CHUKA UNIVERSITY

UNIVERSITY EXAMINATIONS

RESITS/SPECIAL EXAMINATIONS

EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF COOPERATIVE MANAGEMENT

BCOP 233: COOPERATIVE FINANCE

STREAM: Y2S2 **TIME: 2 HOURS**

DAY/DATE: TUESDAY 29/8/2023 **2.30P.M. – 4.30 P.M.**

INSTRUCTIONS

1. **Answer question ONE and any other TWO questions.**
2. **Do NOT write anything on question paper**

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. (5 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. (6 marks)

(d) Explain the scope and function of financial management (11 marks)

QUESTION TWO

The company is considering investing in two mutually exclusive project A and B

Years	Profect A cashflows SH	Project B cashflows SH
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

The company's cost of projects are sh 500,000 and sh 400,000 for A and B respectively. The company intends to borrow this money from the bank at 10% interest.

Required:

a) Determine the payback period of each project and advice on which project to invest in (8 marks)
b) Using NPV evaluation method which project should be given priority (12 marks)

(Show your working clearly)

QUESTION THREE

(a) Describe any four long term sources of finance for cooperatives, and give two advantages of each source (12marks)

(b) Highlight the significance of investment decisions. (8 marks)

QUESTION FOUR

The following is the capital structure of Bimbo limited

Ordinary share capital (80 at par) sh 10,000,000

12% preference shares (Sh. 60) sh 7,500,000

15% long term debenture (Sh. 150 at par) sh 9,000,000

20% medium term loan sh 4,000,000

Retained earnings sh 3,000,000

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. 20 as floatation cost

(ii) The preference shares are currently selling at Sh. 51.

(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:

a) Weighted average cost of capital (12 marks)
b) Highlight any four factors affecting cost of capital in corporate sector (8 marks)

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