

**MERU UNIVERSITY OF SCIENCE AND TECHNOLOGY**

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**University Examinations 2016/2017**

SECOND YEAR FIRST SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF COMMERCE

**BFM 3201: CO-OP FINANCIAL MANAGEMENT**

**DATE: DECEMBER 2016 TIME: 2HOURS**

**INSTRUCTIONS:** *Answer question* ***one*** *and any other* ***two*** *questions*

**QUESTION ONE (30 MARKS)**

1. Discuss the major functions of a finance manager in a profit making organization (8marks)
2. Exactly 20 years from now, kitheremende a former forest guard will start receiving a pension of sh 100,000 per year. The payments will continue for 20 years. How much is the pension worth now assuming a cost of capital of 12% (7marks)
3. ABC ltd has issued a 5 year zero coupon rate bond with maturity value of sh. 100,000. The bond is issued at a discount of 32%. Determine the rate of return of the bond (8marks)
4. Discuss the factors that would affect the capital structure of a company. (7marks)

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**QUESTION TWO (20 MARKS)**

1. Two neighboring countries have chosen to organize their electricity supply industries in different ways. In country A electricity supplies are provided by a nationalized industry. On the other hand in country B electricity supplies are provided by a number of private sector companies

**Required:**

1. Explain how the objectives of the nationalized industry in country A might differ from those of the private sector companies in country B (6marks)
2. Briefly discuss whether investment planning and appraisal techniques are likely to differ in the nationalized industry and private sector companies (8marks)
3. XYZ ltd is expected to pay a DPS of sh. 6 in one year’s time. The dividend payout ratio is 60% and the return on equity is 15%
4. Determine whether the share is overvalued if the MPS is sh.40 (6marks)

**QUESTION THREE (20 MARKS)**

1. The following is the capital structure of Mirr Ltd as at 31/12/2013

Shs. M

Ordinary share capital sh. 10 par value 400

Retained earnings 200

10% preference share capital sh.20 par value 100

12% debenture sh.100 par value 200

900

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Additional information

1. Corporate tax rate is 30%
2. Preference shares were issued 10 years ago and are still selling at par value MPS=par value
3. The debenture has a 10 year maturity period. It is currently selling at sh. 90 in the market
4. Currently the firm has been paying dividend per share of sh.5 the DPS is expected to grow at 5% p.a in future. The current MPS is sh.40

**Required:**

1. Determine the WACC of the firm (12marks)
2. Discuss any four dividend decision theories (8marks)

**QUESTION FOUR (20 MARKS)**

1. Buuri limited wishes to expand its output by purchasing a new machine worth 170,000 and installation costs are estimated at 40,000/=. In the 4th year, this machine will call for an overhaul to cot 80,000/=. Its expected inflows are:

Year 1 2 3 4 5 6

Cashflows 60,000 72,650 35,720 48,510 91,630 83,715

This company can raise finance to purchase machine at 12% interest rate

Compute NPV and PI and advise management accordingly. (12marks)

1. Discuss any four goals of a profit making organization (8marks)

**QUESTION FIVE (20 MARKS)**

Mukongoro co. Ltd requires 20,000 units of a component in its manufacturing process in the coming year which costs sh.500 each. The items are available locally and the lead time in one week. Each order costs sh. 500 to prepare and process while the holding cost is shs. 150 per unit per year for storage plus 10% opportunity cost of capital.

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**Required:**

1. How many units should be ordered each time an order is placed to minimize inventory costs? (5marks)
2. What is the recorder level? (4marks)
3. How many orders will be placed per year? (4marks)
4. Determine the total relevant costs (7marks)

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