



The Co-operative University College of Kenya
(A Constituent College of Jomo Kenyatta University of Agriculture & Technology)

END OF SEMESTER EXAMINATIONS APRIL - 2015

EXAMINATIONS FOR BACHELOR OF CO-OPERATIVE BUSINESS YEAR III
SEMESTER II

UNIT CODE: HCOB 2305

UNIT TITLE: FINANCIAL MANAGEMENT I

DATE: _____ **TIME:** _____

INSTRUCTIONS:

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

QUESTION ONE

- “Financial management is the management of flow of funds in a firm and it deals with the financial decisions making of the firm”. In relation to this statement describe the functions of Financial management (8 Marks)
- An agency relationship arises where are or more parties called principal contract or hires another called an agent to perform on his behalf some services and then delegates decision making authority to the hired party using above information, discuss the financial management theory that arises as a result of the above information (10 Marks)
- Discuss the reasons why commercial banks prefer to lend short- term loans (5 Marks)
- Debt finance if used in excess may interrupt the company’s decision making process when gearing level is high. Creditors will demand a say in the company and demand representation in the Board of Directors. All in all debt is more preferred than equity because of the residue claim notion, in relation to this statement differentiate between debt finance and equity finance (7 Marks)

QUESTION TWO

The information provided below has been extracted from the books of XYZ Limited. The year ended 31st December.

| | | |
|---------------------------|---------|---------|
| | 2014 | 2013 |
| Stock as at 31st December | 282,000 | 20,000 |
| Purchases | 764,000 | 580,000 |

| | | |
|---|-----------|---------|
| Loss of sale | 90,000 | 750,000 |
| Sales | 1,095,000 | 870,000 |
| Trade debtor | 260,000 | 173,000 |
| Trade creditor | 107,000 | 91,000 |
| Total asset excluding stock and debtors | 90,000 | 92,000 |

All sales and purchases are on credit

Required:

- Calculate the operating capital cycle (14 Marks)
- What is the working capital cycle (2 Marks)
- Why is a working capital cycle important to a business (4 Marks)

QUESTION THREE

Mwalimu Enterprises has eight projects which are expected to generate the following cash flows

| Year | Cash flow |
|------|-----------|
| 1 | 600,000 |
| 2 | 750,000 |
| 3 | 500,000 |
| 4 | 550,000 |
| 5 | 550,000 |
| 6 | 550,000 |
| 7 | 550,000 |
| 8 | 550,000 |

The cost of capital is 14%

Required:

- Determine the present value of this cash flow (10 Marks)
- Explain the concept of risk return trade off (5 Marks)
- Explain the concept of time value of money (5 Marks)

QUESTION FOUR

- Discuss the advantages and disadvantages of payback period as a method of appraising a project (10 Marks)
- Explain the factors that influence the working capital needs of a firm (10 Marks)

QUESTION FIVE

“The price the company pays to obtain and retain finance is known as cost of capital.” This cost is important because of its application in different areas. Discuss areas in which cost of finance can be applied and explain factors that influence the cost of finance (20 Marks)