



**STRATHMORE INSTITUTE  
DIPLOMA IN ENTREPRENEURSHIP  
END OF SEMESTER EXAMINATION  
DE 1204: FINANCING YOUR BUSINESS-FT (EXAM)**

**DATE: 9<sup>th</sup> August 2024**

**Time: 15:30 – 17:30 Hours**

**Instructions**

1. This examination consists of **FIVE** questions.
2. Answer **QUESTION ONE (COMPULSORY)** in **section A**.
3. Answer **ONE** Question from **Section B**.
4. Answer **ONE** Question from **Section C**.

**SECTION A:(Compulsory)**

**QUESTION ONE**

- (a) Explain three ways that you can apply the lessons learnt from studying financing your business as a new entrepreneur. **(3 marks)**
- (b) Explain the following terms as discussed in financing your business.
- i) Business Angels financing. **(3 marks)**
  - ii) Crowd funding financing. **(3 marks)**
  - iii) Venture capital financing. **(3 marks)**
- (c) Peter is considering investing in a small hotel located in Nairobi County. He needs to estimate the startup capital/initial investment for his small hotel

**Required;**

Explain how Peter would estimate the startup capital/initial investment amount for his hotel business. **(5 marks)**

- (d) The two types of external financing available to businesses include debt financing and equity financing.

**Required;**

Explain three reasons where a business would opt to use debt financing instead of using equity financing. **(3 marks)**

(e) Bamburi Ltd is a company that has been producing cement for the Kenyan market for the last 20 years. The company is considering investing in a new cement production machine that improve the efficiency in production. The finance manager of Bamburi is looking to prepare a financial plan that will be used for sourcing of finance to acquire the new machine. The investment analysis will be included in the financial plan.

The finance manager of the company has provided the following information to facilitate investment analysis.

1. The company uses a discounting rate of 10 % in investment analysis.
2. The Initial Investment for the new cement production machine (Initial Cash Outflow) is Shs 30,500,000.
3. The new cement production machine will be used for 5 years with the annual cash inflows as provided below.

| Year | Annual Cash Inflows (Kshs) |
|------|----------------------------|
| 1    | 10,800,500                 |
| 2    | 10,400,000                 |
| 3    | 10,300,000                 |
| 4    | 10,200,000                 |
| 5    | 10,100,000                 |

**Required;**

- i) Calculate the Net Present Value (NPV) for new cement production machine. **(7 marks)**
- ii) Explain three types of external financing methods that Bamburi should consider using to finance the purchase of the new cement production machine. **(3 marks)**

**(TOTAL 30 MARKS)**

**SECTION B**

**(Answer ONE Question from Section B)**

**QUESTION TWO**

- (a) Explain the difference between a limited liability partnership type of organization and a sole proprietorship. **(3 marks)**
- (b) Explain the following terms

- i) Initial Public offer (IPO). (3 marks)
- ii) Corporate Bonds. (3 marks)

(c) The following financial information is provided in relation to Kakuzi ltd an agricultural company that has been operating in Kenya for the last 5 years. The following three ratios were computed from the financial statements of the company for the year 2024.

|                 | YEAR-2024 |
|-----------------|-----------|
| Inventory Days  | 10 Days   |
| Receivable Days | 18 Days   |
| Payable Days    | 13 Days   |
|                 |           |
|                 |           |

**Required;**

- i) Calculate and explain the Cash conversion cycle (CCC) for Kakuzi ltd using the information provided in the above table. (4 marks)
- ii) Explain the two types of financing methods that would be ideal in the finance of working capital requirements. (2 marks)

**(TOTAL 15 MARKS)**

**QUESTION THREE**

- (a) Explain the concept of time value of money as discussed in financing your business. **(3 marks)**
- (b) Explain how you can measure the liquidity of your business using the current ratio. **(2 marks)**
- (c) Jaylen Brown has just graduated with a degree in entrepreneurship, and he wants to apply the lessons learnt in starting an executive barbershop in Nairobi called Celtics Cuts.
  - ✓ The startup capital for his business 8,000,000.
  - ✓ The amount of finance that Jaylen has managed to raise from his savings is 2,500,000
  - ✓ Jaylen Brown has only managed to raise 2,500,000 out of the required startup capital of 8,000,000 with the remaining 5,500,000 being sourced via a bank loan from Equity Bank.
  - ✓ After applying for a 5 year loan the credit manager of Equity bank has requested Jaylen to provide the financial plan for his startup business.

**Required;**

- i) Explain five key financial data for his startup business that should be included in the financial plan to be presented to equity bank. **(10 marks)**

**(TOTAL 15 MARKS)**

**SECTION C:**

**(Answer ONE Question from Section C)**

**QUESTION FOUR**

- (a) There are five stages within the Business life cycles that every business goes through in the life of that business starting from when the business is established.

