

SECTION A (32 marks)

Answer ALL the questions in this section.

1. Pazuri Limited is considering raising Ksh 2 billion through a rights issue. Outline the advantages of raising finance through a rights issue as opposed to a public issue. (4 marks)

2. Outline **three** costs that are associated with the management of trade credit given. (3 marks)

3. Explain how the following items could be used to maximise the profits of a company.

- (i) Bank overdraft;
 - (ii) Taxation
- (4 marks)

4. State **three** reasons why money has time value. (3 marks)

5. Explain the following terms as used at the stock exchange: (2 marks)

- (i) Cum-right;
- (ii) Ex-right.

6. State **three** merits of investing in government bonds. (3 marks)

7. The reported financial results of Majo Enterprises for the year 2011 have the following highlights:

Net profit before interest and tax	Ksh 100 million
Interest	Ksh 60 million
Tax rate	30%
Profit after tax	Ksh 28 million

Advise the following stakeholders on the performance of the company:

- (i) Government;
- (ii) Lenders;
- (iii) Shareholders.

(3 marks)

8. Highlight **three** characteristics of long-term investment projects. (3 marks)

9. The current market price of an equity share of Simba Limited is Ksh.80. The current dividend per share is Ksh.4. The dividends are expected to grow at the rate of 10%. Calculate the cost of equity capital. (4 marks)

10. Identify **three** housing finance institutions operating in Kenya. (3 marks)

SECTION B (68 marks)

11. (a) (i) Define 'Sale - Lease Back' as a source of short term finance.
- (ii) Using **four** points, explain the aspects or characteristics of the source of finance in (i) above. (9 marks)
- (b) Explain **four** reasons why few companies are listed at the Nairobi Securities Exchange market. (8 marks)

12. (a) The following information relates to Bamazi International Limited as at 30 June, 2010.

Profit after tax 50%	Ksh 1,256,000
Ordinary dividend paid	18%
Market price of each ordinary share	Ksh 32
Issued Capital:	
- 12% Preference shares of Ksh 20 each	Ksh 3,600,000
- Ordinary shares of Ksh 20 each	Ksh 4,800,000

- (i) Calculate:

- (I) the dividend yield on the ordinary share; (2 marks)
 (II) the price earnings (P/E) ratio. (2 marks)

- (ii) Comment on the shortcomings of the ratio in (II) above, in evaluating stocks. (5 marks)

- (b) Explain **four** services rendered by the Central Bank to commercial banks. (8 marks)

