



**Strathmore**  
UNIVERSITY

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

**Date:** Wednesday 15<sup>th</sup> December 2021

**Time:** 3 Hours

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**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. In all instances, the currency utilised is denominated in Kenya Shillings (Kes.). You can assume an exchange rate of 1 US\$ = approximately Kes. 100.

**Question 1 (Compulsory) (50 marks)**

*Read the mini-case below and answer the questions that follow.*

**TOMMY'S CYCLE TOURS: EXPLORING OPPORTUNITIES FOR GROWTH**

Tommy's Cycle Tours Limited (TCT) has been operating as a cycle tours and travel company in Kenya for the past 3 years. The business is engaged in the sale and lease of bicycles, and they also offer bicycle repair services. The company has 6 employees, including the founder, Tom Kubasu. The decision to start the business was borne out of Tom's passion for cycling coupled with the inspiration from his family who are also successful businesspeople. The business opportunity arose while Tom was still undertaking his Bachelor's in Business Management in a leading university in Kenya. At that time, Tom owned a bicycle which drew a lot of attention and admiration from his peers who wanted to know where he sourced the bicycle and his motivation to ride to and from school. This way, Tom started sourcing and supplying bikes to his friends, although he relied heavily on his parents to finance this.

After completing his studies, Tom had a short stint working as an accountant for a mid-sized manufacturing company before starting the business in 2017. He started out with 4 bicycles for adults which he largely bought on credit, although he had saved up to \$ 15,000 which he used as start-up capital for TCT venture. The business started selling second-hand cycles for both children and adults with plans of stocking new bikes. Tom has been sourcing the cycles from China. To supply new bikes, he recently entered into an agreement with a local distributor of the Giant brand of cycles. Giant is a Taiwanese bicycle manufacturer that is recognized as the world's largest bicycle manufacturer. In this arrangement, Tom has been able to stock the

bicycles without paying for them. When he sells, the money is remitted to distributor, and he earns a commission in the process. In addition to the commission, the business earns more of its revenue from servicing of bicycles. This is due to the expertise that he and his employees possess out of their knowledge and experience in the industry.

Given the favourable government policies and the construction of bicycle pathways in major highways, the management of the company has decided to exploit the opportunity and wishes to expand the venture. Despite the successes TCT has had, there have been some challenges such as inadequate capital, tracking business performance, unfavourable government policies and regulations, corruption, ignorance by the general public about cycling, competition and generally adverse customer perception.

Owing to the opportunities presented in the operating environment, TCT has decided to apply for some funding to grow the business. You have been requested you to assist in the preparation of forecast financial statements to be submitted to SMB Bank as part of their growth strategy. Apart from the start-up funding amounting to \$15,000, Tom has not injected any additional capital into the business to date. As of 31<sup>st</sup> March 2019, the business had generated \$125,000 in sales revenue and had the following balances in their books of accounts:

	\$
Cash and cash equivalents	10,000
Equipment (new)	30,000
Inventories	11,250
Trade accounts payable	5,000

In addition, the following information and assumptions are to be made:

- Sales are projected to increase by 10% in 2020, 8% in 2021 and 5% in 2022.
- Cost of sales are estimated to be 35% of sales.
- Other expenses for the period ended 31<sup>st</sup> March 2020 should include insurance \$10,000, salaries \$25,000 and rent \$ 20,000. These are projected to increase by 3% for the next 2 years with the exception of interest expense.
- The company has included the proposed loan of \$25,000 from SMB Bank for the purchase of more equipment in the projections. Interest payments of \$1,500 and principal payments of \$5,000 are due yearly.
- Depreciation of the new equipment is on a straight-line basis and the salvage value of equipment is expected to be \$1,000 at the end of 6 years. The existing equipment, which was acquired at \$40,000 three years ago, is depreciated at \$7,500 per year.
- Corporation tax is 30% and should be paid in the following year. The tax assessed from 2019 accounts is \$5,200.
- The accumulated earnings for the company as of 31<sup>st</sup> March 2019 is \$33,000.
- The following balances has been estimated and suggested:

Ending inventories	15% of sales
Ending trade accounts receivable	5% of sales
Ending trade accounts payable	20% of cost of sales

*Required:*

- (a) Would you consider Tom Kubasu to be an entrepreneur? Justify your position. **(4 marks)**
- (b) Assess the business venture in terms of resources and competencies at TCT's disposal. **(6 marks)**
- (c) Using the information and assumptions provided in the mini case, prepare, for the periods ended 31<sup>st</sup> March 2020, 2021, and 2022:
  - i. Forecast statement of profit or loss **(15 marks)**
  - ii. Forecast statement of financial position (balance sheet) **(15 marks)***Any assumptions must be clearly indicated.*
- (d) Using the forecasts prepared, advise the management of TCT on FOUR specific areas to lay emphasis on as they prepare for meeting with the bank to discuss funding possibilities. Your answer should be supported by accompanying computations. **(10 marks)**

### **Question 2 (20 marks)**

Dr. Maria Cole graduated from a medical school approximately ten years ago and since then she has been working as a paediatrician in group practice while completing additional studies for specialisation in birth complications in infants. The practice allowed Maria to share expenses of the office rent and supplies. She believes that she has sufficient medical knowledge and experience to start her own independent specialised practice, but she thinks that her knowledge of business practices is somewhat lacking. Dr. Cole has approached you for advice in starting her new practice.

*Required:*

- (a) Provide FOUR examples of information that a finance agency would want before agreeing to lend Dr. Cole the funds to open a new practice. **(8 marks)**
- (b) What challenges would Dr. Cole encounter if she received a request to estimate the value of her new business? **(8 marks)**
- (c) After operating the business for ten years, Dr. Cole decides to close the practice and invest her time in medical research. Identify TWO options available as exit strategies and identify the issues which she should consider while making the decision. **(4 marks)**

### **Question 3 (20 marks)**

Small business owners often underrate the importance of keeping proper financial records.

*Required:*

- (a) Identify FOUR items which would assist in the preparation of financial statements. **(4 marks)**
- (b) What information would the complete set of financial statements give about any business? **(10 marks)**
- (c) Tony Best owns a small bar and has asked for advice when the following management issues occur:
  - i. The budget suggests that there is likely to be a shortfall in the month of January. **(3 marks)**

- ii. He realises that at the end of the month, he has been unable to collect more than half of the outstanding amounts owed at the end of the previous month. **(3 marks)**  
Advice Tony on how to deal with each of the matter in (c(i) and (ii)).

**Question 4 (20 marks)**

- (a) A business plan should include information other than financial. Identify FIVE other sections which should be presented in the plan. **(10 marks)**
- (b) Entrepreneurs are encouraged to prepare both a feasibility study and a business plan. Highlight the differences between the two. **(10 marks)**

**Question 5 (20 marks)**

Write a short essay detailing FOUR important decisions that an entrepreneur should make when opening and operating a new business venture. **(20 marks)**