MACHAKOS UNIVERSITY

University Examinations for 2016/2017 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF BUSINESS ENTREPRENEURSHIP AND MANAGEMENT SCIENCES

FOURTH YEAR SECOND SEMESTER EXAMINATION FOR DEGREE IN

BACHELOR OF COMMERCE MLOLONGO CAMPUS

BAC412: ENTREPRENEUR FINANCE

DATE: 5/6/2017 **TIME: 2 HOURS**

INSTRUCTIONS:

Answer Question One and Any Other Two Questions

QUESTION ONE (COMPULSORY) (30 MARKS)

a) Assume you have been given the following data for company A

Non –current assets contain land and buildings that are valued shs.14, 000,000 above their book value, and plant and machinery, which would sell for shs.4, 000,000 less than their book value. Inventory would sell for shs 8,000,000 and only shs.5, 000,000 would be realized from receivables.

Closure costs would add 2,000,000 to liabilities

Book value	shs	shs
Non-current assets		20,000
Current assets		
Inventory	10,000	
Receivables	6,000	

Cash	<u>8,000</u>	
		24,000
		44,000
Share capital		8,000
Reserves		<u>18,000</u>
		26,000
Bonds		8,000
Current liabilities		<u>10,000</u>
		44,000

Calculate

The minimum amount that the shareholders should accept for this business (10marks)

b) Explain the disadvantages of accompany going public (4 marks)

c) Distinguish between preferences share and debentures as a source of finance (5 marks)

d) With the aid of a diagram explain the components of entrepreneurial process (6 marks)

e) Explain any five sources of entrepreneurial opportunities (5 marks)

QUESTION TWO (20 MARKS)

Explain the types of financing and major providers of financial funds at each life cycle stage of a business (20 marks)

QUESTION THREE (20 MARKS)

a) Explain the initial public offering process (6 marks)

b) Explain the major provision of an underwriting agreement (10 marks)

c) Explain the following terms as used in initial public offering

i Comfort letter (2 marks)

ii Quiet period (2 marks)

QUESTION FOUR (20 MARKS)

a) Explain the factors you will consider when using the price-earnings ratio as a method of valuing the shares. (10 marks)

b) Assume the statistics of an unlisted company A, is as follows.

- Dividend per share just paid = 36 cents
- Historical dividend growth rate being 5 per cent per year. This is expected to be maintained in the future.
- Statistics of a suitable listed company (in the same business and same gearing)
- Share price = shs.7.20
- Dividend just paid =66cents
- Historical dividend growth rate being 10% per year. This is expected to be maintained in future.

Required

Calculate the share value of company A which is unlisted. (10 marks)

QUESTION FIVE (20 MARKS)

As an expert in entrepreneurial finance explain how a company can use Asset-based instruments finance a business. (20 marks)