**Required;**

Explain the five stages within the Business life cycles and explain the best type of financing methods to use under each stage. **(10 marks)**

- (b) Explain five factors that will be considered by a business when selecting the type of financing method to use. **(5 marks)**

**(TOTAL 15 MARKS)**

**QUESTION FIVE**

- (a) Explain how the performance of the stock market like the Nairobi Securities exchange market will affect the type of financing used by an established company like Safaricom. **(3 marks)**
- (b) Explain two types of financial markets in Kenya. **(2 marks)**
- (c) Explain the difference between the debenture type of financing and mortgage type of financing. **(4 marks)**
- (d) Explain how you would estimate the annual net cash inflow projections for a 33-seater matatu business during the first year. Provide estimates to accompany the explanation. **(6 marks)**

**(TOTAL 15 MARKS)**

**PRESENT VALUE (PV) TABLE**

| Period | 1%     | 2%     | 3%     | 4%     | 5%     | 6%     | 7%     | 8%     | 9%     | 10%    | 11%    | 12%    | 13%    | 14%    | 15%    | 16%    | 20%    | 24%    | 25%    | 30%    |
|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| 1      | 0.9901 | 0.9804 | 0.9709 | 0.9615 | 0.9524 | 0.9434 | 0.9346 | 0.9259 | 0.9174 | 0.9091 | 0.9009 | 0.8929 | 0.8850 | 0.8772 | 0.8696 | 0.8621 | 0.8333 | 0.8065 | 0.8000 | 0.7692 |
| 2      | 0.9803 | 0.9612 | 0.9426 | 0.9246 | 0.9070 | 0.8900 | 0.8734 | 0.8573 | 0.8417 | 0.8264 | 0.8116 | 0.7972 | 0.7831 | 0.7695 | 0.7561 | 0.7432 | 0.6944 | 0.6504 | 0.6400 | 0.5917 |
| 3      | 0.9706 | 0.9423 | 0.9151 | 0.8890 | 0.8638 | 0.8396 | 0.8163 | 0.7938 | 0.7722 | 0.7513 | 0.7312 | 0.7118 | 0.6931 | 0.6750 | 0.6575 | 0.6407 | 0.5787 | 0.5245 | 0.5120 | 0.4552 |
| 4      | 0.9610 | 0.9238 | 0.8885 | 0.8548 | 0.8227 | 0.7921 | 0.7629 | 0.7350 | 0.7084 | 0.6830 | 0.6587 | 0.6355 | 0.6133 | 0.5921 | 0.5718 | 0.5523 | 0.4823 | 0.4230 | 0.4096 | 0.3501 |
| 5      | 0.9515 | 0.9057 | 0.8626 | 0.8219 | 0.7835 | 0.7473 | 0.7130 | 0.6806 | 0.6499 | 0.6209 | 0.5935 | 0.5674 | 0.5428 | 0.5194 | 0.4972 | 0.4761 | 0.4019 | 0.3411 | 0.3277 | 0.2693 |
| 6      | 0.9420 | 0.8880 | 0.8375 | 0.7903 | 0.7462 | 0.7050 | 0.6663 | 0.6302 | 0.5963 | 0.5645 | 0.5346 | 0.5066 | 0.4803 | 0.4556 | 0.4323 | 0.4104 | 0.3349 | 0.2751 | 0.2621 | 0.2072 |
| 7      | 0.9327 | 0.8706 | 0.8131 | 0.7599 | 0.7107 | 0.6651 | 0.6227 | 0.5835 | 0.5470 | 0.5132 | 0.4817 | 0.4523 | 0.4251 | 0.3996 | 0.3759 | 0.3538 | 0.2791 | 0.2218 | 0.2097 | 0.1594 |
| 8      | 0.9235 | 0.8535 | 0.7894 | 0.7307 | 0.6768 | 0.6274 | 0.5820 | 0.5403 | 0.5019 | 0.4665 | 0.4339 | 0.4039 | 0.3762 | 0.3506 | 0.3269 | 0.3050 | 0.2326 | 0.1789 | 0.1678 | 0.1226 |
| 9      | 0.9143 | 0.8368 | 0.7664 | 0.7026 | 0.6446 | 0.5919 | 0.5439 | 0.5002 | 0.4604 | 0.4241 | 0.3909 | 0.3606 | 0.3329 | 0.3075 | 0.2843 | 0.2630 | 0.1938 | 0.1443 | 0.1342 | 0.0943 |
