



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

DATE: Monday, 17th April 2023

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) Mathew, Munyao, and Mulei 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, Mathew 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)
 - iv. State any **FIVE** ways of financing a start-up business
(5 marks)
 - v. Discuss **FIVE** problems to be encountered when raising 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 **FOUR** reasons why people would prefer to receive money today rather than same amount in the future.
(4 marks)
- ii. Differentiate between discounting and compounding
(2 marks)

- iii. Assume that you have just invested Ksh. 100, 000. The investment is expected to earn interest at a rate of 20% compounded annually. Determine the future value of the investment after 3 years. **(3 marks)**

[Total: 30 Marks]

QUESTION TWO

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

[Total: 15 marks]

QUESTION THREE

- a) Define the term Mezzanine financing **(2 marks)**
- b) Financial planning is at the heart of every successful business. A financial plan, which includes detailed financial statements and projections, forms the core of your overall business plan. Your business will only be as strong as its financial plan. 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.

You are required to:

- i. Explain **FOUR (4)** reasons why financial planning is important for any business venture **(4 marks)**
- ii. Discuss **SIX (6)** important tools or components for financial planning **(9 marks)**

[Total: 15 Marks]

QUESTION FOUR

- a) State any **THREE** ways of bootstrapping to finance a business **(3 marks)**
- b) Lenza General Supermarket sells its good to customers on terms of 2/10 net 30. The following data below has been extracted from the financial statements for the last one year:

	20X1
Cash	30,000
Accounts receivable	200,000
Inventory	400,000
Non-Current assets	800,000
Accounts payable	230,000
Accruals	200,000
Bank loan, short term	100,000
Long term debt	300,000

Common stock	100,000
Retained earnings	500,000
Additional information:	
Sales	4,000,000
Cost of goods sold	3,200,000
Net profit	300,000

Required: Use ratios analysis to assess the financial difficulties and dangers of Lenza General Supermarket; calculate the following ratios and comment on your answer.

- i. Acid test ratio **(1 marks)**
- ii. Current ratio **(1 marks)**
- iii. Average collection period **(3 marks)**
- iv. Inventory conversion days **(3 marks)**
- v. Average payables period **(3 marks)**
- vi. Net profit margin **(1 marks)**

[Total: 15 marks]

QUESTION FIVE

- a) A business will go through the stages of a business lifecycle similar to a tree's lifecycle. As a seedling that sprouts and matures, the tree will require different amounts of resources through the stages of its lifecycle. Understanding the different stages of the business lifecycle will help you prepare for the obstacles that your business will needs to conquer in order to succeed.

Required: Using a diagram, explain business financing lifecycle stating financing sources available at each stage of business lifecycle **(7 marks)**

- b) Joy produces and sells clay bowls for Kes 15 each. She calculates that the actual (variable) cost to produce each bowl in labour, supplies, and materials is Kes 11. She intends to sell 100,000 bowls and make a profit of Kshs. 140,000. In order to assist Joy with further analysis, you are asked to prepare a number of calculations relative to this product line to facilitate decision making.

You are required to:

- i. Explain the term "breakeven" point **1 marks**
- ii. Calculate unit contribution margin and unit contribution margin ratio **2 marks**
- iii. Calculate the total fixed costs attributable to clay bowls **2 marks**
- iv. Calculate breakeven point expressed in both sales units and sales turnover (shillings). **3 marks**

[Total: 15 marks]