



JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY
SCHOOL OF BUSINESS & ECONOMICS
UNIVERSITY EXAMINATION FOR THE DEGREE OF BACHELOR OF BUSINESS
ADMINISTRATION WITH IT
4TH YEAR 1ST SEMESTER 2016/2017 ACADEMIC YEAR
SPECIAL EXAM
RESIT

COURSE CODE: ABA 406

COURSE TITLE: MANAGEMENT OF FINANCIAL SERVICES

EXAM VENUE: LAB 1

STREAM: (BBA-FINANCE)

DATE: 06/05/16

EXAM SESSION: 2.00 – 4.00 PM

TIME: 2 HOURS

Instructions:

- 1. Answer Question ONE (COMPULSORY) and ANY other 2 questions**
- 2. Candidates are advised not to write on the question paper.**
- 3. Candidates must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE

(a) A Kenyan newspaper (The Star) reported on 8th June 2015 about the position of the regulator on Commercial Banks' performance: The Central Bank noted seven (7) cases of non – compliance with three sections of both the Bank Act and Central Bank's Prudential Standards (CAMELS). Two irregularly reflected a loan which exceeded a quarter of their core capital lending to one borrower. Another two institutions floated the rules by investing more than 20% of their core capital in real property while another two banks breached the minimum capitalization requirements.

- (i) According to CAMELS' Prudential Standards how is capital adequacy ratio calculated? (3mks)
- (ii) Briefly differentiate between PEARLS and CAMELS? (5mks)
- (iii) List five effects that result from the failure of financial intermediaries from recognizing loan losses in their books of accounts (or financial statements) (4 mks)
- (b) Explain the features of financial repression according to Carmen and Sbrancia (2011) (4mks)
- (c) Describe the reforms needed for a sound financial sector (4mks)
- (d) Briefly explain the impact of rent seeking, politics and elasticity in financial markets sector (4 mks)

(e) The following are expected firm ZYZ Cash flows for lease. The firm can borrow at 10 % and pay tax at 30%. Calculate the value of equivalent loan, using equivalent loan method.

	Year 0	Year 1	Year 2	Year 3	
Cash flows Kshs. (000)	+300	- 130	- 108	- 84	(6 mks)

QUESTION TWO

Small company is being acquired by large Company on a share exchange basis. Their selected data is as follows:

	Large	Small
Profit after – tax (Kshs)	56	21
Number of shares	10	8.4
Earnings of shares (Kshs)	5.6	2.5
Price – earnings ratio	12.5	7.5

Determine:

- (a) Pre – merger, market value per share (6mks)
- (b) The maximum exchange ratio large Company should offer without the dilution of
- (i) EPS
- (ii) Market value per share (9 mks)

(c) Explain the various types of risk analysis of a proposed venture capital due diligence (5mks)

QUESTION THREE

(a) Discuss in brief the legislation applicable to mergers and takeovers in Kenya. What are the objectives of such legislation (10mks)

(b) Differentiate between factoring and venture capital (5mks)

(c) What do venture capitalists look for in a venture (5 mks)

QUESTION FOUR

(a) Explain and illustrate the impact of mergers on the earnings per share, market price per share and book value per share of the acquiring company (10mks)

(b) What is the difference between financial sector deepening and financial inclusion (10mks)

QUESTION FIVE

(a) What are the advantages of leasing (3mks)

(b) Differentiate between wet and dry lease, and net net net lease (triple net) (3mks)

(c) The following are expected firm Cash flows for lease. The firm can borrow at 10 % and pay tax at 30%. Calculate the value of equivalent loan. What is the net present value (NPV) of the lease? Suppose the firm would use normal financing, and the NPV is negative at Kshs.250, 000. Is the lease still advantageous?

	Year 0	Year 1	Year 2	Year 3	Year 4
Year 5					
Cash flows Kshs. (000)	+300	- 130	- 108	- 84	- 75
	- 60				

Present Value –Table of Kshs.1:

Year:	1	2	3	4	5
Rate 10%	0.909	0.826	0.751	0.683	0.621
Rate 7%	0.935	0.873	0.816	0.763	0.713

(14 mks)