



STRATHMORE UNIVERSITY BUSINESS SCHOOL
BACHELOR OF COMMERCE
END-OF-SEMESTER EXAMINATION
SCM2104: SUPPLY CHAIN FINANCE

DATE: Thurs, 7th March 2024

Time: 10:30 – 12:30

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, evaluate the three main flows along the supply chain **(6 Marks)**
- (b) The following information relates to a project's Cash flow information of Waumini Suppliers. The management of the company committed Kes.85,000 to the project

Year	Cashflows
1	30,000
2	36,300
3	17,800
4	24200
5	45800

This company can raise finance to purchase the machine at 10% interest rate. Compute the project's discounted payback period and NPV and advise the management. **(6Marks)**

- (c) Factoring is one of the key financial instruments used in supply chain finance
- (i) Giving examples, explain how recourse factoring differs from non- recourse factoring **(2 Marks)**
 - (ii) Evaluate Three reasons why a firm would opt for factoring **(3 Marks)**
- (d) Lisa runs an entertainment joint and estimates that the annual demand for flour will be 5,000 kilograms, the cost of placing an order is Kes. 50. The storage, insurance, and opportunity cost per kilogram per year is Kes 2. The company has a lead time of 10 days.
- (i) Determine the optimal inventory levels, reorder level, and number of orders in a year **(4 Marks)**
 - (ii) Explain **THREE** costs associated with holding excess inventory **(3 Marks)**

- (e) How does the degree of competition within an industry, bargaining power of customers and the risk of non-payment influence the length of the credit period **(6 Marks)**

QUESTION TWO (20 Marks)

The following information relates to the financing information for DHL Limited, a global logistics firm that is seeking to construct a new warehouse in the African Region

- a) DHL Limited has 500,000 outstanding common shares. The market price per share Kes.30. The company paid dividends of Kes 2 per share last year. The expected growth rate of dividends is 8.5%.
- b) DHL Limited has issued a 15-year corporate bond with a face value of Kes 1,000 and an annual coupon rate of 8%. The current market price of the bond is Kes 850.
- c) DHL has the intentions of apportioning 45% of the required financing to Equity
- (i) Determine the cost of equity, cost of debt, and cost of capital for DHL **(8 Marks)**
- (ii) Why is the cost of debt considered to be cheaper than the cost of equity **(6 Marks)**
- (iii) Giving examples, explain mutually exclusive, independent and contingent investments **(6 Marks)**

QUESTION THREE 20 Marks

To operate effectively, supply chain finance requires an ecosystem that improves the velocity of working capital across a supply chain.

- a) Critically evaluate the role played by the Four main players in the supply chain finance ecosystem. **(8 Marks)**
- b) Explain the five different perspectives used for classifying supply chain finance instruments **(10 Marks)**
- c) Why do firms adopt a supply chain finance program? **(2 Marks)**

QUESTION FOUR 20 Marks

Anima Cristi Ltd is a fast-moving consumer goods company (FMCG). The company is concerned about its efficiency in managing its working capital.

The company maintains an inventory of Kes 75,000 worth of its FMCG products, the company is owed Kes 45,000 by its customers for products they have purchased on credit. The company owes its suppliers Kes 30,000 for purchases of inventory on credit. The cost of goods sold for the company is Kes.300,000 and the sales revenue for the period is Kes.450,000. 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 366 days year

Required

- a) Determine the cash conversion cycle for this company and comment on it **(9 Marks)**
- b) Despite the good reasons for holding cash, it is also important not to hold excessive balances. This is because cash balances yield no return and so excessive cash balances result in a low return on investment
 - (i) Explain the Three motives for holding cash **(6Marks)**
 - (ii) The following information relates to the cash operations of WC Investment. The minimum cash balance is Kshs. 16000, the standard deviation is Kes. 4000. The transaction costs incurred in the buying or selling of securities is Kes.200 and the daily interest rate is 0.065% per day. Determine the upper limit and the return point for WC Investment **(5 Marks)**

QUESTION FIVE **20 Marks**

- a) Discuss five benefits of sustainable supply chain **(10 Marks)**
- b) Giving examples discuss any Three indirect costs associated with a firm's financial distress **(6 Marks)**
- c) What does the pecking order theory argue and what are its implications on supply chain finance **(4 Marks)**