The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2019

EXAMINATION FOR THE DEGREE OF BACHELOR OF CO-OPERATIVE BUSINESS

UNIT CODE: HCOB 2305

UNIT TITLE: FINANCIAL MANAGEMENT I/INTRODUCTION TO FINANCIAL MANAGMENT

DATE: DECEMBER, 2019 **TIME:**

INSTRUCTIONS:

- Answer question **ONE (compulsory)** and any other **TWO** questions

QUESTION ONE

a) As a financial analyst of Silverline Company the director of capital budgeting has asked you to analyze two proposals of capital budgeting investment.

Project	Yr^0	Yr^1	Yr^2	Yr^3	Yr^4
X	10,000	6,500	3,000	3,000	1,000
Y	10,000	3,500	2,500	2,800	2,400

Each project cost is 10,000 and the rate of return of each is 12%. The project expected cash flows is as above.

i. Calculate the project:

a) Payback period (4 marks)
b) NPV (4 marks)
d) ARR (4 marks)
e) Profitability index (4 marks)

ii. Which project should be accepted based on the above techniques?

b) Discuss the term "Time value of Money"

(4 Marks)

c) Explain the importance of capital budgeting decisions

(6 Marks)

d) Highlight the existing conflict in an agency relationship between shareholders and the management

(6 marks)

QUESTION TWO

a) The following is a structure of Polo limited as at 31st December, 2015.

Ordinary shares @ sh.10	4,800,000
8% Preference shares @ sh. 9	1,800,000
12% debenture stock per value of sh. 100	3,000,000
15% bank loan	2,400,000
Total amount of financing	12,000,000

Additional information:

i) The firm intends an additional capital of 3,600,000 without altering the existing capital structure.

ii) The current market price of sources of finances are:

Ordinary shares	sh. 15
8% Preference shares	sh. 12
12% debentures stock valued at	sh. 95

iii) The company will incur a floatation cost of sh. 3 per share.
iv) The ordinary share will receive a cash dividend of sh. 4 per share, these dividends are expected to grow at 5% in perpetuity.

Required:

i. Calculate the proportion of each source of finance and the new capital structure.
ii. Calculate the cost of each source of finance.
iii. Determine the weighted average cost of capital (WACC)

(16 marks)

b) Outline four characteristics of ordinary share capital

(4 marks)

QUESTION THREE

a) Discuss the managerial functions of a finance manager

(10 marks)

b) A limited company has an authorized share capital of 200,000 shares of sh. 1 each out of which only 150,000 shares have been issued, although the firm requested the shareholders to pay 80cents per share, the shareholders were able to pay 50 cents per share.

Required:

Determine the:

i) Authorized share capital
ii) Issued share capital
iii) Called up share capital
iv) Uncalled up share capital
v) Paid up share capital

(10 marks)

QUESTION FOUR

a) An investor deposits kshs 10,000 in a bank for FOUR years in an account earning 10% rate. Determine the future values of the investment at the end of the 4^{th} year if the amount is deposited;

(i) At the end of the year (5 Marks)
(ii) At the beginning of the year (5 Marks)

b) Distinguish between:

i) Right issue and Bonus issue
ii) Cum dividend and Ex-dividend
iii) Implicit cost and explicit cost

(5 marks)

d) Highlight factors influencing the capital structure of an organization or a firm.

(5 marks)

QUESTION FIVE

a) Holding cash is a cost to the business, discuss THREE motives holding cash.

(6 Marks)

b) The demand for a commodity is 40,000 P.a. at a steady rate. It costs sh 200 to place an order and sh 4 to hold a unit for a year. Find the batch size to minimize inventory costs, the number of orders placed per year and the length of the inventory cycle.

(6 marks)

c) Explain the factors that influence the working capital requirement of a company

(8 Marks)