

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATION

RESIT/SPECIAL EXAMINATION

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF
COOPERATIVE MANAGEMENT**

BCOP 233: COOPERATIVE FINANCE

STREAMS:

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 03/11/2021

11.30 A.M – 1.30 P.M

INSTRUCTIONS

Answer question ONE and any other TWO only

Do NOT write anything in the question paper

QUESTION ONE

- a) There are different sources of financing available for organizations in need of funding, but finance managers have the responsibility to evaluate all these sources before selecting the best funding source. Describe the various factors to be considered or taken into account in selecting the viable source of financing. (8 marks)
- b) Describe the scope and functions of finance officer in an organization (10 marks)
- c) The financial goals of business as per finance theories are profit maximization. Critically examine the theories of; (i) profit maximization (ii) Shareholders maximization (12 marks)

QUESTION TWO

Kirinyaga Group of Industries, had the following capital structure at the end of 2018 financial year

Particulars	Sh 000
10% long term Debts	8,000
Ordinary share capital (sh 20at par)	10,000
Retained profits	12,000

During the year the company reported sh4.00 in earning per share and had a price earnings ratio of 33. The company now is considering raising sh 9.60 million in additional capital to finance a proposed plant expansion. The project is expected to provide a return of 18% per annum before tax. The two proposals being considered to raise capital are; floatation of additional 8% debt at par value or floatation of additional shares at current market price. Assume the income tax rate is 50%.

Required:

- Prepare the statement to show how the company's capital structure would look like after issue under each of the two options of financing (10 marks)
- Which alternative shall you recommend? And why? (Show all your working)(10 marks)

QUESTION THREE

- Describe the features of good appraisal techniques in capital budgeting management (8 marks)
- Likoni investments Ltd intends to acquire a business of Mutwapa group of hotels at a cost of sh 330,000,00 next year. They intend to borrow a loan from KCB at 12% interest to finance the acquisition. The hotel returns is projected as follows.

YEAR	PROFIT (EBIT)
1	50,000,000
2	60,000,000
3	80,000,000
4	80,000,000
5	100,000,000

Assuming the tax rate is 30%

Using NPV method evaluate the viability of this acquisition and give reasons for your answer. (12 marks)

QUESTION FOUR

Describe under what circumstances a business organization may decide to do valuation of its securities (7 marks)

State three advantages and three disadvantages of preference shares to the company issuing them. (6 marks)

Payback period as technique of evaluating investment has its superiority and limitations. Discuss (7 marks)
