



MACHAKOS UNIVERSITY

University Examinations 2021/2022 Academic Year

SCHOOL OF BUSINESS, ECONOMICS AND HOSPITALITY AND TOURISM
MANAGEMENT

DEPARTMENT OF BUSINESS ADMINISTRATION AND FINANCE

FOURTH YEAR FIRST SEMESTER EXAMINATION FOR

BACHELOR OF COMMERCE

BAC 412: ENTREPRENEUR FINANCE

DATE:1/9/2022

TIME: 11.00-1.00 PM

INSTRUCTIONS

- Answer question **ONE (Compulsory)** 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.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 shs 4,000,000 to liabilities

Book value	shs	shs
	000	000
Non-current assets		40,000
Current assets		
Inventory	20,000	
Receivables	24,000	
Cash	32,000	
		76,000
		116,000
Share capital		16,000
Reserves		36,000
		52,000
Bonds		16,000
Current liabilities		48,000
		116,000

Calculate

- a) The minimum amount that the shareholders should accept for this business. (6 marks)
- 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) Explain the following terms:
 - i. Debt securitization (2 marks)
 - ii. Purchase Order Financing (2 marks)
 - iii. Crowdfunding (2 marks)
- e) Explain any five Loan covenants imposed by the vendor which the borrower must comply in order to adhere to the terms in the loan agreement. (5 marks)
- f) 'Venture capital finances the business with an intention of Divorce'. Explain any four Divorce strategies. (4 marks)

QUESTION TWO (20 MARKS)

- a) Explain the types of financing and major providers of financial funds at each life cycle stage of a business. (10 marks)
- b) Explain the Principles of entrepreneur finance. (6 marks)
- c) Entrepreneur has emerging issues. Explain any four. (4 marks)

QUESTION THREE (20 MARKS)

- a) The bond-holder is exposed to specific risks, which generally reflect in the bond price and coupon rate. Explain any five of those risks. (5 marks)
- b) Explain any Nine disclosures included in a prospectus document during the Initial Public Offering process. (9 marks)
- c) Explain the following terms as used in initial public offering:
 - i. Lock up agreements (2 marks)
 - ii. Gun Jumping (2 marks)
 - iii. 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 a company is as listed below for company A as follows.
- Dividend per share just paid = 72 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.14.40
 - Dividend just paid = 1.30cents
 - 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)

- a) As an expert in entrepreneurial finance explain how you can advise a client to use the following modes of finance to raise capital.
- i. Asset-based instruments finance. (10 marks)
 - ii. Crowding Funding. (6 marks)
- b) Explain the entrepreneurial process. (4 marks)