

JARAMOGI OGINGA ODINGA UNIVERSITY

Unit code: ABA 406

Unit title: MANAGEMENT OF FINANCIAL SERVICES

Instruction: Answer question one and any other two

QUESTION ONE

- a) What is leasing? Discuss the advantages and disadvantages of leasing as a source of finance. **(10mks)**
- b) Company ABC Ltd owns freehold property worth Shs. 900,000 and this company can sell this asset for Shs. 600,000 to finance a new venture which will bring returns of Shs. 480,000 per annum before tax. This property will cost the company Sh. 160,000 to lease per annum. This company is a trading business whose future life span is estimated at 14 years. Corporation tax is 45%.

Required:

With aid of cost benefit analysis advise the company which alternative to take. **(10mks)**

- c) Explain the advantages and disadvantages of quotation in the stock exchange **(10mks)**

QUESTION TWO

- a. What is commercial paper? Discuss the advantages of using commercial paper by businesses to raise fund in Kenya? **(8mks)**
- b. Safaricom and Shelter Afrique are examples of companies that have in the recent past issued floating rate bonds

Required:

- i. Briefly explain the meaning of a “floating rate” bond. **(3mks)**
- ii. From the point of view of a company’s financial manger, outline the merits and demerits of the company, of issuing floatation rate debt as means of raising capital.

(9mks)

QUESTION THREE

- a) What is hire purchase? Discuss the conditions under which hire purchase is an ideal source of finance in Kenya. (8Mks)
- b) Discuss the advantages and disadvantages of using hire purchase as a source of finance (6Mks)
- c) Differentiate between merchant banks and ordinary commercial banks (6mks)

QUESTION FOUR

- a) One of the options of achieving company growth is through acquisition and merger of other companies

Required:

- i. Discuss the common reasons for acquisitions and mergers. (6Mks)
 - ii. Discuss various problems associated with acquisition and mergers. (6mks)
- b) Suppose A Ltd wants to acquire B Ltd and A is offering Shs. 36 for each share of B Ltd, currently trading at Sh. 32. The market price per share of A Ltd share is Sh. 48. B Ltd has 2,000,000 is issued and fully paid up shares.

Required:

Calculate the exchange ratio and the amount of premium paid to the shareholders of B Ltd

(8mks)

QUESTION FIVE

- a) Write short notes on the following.
 - i. Operating lease and financial lease (4mks)
 - ii. Commercial paper (2mks)
 - iii. Credit card and Credit rating (4mks)
 - iv. Merges and acquisitions (4mks)
- b) Describe the requirement of quotation in the stock exchange market in Kenya (6mks)