



Strathmore
UNIVERSITY

STRATHMORE BUSINESS SCHOOL
MASTER OF SCIENCE IN DEVELOPMENT FINANCE
END OF SEMESTER EXAMINATION
MDF 8101: MICRO ENTERPRISE FINANCE

Date: Wednesday, 7th December 2022

Time: 3 Hours

Instructions

1. Answer Question One and any other TWO Questions.
2. Marks will be awarded on the basis of clear exposition of your ideas, precision in the use of language and the validity of your logic.
3. Where relevant, show all your workings on the answer sheet provided.
4. In all instances, the currency utilised is denominated in Kenya Shillings (Kes.). You can assume an exchange rate of 1 US\$ = approximately Kes. 120.

Question 1 (Compulsory) (40 marks)

Read the case: Grooming a Family Business Successor: Nina Interiors Limited, Uganda and answer the following questions:

- a) Would you say Patricia Karugaba Kyazze (Patricia) is an entrepreneur? Give reasons.
(5 marks)
- b) From the case is Patricia the best choice candidate to succeed her mother as the Managing Director of Nina Interiors? Why or why not?
(5 marks)
- c) If you were a board member of Nina Interiors, what decision would propose regarding:
 - i. the dividend policy? **(5 marks)**
 - ii. approval or rejection of the proposed board trip to Rwanda? **(5 marks)**Support your answer with facts from the case study.
- d) Comment on the (i) financial performance; and (ii) financial position of Nina Interiors over the last 5 years.
(20 marks)

Question 2 (20 marks)

- (a) Highlight the benefits of a cash flow forecast. **(5 marks)**
- (b) Moses Mtembezi has worked for some years as a sales representative but has recently been made redundant. He intends to start up a business on his own account, using Kshs.

1.5 million which he has invested with a cooperative society. Moses maintains a bank account showing a small credit balance, and he plans to approach his bank for the necessary additional finance. Moses provides the following additional information:

- (i) Arrangements have been made to purchase non-current assets costing Kshs. 800,000. These will be paid for at the end of September and are expected to have a five-year life, at the end of which they will possess a nil residual value.
- (ii) Inventories costing Kshs. 500,000 will be acquired on 28 September and subsequent monthly purchases will be at a level sufficient to replace forecast sales for the month.
- (iii) Forecast monthly sales are Kshs. 300,000 for October, Kshs. 600,000 for November and December each and Kshs. 1,050,000 from January 2014 onwards.
- (iv) Selling price is fixed at the cost of inventory plus 50%.
- (v) Two months' credit will be allowed to customers but only one month's credit will be received from suppliers of inventory.
- (vi) Running expenses, including rent but excluding depreciation on non-current assets, are estimated at Kshs. 1,600,000 per month.
- (vii) Moses intends to take monthly cash drawings of Kshs. 100,000.

Required: Prepare a cash flow forecast for the six months to 31 March 2014. **(15 marks)**

Question 3 (20 marks)

Mzee Kijana runs a sole proprietorship business that provides “sales, repair, and installation” services to homes and businesses. The business operates out of a 2,500 square foot shop located at the owner’s residence. The business does not pay rent for use of the facilities, does not pay a salary to the owner (Mzee Kijana) for his services, but it pays a small wage to the spouse. The business has a consistent revenue stream, but profitability varies year to year. Mzee Kijana is considering winding up his business venture due to the rapid changes in technological advancements which affects his ‘original business model’ resulting to volatility in profits amidst excessive competition. He has approach you to offer financial advisory in determining the value of the business.

Required:

- a) Evaluate any THREE business valuation approaches that you may consider in the valuation **(6 marks)**
- b) Discuss any FOUR factors that you may consider while selecting the business valuation method to use **(8 marks)**
- c) Suppose Mzee Kijana has finally decided to wind up his business venture, identify any THREE harvesting methods that you may suggest to Mzee Kijana to consider while opting out **(6 marks)**

Question 4 (20 marks)

- a) While reflecting on the *Shabba Ventures LTD* and *Home Tech LTD* case studies, identify and discuss any FIVE accounting principles that could have been employed to enhance reliability and faithful presentation of the financial statements **(10 marks)**
- b) The owners of *Shabba Ventures LTD* and *Home Tech LTD* have approached you to help them in preparing a business plan.

Required:

- i) Discuss the process of a business plan preparation while identifying any FIVE uses of a business plan **(5 marks)**
- ii) Despite the importance vested in a good business plan, it has equally received several criticisms. Describe any FIVE arguments for not making a business plan **(5 marks)**

Question 5 (20 marks)

Justifying your answer, highlight the most appropriate finance sources for each of the cases below:

- (a) A business in its gestation stage **(5 marks)**
- (b) A start up business experiencing rapid growth **(10 marks)**
- (c) An enterprise in its maturity phase **(5 marks)**

..... *End of the Question Paper*.....