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EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COOPERATIVE MANAGEMENT

BCOP 233: COOPERATIVE MANAGEMENT

STREAMS: BCOP TIME: 2 HOURS

DAY/DATE: WEDNESDAY 08/04/2020 11.30 A.M. – 1.30 P.M.

INSTRUCTIONS:

Answer question ONE and any other TWO questions.

QUESTION ONE

- (a) Njeri intends to deposit Sh. 5,000 at the end of each year in an investment plan that offers an interest rate of 12% per annum for 7 years. Determine the amount Njeri will receive after 7 years. (3 marks)
- (b) In an organization, managers are required to make decisions that maximize shareholders wealth. On the contrary managers may make decisions that shareholders don't agree with in view of this statement discuss the reasons for conflicts between shareholders and managers and the solutions to the conflict.

 8 marks)
- (c) A company has invested in a 5 year 12% Sh 50,000 debenture. The market price of the debenture is Sh. 55,000. The cost of capitals 15% should the company purchase the debenture. (4 marks)
- (d) The company is considering investing in two mutually exclusive project A and B

Years	Profect A cashflows	Project B cashflow
	Ksh.	Ksh.
1	180,000	120,000
2	140,000	150,000
3	100,000	180,000
4	160,000	100,000

5 70,000 80,000

Required:

Determine the payback period of each project and advice on which project to invest in (5 marks)

- (e) A financial analyst would prefer to have a shilling today rather than tomorrow. State the reasons for this state of affairs. (4 marks)
- (f) Explain the functions that affect the value of the firm. (6 marks)

QUESTION TWO

- (a) Bimbo company has been manufacturing products. The quantity produced are 1,500, 1,300, 1,200, 900, 800 and 1,000 from year one to year six respectively. Each quantity is sold at Sh. 150 and it incurs a variable cost of Sh. 60 per quantity to produce and the fixed cost incurred each year is Sh. 10,000. The equipment that manufacturers the product cost Sh. 360,000 with a scrap value of sh. 60,000. The cost of capital is 12%, depreciation is straight line method and the tax rate is 50%. Required NPV, PI and IRR. (14 marks)
- (b) State the features of a good investment appraisal technique. (3 marks)
- (c) Distinguish between exclusive project and independent projects. (3 marks)

QUESTION THREE

- (a) Discuss any four long term sources of finance for cooperatives. (6 marks)
- (b) Highlight the significance of investment decisions. (4 marks)
- (c) The following is the capital structure of Bimbo limited

	Sh. '000'
Ordinary share capital (80 par)	10,000
12% preference shares (Sh. 60)	7,500
15% long term debenture (Sh. 150	9,000
par)	
20% medium term loan	4,000
Retained earnings	3,000
	<u>34,000</u>

Additional information

- (i) The company expects to pay ordinary shareholders a dividend of Sh. 10 per share which is expected to grow at 15% the ordinary shares are currently selling at Sh. 120 with Sh.
- as floatation cost
- (ii) The preference shares are currently selling at Sh. 51.

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- (iii) The debentures are currently selling at sh. 200 and will mature in 20 years.
- (iv) The medium term loan is currently selling at sh. 7,200,000
- (v) Tax rate is 30%

Required:

Weighted average cost of capital

(10 marks)

QUESTION FOUR

(a) Highlight the uses of ratio analysis

(4 marks)

- (b) A company currently pays an ordinary dividend of Sh. 20 per share which is expected to grow at 10 for 2 years, 12% for 3 years and 8% for 3 years after which it will fall to a constant rate of 10%. Calculate the intrinsic value of the share if the risk free rate is 8% and the rise premium is 14%. (10 marks)
- (c) The following information has been extracted from the books of Andrea limited

Sh
800,000
400,000
50,000
1,000,000
2,000,000
500,000
50%

Dividend payout is 50% of profit after tax

Required:

(i)	Debtors turnover	(2 marks)
(ii)	Interest coverage ratio	(2 marks)
(iii)	Dividend per share	(2 marks)