

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

RESIT EXAM

EXAMINATIONS FOR THE AWARD OF BACHELOR OF ENTREPRENEURSHIP
AND SMALL BUSINESS MANAGEMENT

BENS 422: ENTREPRENEURIAL VENTURE CAPITAL

STREAMS: BENS

TIME: 2 HOURS

DAY/DATE: WEDNESDAY 12/9/2018

11.30 A.M. – 1.30 P.M.

QUESTION ONE

- (a) The following information consists of the returns from stock A and market returns. Calculate the risk involved in this security

Return (%) Stock B	Market Returns	Probability
13	16	0.3
15	20	0.4
16	22	0.1
14	18	0.2

Calculate the risk involved in investing in this security (5 marks)

- (b) The shares of a company offer a dividend of sh 4 per share. The rate of dividend is expected to grow at 3% for 3 years, at 5% for the next 2 years then at 10% into perpetuity. The investors required rate of return is 15%. Calculate the value of the share. (5 marks)
- (c) Outline the advantages of venture capital (6 marks)
- (d) Explain the role played by venture capitalists in enhancing economic development of any country (14 marks)

QUESTION TWO

- (i) Discuss the different stages of financing for a business done by venture capitalists (10 marks)
- (ii) Discuss the evaluation criteria used by venture capitalists when making a decision to invest (10 marks)

QUESTION THREE

- (a) Describe a venture capital proposal and the contents of the proposal (10 marks)
- (b) Kusudi Company expects to sell 3000 units @ sh 15 for four years. The variable expense is sh 3 per unit. The fixed cost is sh 10000. Depreciation is on straight line method and is sh 5000. The tax rate is 30%. In the fourth year the company incurred repairs of machinery of sh 15000. The residual value of the company is sh 200000. The growth rate is 10%. The weighted average cost of capital is 12 %.

Required

Calculate the free cash flow

- (i) Determine the value of the company (6 marks)
- (ii) Outline the features of venture capital (4 marks)

QUESTION FOUR

- (i) Explain the steps involved in investing in a business by venture capitalists (12 marks)
- (ii) Describe the history of venture capital (5 marks)
- (iii) Describe angel investors and their role in business (3 marks)
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