| 10     | 0.9053 | 0.8203 | 0.7441 | 0.6756 | 0.6139 | 0.5584 | 0.5083 | 0.4632 | 0.4224 | 0.3855 | 0.3522 | 0.3220 | 0.2946 | 0.2697 | 0.2472 | 0.2267 | 0.1615 | 0.1164 | 0.1074 | 0.0725 |
| 11     | 0.8963 | 0.8043 | 0.7224 | 0.6496 | 0.5847 | 0.5268 | 0.4751 | 0.4289 | 0.3875 | 0.3505 | 0.3173 | 0.2875 | 0.2607 | 0.2366 | 0.2149 | 0.1954 | 0.1346 | 0.0938 | 0.0859 | 0.0558 |
| 12     | 0.8874 | 0.7885 | 0.7014 | 0.6246 | 0.5568 | 0.4970 | 0.4440 | 0.3971 | 0.3555 | 0.3186 | 0.2858 | 0.2567 | 0.2307 | 0.2076 | 0.1869 | 0.1685 | 0.1122 | 0.0757 | 0.0687 | 0.0429 |
| 13     | 0.8787 | 0.7730 | 0.6810 | 0.6006 | 0.5303 | 0.4688 | 0.4150 | 0.3677 | 0.3262 | 0.2897 | 0.2575 | 0.2292 | 0.2042 | 0.1821 | 0.1625 | 0.1452 | 0.0935 | 0.0610 | 0.0550 | 0.0330 |
| 14     | 0.8700 | 0.7579 | 0.6611 | 0.5775 | 0.5051 | 0.4423 | 0.3878 | 0.3405 | 0.2992 | 0.2633 | 0.2320 | 0.2046 | 0.1807 | 0.1597 | 0.1413 | 0.1252 | 0.0779 | 0.0492 | 0.0440 | 0.0254 |
| 15     | 0.8613 | 0.7430 | 0.6419 | 0.5553 | 0.4810 | 0.4173 | 0.3624 | 0.3152 | 0.2745 | 0.2394 | 0.2090 | 0.1827 | 0.1599 | 0.1401 | 0.1229 | 0.1079 | 0.0649 | 0.0397 | 0.0352 | 0.0195 |
| 16     | 0.8528 | 0.7284 | 0.6232 | 0.5339 | 0.4581 | 0.3936 | 0.3387 | 0.2919 | 0.2519 | 0.2176 | 0.1883 | 0.1631 | 0.1415 | 0.1229 | 0.1069 | 0.0930 | 0.0541 | 0.0320 | 0.0281 | 0.0150 |
| 17     | 0.8444 | 0.7142 | 0.6050 | 0.5134 | 0.4363 | 0.3714 | 0.3166 | 0.2703 | 0.2311 | 0.1978 | 0.1696 | 0.1456 | 0.1252 | 0.1078 | 0.0929 | 0.0802 | 0.0451 | 0.0258 | 0.0225 | 0.0116 |
| 18     | 0.8360 | 0.7002 | 0.5874 | 0.4936 | 0.4155 | 0.3503 | 0.2959 | 0.2502 | 0.2120 | 0.1799 | 0.1528 | 0.1300 | 0.1108 | 0.0946 | 0.0808 | 0.0691 | 0.0376 | 0.0208 | 0.0180 | 0.0089 |
| 19     | 0.8277 | 0.6864 | 0.5703 | 0.4746 | 0.3957 | 0.3305 | 0.2765 | 0.2317 | 0.1945 | 0.1635 | 0.1377 | 0.1161 | 0.0981 | 0.0829 | 0.0703 | 0.0596 | 0.0313 | 0.0168 | 0.0144 | 0.0068 |
| 20     | 0.8195 | 0.6730 | 0.5537 | 0.4564 | 0.3769 | 0.3118 | 0.2584 | 0.2145 | 0.1784 | 0.1486 | 0.1240 | 0.1037 | 0.0868 | 0.0728 | 0.0611 | 0.0514 | 0.0261 | 0.0135 | 0.0115 | 0.0053 |
| 21     | 0.8114 | 0.6598 | 0.5375 | 0.4388 | 0.3589 | 0.2942 | 0.2415 | 0.1987 | 0.1637 | 0.1351 | 0.1117 | 0.0926 | 0.0768 | 0.0638 | 0.0531 | 0.0443 | 0.0217 | 0.0109 | 0.0092 | 0.0040 |
| 22     | 0.8034 | 0.6468 | 0.5219 | 0.4220 | 0.3418 | 0.2775 | 0.2257 | 0.1839 | 0.1502 | 0.1228 | 0.1007 | 0.0826 | 0.0680 | 0.0560 | 0.0462 | 0.0382 | 0.0181 | 0.0088 | 0.0074 | 0.0031 |
| 23     | 0.7954 | 0.6342 | 0.5067 | 0.4057 | 0.3256 | 0.2618 | 0.2109 | 0.1703 | 0.1378 | 0.1117 | 0.0907 | 0.0738 | 0.0601 | 0.0491 | 0.0402 | 0.0329 | 0.0151 | 0.0071 | 0.0059 | 0.0024 |
| 24     | 0.7876 | 0.6217 | 0.4919 | 0.3901 | 0.3101 | 0.2470 | 0.1971 | 0.1577 | 0.1264 | 0.1015 | 0.0817 | 0.0659 | 0.0532 | 0.0431 | 0.0349 | 0.0284 | 0.0126 | 0.0057 | 0.0047 | 0.0018 |
| 25     | 0.7798 | 0.6095 | 0.4776 | 0.3751 | 0.2953 | 0.2330 | 0.1842 | 0.1460 | 0.1160 | 0.0923 | 0.0736 | 0.0588 | 0.0471 | 0.0378 | 0.0304 | 0.0245 | 0.0105 | 0.0046 | 0.0038 | 0.0014 |