



Strathmore
UNIVERSITY

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

DATE: Wednesday 6th December 2023

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. Assume an exchange rate of 1 US\$ = approximately Kes. 148.

Question 1 (Compulsory) (40 Marks)

Study the case study: RWANDA BACKPACKERS and answer the following questions:

- (a) Analyse the viability of the business concept proposed, highlighting the key decisions Davie and Bawazir must make. **(10 marks)**
- (b) Determine how many campers they need to break even. **(10 marks)**
- (c) Analyse the financing and marketing options faced by Davie and Bawazir and advice the route they should consider. **(10 marks)**
- (d) Assess the major risks faced in creating the business and how they can mitigate the risks. **(10 marks)**

Question 2 (20 Marks)

Recently, eight of Kenya's well-funded startup ventures were facing significant challenges, with looming insolvency. Most of the time, the blame is levelled on the founders. However, even in well-established ecosystems, such as the Silicon Valley, 83% of the startups will still fail. When the startups obtain funding, say from venture capitalists, this often comes with a lot of pressure on the founders who change and pivot their business models to align them with the funder's expectations.

Required:

- (a) Outline FIVE remedies for startup ventures to mitigate instances of failure, even after receiving sufficient funding. **(10 marks)**
- (b) Analyse the pros and cons or exit by (i) initial public offer, and (ii) leveraged buyout, (iii) acquisition by a strategic investor. **(10 marks)**

Question 3 (20 Marks)

- (a) Managing trade payables requires tact as well as strategy. More often than not, businesses tend to overstretch the time they take to pay their suppliers, this often leads to strained relationships with the suppliers, who often resort to cash on delivery.

Required: Discuss FIVE strategies of managing accounts payable. **(5 marks)**

- (b) Metals Ltd. has been in operation for the last six years. The company is involved in the manufacture of metals and related products. For the last two years, the management of Metals is concerned that it may be overtrading. The company's Finance Director has provided you with the following financial information relating to the company for the last two years.

	2021		2020	
	\$'000	\$'000	\$'000	\$'000
Credit sales income		17,100		12,000
Cost of sales		8,550		7,500
Current assets				
Inventory	2,500		2,100	
Trade receivables	<u>2,000</u>	4,500	<u>1,000</u>	3,100
Current liabilities				
Trade payables	1,900		1,250	
Overdraft	<u>2,400</u>	<u>4,300</u>	<u>850</u>	<u>2,100</u>
Net working capital		<u>200</u>		<u>1,000</u>
Long-term debt		<u>3,000</u>		<u>3,000</u>

A review of companies which are similar to Metals Ltd. have the following average values for 2021:

Inventory days	65 days
Trade receivables days	30 days
Trade payables days	50 days
Current ratio	1.7 times
Quick ratio	0.8 times

Assume there are 360 days in each year.

Required:

- (i) Evaluate whether Metals Ltd. can be considered to be overtrading and how to deal. **(10 marks)**
- (ii) How can over trading be overcome? **(5 marks)**

Question 4 (20 Marks)

- (a) Differentiate between business growth and scaling. **(5 marks)**
- (b) The management of Cut & Curl Ventures have prepared the following projections for three years in order to apply for financing to start a new restaurant. They have a cash investment of \$120,000, \$30,000 in equipment and have received a loan of \$75,000 from their credit union (SACCO). The following information has been provided:
- Sales are projected to be \$100,000 in the first year and increase by 15% in year 2 and 10% in year 3.
 - Direct costs are estimated to be 30% of sales.
 - Operating expenses are 35% of yearly sales.
 - Depreciation is on a straight-line basis over 5 years. There is no salvage value.
 - Based on industry norms, the following has been suggested:
 - Ending inventory: 25% of sales
 - Ending accounts receivable: 10% of sales
 - Ending accounts payable: 10% of cost of sales.
 - The loan advanced attracts an interest of \$835 per month. The interest is constant throughout the life of the loan.
 - Taxation of 30% is paid in arrears.
 - The ventures issued share capital is 10,000 shares at \$10.

Required:

- (i) Prepare projected statements of profit or loss for three years. **(5 marks)**
- (ii) Using the earnings approach, estimate the value of the venture, based on the discounted cashflows. Assume an opportunity cost of capital of 15% and a growth rate of 5%. **(10 marks)**

Question 5 (20 marks)

Write short notes on the following sources of finance:

- (a) Angel investors **(4 marks)**
- (b) Concession loans **(4 marks)**
- (c) Invoice discounting **(4 marks)**
- (d) Trade credit **(4 marks)**
- (e) Line of credit **(4 marks)**

...End of the Question Paper...