SECTION A (32 marks)

Answer ALL the questions in this section.

	ne the advantages of raising finance through a rights issue as opposed to a public	(4 marks)
0.41	49	(2 marles)
Outh	ne three costs that are associated with the management of trade credit given.	(3 marks)
Expla	nin how the following items could be used to maximise the profits of a company.	
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(i) (ii)	Bank overdraft; Taxation	(4 marks)
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State	three reasons why money has time value.	(3 marks)
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Explain the following terms as used at the sto	ck exchange: (2 marks)
(i) Cum-right; (ii) Ex-right.	
	-
State three merits of investing in government	bonds. (3 marks)
The reported financial results of Majo Enterpri	ses for the year 2011 have the following highlights:
Net profit before interest and tax Interest	Ksh 100 million Ksh 60 million
Tax rate Profit after tax	30% Ksh 28 million
Advise the following stakeholders on the perf	Formance of the company:
(i) Government;(ii) Lenders;	,
(ifi) Shareholders.	(3 marks
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Highl	Highlight three characteristics of long-term investment projects.				
per sl	urrent market price of an equity share of Simba Limited is Ksh.80. The cunare is Ksh.4. The dividends are expected to grow at the rate of 10%.	rrent dividend (4 marks)			
					
Identi	fy three housing finance institutions operating in Kenya.	(3 marks)			
	SECTION B (68 marks)	•			
(a)	(i) Define 'Sale - Lease Back' as a source of short term finance.				
	(ii) Using four points, explain the aspects or characteristics of the so in (i) above.	urce of finance (9 marks)			
(b)	Explain four reasons why few companies are listed at the Nairobi Securi market.	ities Exchange (8 marks)			

(a)	The following information relates to Bamazi International Limited as at 30 June,					
	Profi	t after ta	ax 50%	Ksh 1,256,000		
			idend paid	18%		
		tet price d Capit	of each ordinary share	Ksh 32		
		_	rence shares of Ksh 20 each	Ksh 3,600,000		
	- Or	dinary s	hares of Ksh 20 each	Ksh 4,800,000		
	(i)	Calcu	ılate:			
		(I) (II)	the dividend yield on the ordinathe price earnings (P/E) ratio.	ary share;	(2 (2	
	(ii)	Com	ment on the shortcomings of the r	ratio in (II) above, in evaluat	ting st	
(b)	Explain four services rendered by the Central Bank to commercial banks.				16	
					(8	
						
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13. (a) Zonex Limited plans to replace its water purification plant in order to increase the production capacity and improve quality. The following information relates to two types of machines available in the market.

	Machine	X	Machine Y	
Purchase price Estimated life Estimated net returns (before depreciation)	Ksh 250,000 5 years		Ksh 250,000 5 years	
(corona aspironument)	Year	Kshs	Kshs	
	i	120,000	130,000	
	2	100,000	110,000	
	3	80,000	90,000	
	4	60,000	50,000	
	5	60,000	50,000	

Both machines will have a nil residual value after 5 years.

- (i) Using the Accounting Rate of Return (ARR) method, recommend which machine should be acquired. (6 marks)
- (ii) Outline **three** shortcomings of using the method in (i) above in the evaluation of projects. (3 marks)
- (b) The primary objective of a business is profit maximization.

J	ve conflicts with other obje		(8)
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(a))	(i)	In calculating the weighted average cost of capital, market value wei	~			
			or book value weights, may be used. Explain the advantages of using				
			value weights over the book value weights.	(6 marks)			
		(ii)	Nafuu and Sons Private Limited has decided to go public by issuing	shares to			
		` '	raise funds for its expansion programmes.				
			Highlight three flotation costs that the company may incur.	(3 marks)			
	`	Niom	hi had a mlan to stant a hypoinage after 2 years. The initial society apprin	nd fan thia			
(b)	Njambi had a plan to start a business after 3 years. The initial capital required for this business was Ksh.880,000. To accumulate this amount, he deposited Ksh.320,000					
		in the bank at the beginning of the first year. He deposited Ksh.160,000 at the					
			ning of the second year.				
		Comp	oound interest was paid at the rate of 10% per annum.				
		Calan	late the amount Niembi was to describ at the beginning of the third was				
			late the amount Njambi was to deposit at the beginning of the third year him get the required capital at the end of the third year.	ır to (8 marks)			
		CHaon	o min 500 the required cupital at the end of the time year.	(6 mars)			

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