



STRATHMORE UNIVERSITY BUSINESS SCHOOL
BACHELOR OF COMMERCE
END OF SEMESTER EXAMINATION
SCM 2104: SUPPLY CHAIN FINANCE

DATE: 6th December 2023

Time: 08:00-10:00

Instructions

1. This examination consists of **FIVE** questions.
2. Answer **Question ONE (COMPULSORY)** and any other **TWO** questions.

QUESTION ONE **(30 Marks)**

- (a) Giving examples, discuss the difference between overcapitalization and overtrading **(4 Marks)**
- (b) The following information relates to a project's Cash flow information of Wanandegge Suppliers. The initial cost of the project is Kes.170,000

Year	Cashflows
1	60,000
2	72,650
3	35,720
4	48,510
5	91,630
6	83,715

This company can raise finance to purchase the machine at 12% interest rate. Compute the project's discounted payback period and NPV and advise the management. **(6Marks)**

- (c) Giving examples differentiate factoring, Dynamic discounting, and forfaiting. **(6 Marks)**
- (d) Pierre runs a small bakery and estimates that the annual demand for flour will be 10,000 kilograms, the cost of placing an order is Kes. 100. The storage, insurance, and opportunity cost per kilogram per year is Kes 2. The company has a lead time of 10 days.

Required;

Determine the optimal inventory levels, reorder level, and number of orders in a year. **(6 Marks)**

- (e) Giving examples, discuss how supply chain coordination, capital access, product market position and control protection, and credit rationing are enablers of supply chain finance adoption. **(8 Marks)**

QUESTION TWO**(20 Marks)**

Operations and finance are two sides of the same coin. Operations management sets the backbone of financial performance, and corporate finance supports real investment in operations.

- (i) Why should a firm integrate its operations and finance? **(6 Marks)**
- (ii) What are some of the benefits of integrating operations and finance? **(6 Marks)**

The following information relates to the financing information for Waumini Limited, a manufacturing firm that scouting for new financing options for its project

- a) Waumini has 1,000,000 outstanding common shares. The current stock price is Kes.50 per share. The company paid dividends of Kes 2 per share last year. The expected growth rate of dividends is 5%.
- b) Waumini has issued a 10-year corporate bond with a face value of Kes 1,000 and an annual coupon rate of 5%. The current market price of the bond is Kes950.
- c) Waumini plans to use 60% equity and 40% debt to finance the expansion project

Required;

Determine the cost of equity, cost of debt, and cost of capital for Waumini **(8 Marks)**

QUESTION THREE**20 Marks**

Supply chain finance *also known as supplier finance or reverse factoring* — is a set of solutions that improves cash flow by allowing buyers to optimize supplier payment terms.

Required;

- a) Describe the process flow in supply chain finance **(12 Marks)**
- b) Giving examples explain the three main flows in a supply chain **(3Marks)**
- c) Explain five success factors for supply chain finance adoption **(5 Marks)**

QUESTION FOUR**20 Marks**

(a) Access to finance and estimated cost reduction are two major efficiency motives for supply chain adoption. Giving examples discuss how SCF can obtain cost reduction. **(6 Marks)**

(b) Gracious Electronics sells consumer electronics such as smartphones, laptops, and accessories. The company is concerned about its efficiency in managing its working capital along the supply chain.

The company maintains an inventory of Kes 50,000 worth of electronics products, the company is owed Kes 30,000 by its customers for products they have purchased on credit. The company owes its suppliers Kes 20,000 for purchases of inventory on credit. The cost of goods sold for the company is Kes.200,000 and the sales revenue for the period is Kes.300,000. The company is concerned about the costs that come with holding too much inventory which they have to deal with in the period under review as well as the cash conversion cycle. Assume a 365 days year

Required;

- a) Determine the cash conversion cycle for this company and comment on it. **(9 Marks)**

- b) What are some of the costs that come with holding low inventory? **(5 Marks)**

QUESTION FIVE

20 Marks

- a) Discuss five ways in which supply chain finance solutions can be changed to promote supply chain sustainability performance. **(10 Marks)**

- b) Explain the importance of investment decisions along the supply chain. **(4 Marks)**

- c) Discuss how the agency, pecking order, and information theory apply in supply chain finance. **(6 Marks)**