



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

DATE: 22nd August 2022

Time: 2 Hours

Instructions

1. This examination consists of FIVE questions.
2. Answer Question ONE (COMPULSORY) and any other TWO questions.

QUESTION ONE

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

Required:

- i. Explain any **FOUR** components of working capital **4 marks**
 - ii. Explain any **THREE** measures that can be used by a business to manage its credit suppliers (payables) **3 marks**
- b) One of the unique talents of entrepreneurs is finding the resource to launch a business that requires the understanding of short term and long term needs of a business: Entrepreneurs use their creative talents to secure necessary resources to start their businesses. Most start-up funds come from an entrepreneur's personal resources; however, there are other common sources of funding.

Required: Describe the following sources of financing a business

- i. Angel Investors **2 marks**
- ii. Crowd funding **2 marks**
- iii. Mezzanine **2 marks**
- iv. Franchising **2 marks**
- v. Bootstrapping **2 marks**
- c) Graphically, explain **FOUR** key stages of financing lifecycle **7 marks**

- d) Mary has always wanted to open a cloth line shop and has made her cash flow projections. She estimates to receive the following cash flows for the next six years that is 50,000, 90,000, 150,000, 160,000, 200,000, and 250,000 respectively. If her cost of capital is 9%.

Required: Calculate the present value of these cash flows **6 marks**

[Total: 30 Marks]

QUESTION TWO

- a) Describe the **FOUR** components of time value of money. **6 marks**
- b) State **THREE** differences between money market and capital markets **3 marks**
- c) What do you understand by the term IPO? **2 marks**
- d) Describe the information needed to obtain financing from the bank **4 marks**

[Total: 15 Marks]

QUESTION THREE

- a) Explain any **FIVE** components of a good financial plan **5 marks**
- b) Mary 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 Mary with further analysis, you are asked to do a number of calculations relative to this product line to facilitate decision making.

Required:

- 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
- v.** Assume that Mary is considering a policy of making a target profit of 20% of clay bowls sales. Calculate the number of clay bowls required in order to generate this target profit. **2 marks**

[Total: 15 Marks]

QUESTION FOUR

- a)** Molly, Maureen and Winnie have been close friends since college. All three girls just graduated with a diploma in entrepreneurship. All three girls have excellent marketing and selling skills and have worked part time while in college promoting other business products. Each has approximately Ksh. 50,000 in savings for their new baby cloth business venture which they have been talking about starting for a couple of years. In doing research, Molly found out that there are only two other new baby shops nearby and they have agreed to start Tripple M New Baby shop.

Required:

- i.** Explain **TWO** components of start-up capital for Tripple M New Baby shop **(3 marks)**
- ii.** Calculate approximate start-up capital needed to start New Baby shop **(9 marks)**
- iii.** State **THREE** reasons for estimating start-up capital **(3 marks)**

[Total: 15 Marks]

QUESTION FIVE

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 **(2 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)**
- vii. Return on assets **(2 marks)**

[Total: 15 marks]