



STRATHMORE INSTITUTE
DIPLOMA IN BUSINESS CREATION & ENTREPRENEURSHIP
END OF SEMESTER EXAMINATION
DE 1204: FINANCING YOUR BUSINESS

DATE: 19th April 2022

Time: 2 Hours

Instructions

1. This examination consists of FIVE questions.
2. Answer Question ONE (COMPULSORY) and any other TWO questions.
3. Do not write on the question paper.

QUESTION ONE

- a) Phillip and Hillary have decided to combine their talents and open a competitive cheer and dance business in Madaraka estate. Phillip expertise is the business side. He has a diploma in Business management specializing in entrepreneurship; while Hillary has a diploma in sports management and has been coaching the local high school cheerleading team, while his wife has been coaching the school's dance team. The problem is that Hillary does not have as much capital to invest. In fact, they are having a little trouble figuring out how they will be able to get the startup capital for the business. Some of their friends/relatives might be willing to invest in the firm. There are no other competitive cheer and dance businesses in the area. They have found a building to lease at Ksh. 40,000 per month and expect that utilities and water will cost approximately Ksh. 3,500 per month. Liability insurance has been estimated to be Ksh. 15,000 per month, due to possible injuries.

Required:

- i. Which type of business organization is described above? **(1 marks)**
 - ii. List the **two** advantages and two disadvantages of your choice **(4 marks)**
 - iii. Describe **five** resources available for Phillip and Hillary to start their business **(5 marks)**
 - iv. Discuss **five** problems encountered by Phillip and Hillary to raise start-up capital **(5 marks)**
- b) Financial values and decisions can be assessed by using either future value (FV) or present value (PV) techniques. A shilling today is worth more than a shilling tomorrow.

You are required to:

- i. State **two** reasons why people would prefer to receive money today rather than same amount in the future **(2 marks)**
 - ii. State **four** conditions that must be considered for any cash flow to be an annuity **(4 marks)**
- c) Assume that you have just invested Ksh. 100, 000. The investment is expected to earn interest at a rate of 20% compounded semi-annually.

Required: Determine the future value of the investment after 3 years **(3 marks)**

- d) Consider an investment which promises to pay Ksh. 100,000 one year from now, Ksh. 300,000 two years from now, Ksh. 500,000 three years from now and Ksh. 100,000 four years from now.

Required: How much will be the future value of the cash flow streams at the end of year 4, given that the interest rate is 10%? **(6 marks)**

[Total: 30 Marks]

QUESTION TWO

- a) State **four** limitations of ratios analysis in performance evaluation **(4 marks)**
- b) Your business will only be as strong as its financial plan. Plans provide your business with quality information that helps you to make good business decisions and to monitor the performance of your business. For your financial plan to attract investors and be valuable as a business planning tool, it must be based on reliable numbers and careful calculations.

Required:

- i. Describe **five** importance of financial planning for any business venture **(5 marks)**
- ii. Explain **six** components or tools for a good financial plan **(6 marks)**

[Total: 15 Marks]

QUESTION THREE

- a) Describe the information needed to obtain financing from the bank **(4 marks)**
- b) Mark, Muli, and Mathew have been close friends since high school, and even went to college together. All three boys just graduated with a diploma in entrepreneurship. All three are "computer geeks" and have worked part time through high school and college fixing computer problems. Each has approximately Ksh. 50,000 in savings for this business venture. They have been talking about starting a computer company (Tripple M Computer Solutions) in their local town to help businesses and individuals with computer problems or those who need help developing and designing web sites. In doing research, Mark found that there are only two other computer companies in their town of 100,000 people.

Required:

- i. State **two** main components of start-up capital for Tripple M Computer Solutions **(2 marks)**
- ii. Calculate approximate start-up capital needed to start Tripple M Computer Solutions **(7 marks)**
- iii. Explain **two** reasons why it is important to estimate business start-up capital **(2 marks)**

[Total: 15 Marks]

QUESTION FOUR

- a) After three years of operations, your business managed to close a Ksh. 20,000 long-term loan to finance its activities that is to be repaid in eight equal end-of year repayments. The interest rate on the loan is 14%.

Required:

- i. Prepare an amortization schedule for the loan (**show all calculations**) **(8 marks)**

- b) During the growth of a small business, a company will go through the stages of the business life cycle and encounter different challenges that require different financing sources.

Required:

- i. Describe the concept of business life cycle and give examples of sources of finance available at each stage (**use a diagram**) **(7 marks)**

[Total: 15 marks]

QUESTION FIVE

- a) State **three** differences between money market and capital markets **(3 marks)**

- b) Working Capital is the oxygen for any business. Without capital business will not be able to continue its operations.

Required:

- i. State and explain **four** components of working capital **(4 marks)**

- ii. Explain **five** measures that can be used by a business to manage its credit customers (receivables) **(5 marks)**

- iii. State three **ways** of better stock control within a business **(3 marks)**

[Total: 15 marks]