



MACHAKOS UNIVERSITY

University Examinations for 2020/2021 Academic Year

SCHOOL OF BUSINESS AND ECONOMICS

DEPARTMENT OF ACCOUNTING BANKING AND FINANCE

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 412: ENTREPRENEUR FINANCE

DATE: 11/8/2021

TIME: 11.00-1.00 PM

INSTRUCTIONS:

Answer question ONE and any other TWO questions

QUESTION ONE (30 MARKS) (COMPULSORY)

- a) Assume you have been given the following data for company A Non –current assets contain land and buildings that are valued shs.28, 000,000 above their book value, and plant and machinery, which would sell for shs.8, 000,000 less than their book value. Inventory would sell for shs 16,000,000 and only shs.10, 000,000 would be realized from receivables.

Closure costs would add 2,000,000 to liabilities

Book value	Shs 000	Shs 000
Non-current assets		40,000
Current assets		
Inventory	20,000	
Receivables	12,000	
Cash	16,000	
		48,000
		88,000
Share capital		16,000
Reserves		36,000
		52,000
Bonds		8,000
Current liabilities		20,000
		88,000

Calculate

- The minimum amount that the shareholders should accept for this business. (6 marks)
- b) Explain the three common ways of valuing the business using asset-based approach (3 marks)
- c) Explain the disadvantages of accompany going public. (3 marks)
- d) Write short notes on the following in relation to initial public offering (IPO)
- i. Gun -jumping (2 marks)
 - ii. Insider trading (2 marks)
 - iii. Cheap stock (2 marks)
 - iv. Quiet period (2 marks)
 - v. Waiting period (2 marks)
- e) Distinguish between private equity and debentures as a source of finance (4 marks)
- f) Explain the issues of corporate governance required during the initial public offer . (4 marks)

QUESTION TWO (20 MARKS)

- a) With the aid of a diagram explain the entrepreneur process (6 marks)
- b) Explain the types of financing at each life cycle stage of a business (14 marks)

QUESTION THREE (20 MARKS)

- a) Explain the initial public offering process (6 marks)
- b) Explain the major provision of a prospectus in the initial public offering. (10 marks)
- c) Explain the following terms as used in initial public offering
- i. Comfort letter (2 marks)
 - ii. Lock- up agreement (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 a company is as listed below for company A as follows.
- Dividend per share just paid = 90 cents
 - Historical dividend growth rate being 10 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.16.60
- Dividend just paid =132 cents
- Historical dividend growth rate being 10% per year. This is expected to be maintained in future.

Required

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

QUESTION FIVE (20 MARKS)

- a) Distinguish between business angel and venture capital finance agreement (5 marks)
- b) Explain the exit strategies of a venture capital (5 marks)
- c) Explain the forms of crowd funding according to mitra, 2012 (5 marks)
- d) There exist hybrid financing instruments. comment (5 marks)