

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

SECOND YEAR EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR
OF COOPERATIVE MANAGEMENT

BCOP 233: COOPERATIVE FINANCE

STREAMS: BCOP (Y2S2)

TIME: 2 HOURS

DAY/DATE: TUESDAY 11/04/2023

2.30 P.M. – 4.30 P.M.

INSTRUCTIONS:

- Answer question ONE and any other TWO questions
- Do not write on the question paper

QUESTION ONE

- (a) 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, describe conflicts which may arise between managers and shareholders of a cooperative and suggest how the conflicts can be resolved. [6 marks]
- (b) You are an investment principal of Yetu Sacco. The chairman of the Sacco has requested you to prepare a presentation examining the various money markets instruments investment opportunities available to the Sacco.

Required:

- Examine any four money markets instruments investment opportunities. [6 marks]
- (c) At the end of ten years from now, Peter Kamau will start receiving a pension of sh. 3,000 every year. The payment will continue for sixteen years. How much is the pension worth now, if the required rate of return is 10 per cent? [6 marks]
- (d) Describe the concept of time value of money and explain any four reasons why individuals prefer current income to future income. [6 marks]

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- (e) Biashara investment cooperative is considering a five year sh. 1,000 par value debenture which is currently trading on the securities exchange at sh. 950. The debenture has a coupon rate of interest of 12% per annum. The cooperatives required rate of return is 16%.

Required:

The intrinsic value of the debenture. Advise whether or not to purchase the debenture.

[6 marks]

QUESTION TWO

- (a) Cooperatives are required by law to set aside a certain percentage of their profit as a general reserve. Explain any four reasons why cooperatives prefer retained earnings as a source of finance. [6 marks]
- (b) Arimi Investment Sacco is contemplating undertaking any of the following two mutually exclusive projects A and B. Each project requires an initial cash outlay of sh. 5 million. The details of each of the projects is as follows:

Project A: The project is expected to generate a net cashflow of sh. 650, 000 each year in perpetuity.

Project B: This investment is expected to have a useful life of 3 years with no resale value at the end of this period. The annual contribution to be generated by the project each year are given as follows:

	Year		
	1	2	3
Contribution (Sh. '000'	2,500	3,000	3,500

The annual fixed operating costs excluding depreciation are estimated at sh. 200,000 per annum. The applicable tax rate is 30% and the minimum required rate of return for this investment is 10%.

Required:

Advise the management of the Sacco on the project to undertake.

[14 marks]

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QUESTION THREE

- (a) Briefly explain the term 'intrinsic value' with reference to the valuation of ordinary shares and highlight the factors that complicate the valuation of ordinary shares. [4 marks]
- (b) Zone Ltd is an investment firm for Biashara cooperative society. It has the following capital structure.

	Sh. '000'
Ordinary share capital (par value sh. 30)	9,600
10% preference capital share (par value sh. 25)	6,250
12% preference share capital (par value sh. 30)	6,000
10% debentures	4,000

Addition information:

1. The market value of the 10% debentures as at 31 March 2023 was sh. 5 million
2. The market prices per share as at 31 March 2023 were as follows:

	Sh.
Ordinary shares	40
10% Preference Share	25
12% Preference Share	30

3. The company has maintained a payment of an ordinary dividend per share of sh. 3.80 over the past five years
4. The company's tax rate is 30%

Required:

- (i) The cost of each specific cost of capital [12 marks]
- (ii) The weighted average cost of capital (WACC) [4 marks]

QUESTION FOUR

- (a) Mary Muingai obtained a loan of sh. 1,500,000 from Pamoja Sacco at an interest rate of 12% per annum. The loan is to be repaid in equal monthly installments over a period of 36 months. The loan is to be amortized on a reducing balance basis

Required:

- Loan amortization schedule for the first 5 months [10 marks]

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- (b) A potential investor is seeking information for possible investment in shares of cooperative bank. The bank currently pays average dividend of sh. 10 per share. The dividends are expected to grow at 12% p.a. for 3 years, 15% p.a for the next 4 years, 18 % p.a for the next 3 years and finally at 10% p.a into perpetuity.

Required:

Calculate the intrinsic value of the share assuming the investors required rate of return is 16%. [10 marks]
