The Co-operative University of Kenya

END OF SEMESTER EXAMINATION DECEMBER-2016

EXAMINATION FOR THE DEGREE OF BACHELOR OF COOPERTIVE BUSINESS
(BCOB YR 4 SEM 1)

UNIT CODE: HCOB 2410

UNIT TITLE: ISSUES IN FINANCIAL MANAGEMENT

DATE: 14TH DECEMBER, 2016 **TIME: 2:00 PM – 4:00 PM**

INSTRUCTIONS:

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

QUESTION ONE

(a) Compare arbitrage pricing Theory (ART) with capital asset pricing model (CPM)

(b) Explain the factors that affect the value of a cal option (6 marks)

(c) List and describe the three forms of synergy value (6 marks)

QUESTION TWO

Cabra Ltd is considering three possible capital project for next year, each project has a one year life and project returns depend on next year state of economy. The estimated sales of return are shown below

State of economy	Probability of occurrence	Rate of Return		
		A	B	C
Recession	0.20	12%	11%	16%
Average	0.60	16%	15%	14%
Boom	0.20	18%	20%	12%

Required:

(a) Find for each project

i. Expected rate of return

ii. Variance

iii. Standard deviation

iv. Co-efficient of variation (14 marks)

(b) Compute the correlation coefficient between

i. A and B

ii. A and C

iii. B and C (6 marks)

QUESTION THREE

(a) Chopa Ltd is considering, acquiring minor Ltd. Selected financial data for two companies are as follows;

	Chopa Ltd	Minor Ltd
Annual sales (million)	Shs 750	Shs 90
Net income (million)	Shs 60	Shs 7.5
Outstanding ordinary shares (million)	15	3
E,Ps	Shs 4	Shs 250
Market price	Shs 44	Shs 20

Both companies are in the 40% income tax bracket

Required:

i. Calculate maximum exchange ratio Chopa Ltd should agree to if it expect no dilution in E.PS (6 marks)

ii. How much premium would the shareholder of minor Ltd receive on a price of shs 24.20 (4 marks)

iii. Calculate Chopa. Ltd post Merger EPS if the two companies settled on a price of shs 24.20

iv. Calculate Chopa Ltds EPS if every 50 shares of minor Ltd are exchanged with 8% debentures of par value shs 1,000 (5 marks)

QUESTION FOUR

(a) Explain the features of warrants (5 marks)

(b) Discuss the assumptions underlying the black and schools option. Pricing model (OPM) (12 marks)

(c) Explain the role of investment banks in merger (3 marks)

QUESTION FIVE

(a) Explain the hedging financial instruments used in derivative markets (8 marks)

(b) List and explain the importance of E-commerce to customers (12 marks)