



MASENO UNIVERSITY
UNIVERSITY EXAMINATIONS 2016/2017

**FOURTH YEAR SECOND SEMESTER EXAMINATIONS FOR THE
DEGREE OF BACHELOR OF BUSINESS ADMINISTRATION
(FINANCE OPTION) WITH INFORMATION TECHNOLOGY**

CITY CAMPUS - EVENING

ABA 406: MANAGEMENT OF FINANCIAL SERVICES

Date: 27th July, 2017

Time: 5.30 - 8.30 pm

INSTRUCTIONS:

- Answer question ONE and any other THREE questions.



QUESTION ONE (COMPULSORY)

- a) Explain the reasons why reasons why lease finance is not well developed in Kenya. (7 Marks)
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- b) Discuss the advantages and dis advantages of Lease Financing. (6 Marks)
- c) Sultan J Limited is considering the lease of equipment which has a purchase price of KShs. 450,000 the equipment has an estimated life of 5 years and a salvage value of KShs. 5,000. The company uses 25% reducing balance on cost as depreciation. The lease rental per year is KShs. 100,000. Assume that the company's corporate tax is 30%. If the before tax borrowing rate for the company is 16%. Should the company lease the equipment? (*Hint: Use the Net Advantage Method*) (12 Marks)
- d) Discuss using examples the types of leases. (5 Marks)

QUESTION TWO:

- a) "A well planned merger can result to both companies benefiting". Discuss. (7.5 Marks)
- b) "Synergy is the necessary mainspring of a successful merger." Discuss. (7.5 Marks)
- c) Mke Ltd intends to take-over Bwana Ltd by offering two of its share for every five shares in NARC Company Ltd. Relevant financial data is as follows:

	Mke Ltd	Bwana Ltd
EPS	KShs 2:00	KShs 2:00
Market Price Per Share	KShs 100	KShs 40
Price Earnings Ratio	50	20
No of Shares	100,000	250,000
Total Earnings	KShs 200,000	KShs 500,000
Total Market Value	KShs 10M	KShs 10M

Required:

- i. Compute the combined EPS & MPS

- ii. Has wealth been created for shareholders? (5 Marks)

QUESTION THREE:

- a) Discuss the strategic role of venture capital in developing entrepreneurship in Kenya. (10 marks)
- b) Discuss the reasons why venture capital is not developed in developing countries. (10 Marks)

QUESTION FOUR:

- a) Explain factoring, and give its advantages and disadvantages. (10 marks)
- b) Boni Manguruwe limited has an annual credit sale of KShs 4 million. The interest rate per annum is 20 % the company is considering factoring its debtors. The service fee 2.5% of the amount of debt factored. A 15% reserve is required by the factor. The company has a credit period of 72 days. The interest charges are discounted.
Required: - (*assuming 365 days in a year*).
- i) The amount of funds Sossion limited will receive from the factor.
- ii) Compute the effective annual cost as a percentage. (10 marks)

QUESTION FIVE:

- a) Discuss credit card financing and the types of cards available in the Kenyan Market. (6 Marks)
- b) Discuss the reasons behind the fast development of credit card finance (Plastic Money) in Kenya. (6 Marks)
- c) Discuss the limitation of Credit Card financing as a source of Capital. (8 Marks)