Discusses the reason for the existence of the global debt problem. Briefly explain how economic crisis might affect the global debt problem.

(9 marks)

C- Explain the main attempts that have been made to resolve the global debt problem and how governments might try to limit the effects the economic crisis.

(9 marks)

(25 marks)

'End of questions'