



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

**DATE:** 14<sup>th</sup> September 2021

**Time:** 2 Hours

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**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) Mr. Bruce who is a continuing university student started a small business to supply plumbing material to his clients. His business is now 3 years old with over 2000 customers, with a turnover of 2.5 Million annually. According to Mr. Bruce income statement plan, sales are expected to increase this year to 3.2 Million. Mr. Bruce operates with a short term loan of 5 Million. In the month of August this year, he won a tender to supply plumbing materials to the county of Kerugima but will be paid in 150 days after delivery. Mr. Bruce calls his suppliers who are based in industrial area and orders for the materials to fulfill the tender in the month of September.

In the month of September, transactions go on well and the suppliers deliver the orders as promised but he is short of space to store them. Next month Mr. Bruce makes his first delivery to the county of Kerugima which increases his overdraft.

In the 3<sup>rd</sup> month, Mr. Bruce makes more deliveries to the county of Kerugima, however he gets into serious financial difficulties because his overdraft is at the limit and is getting calls from unpaid suppliers. Next month, Mr. Bruce has not yet paid his suppliers. The suppliers stops delivering materials and threaten legal action for failure to receive their payments as agreed.

In the 5<sup>th</sup> month, Mr. Bruce overdraft is 100% over the agreed limit with his bank. Supplier's initiate's legal action, bank refuses to pay any more cheque and luckily enough he receives his first payment from the county of Kerugima with a promise to pay the balance in 3 months period. The amount received is not enough to settle his current obligations. The bank writes a demand letter to Mr. Bruce to settle his overdraft within 7 working days or face legal action. Mr. Bruce closes his shop and blames the bank and county for his failure.

**Required:**

- i. Identify **FIVE (5)** reasons why Mr. Bruce failed to manage his business (**5 marks**)

- ii. Assume you are the owner of this business; highlight **FIVE (5)** ways on how you could have managed this situation differently? **(5 marks)**
  - iii. Discuss **SIX** measures that can be used to manage receivables and payables. **(6 marks)**
  - iv. Advice Mr. Bruce on how to use working capital to finance his business **(3 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 **TWO (2)** reasons why people would prefer to receive money today rather than same amount in the future. **(2 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. **(2 marks)**
- iv. The following is a mixed stream of cash flows occurring at the end of year

Year	Cash flow Ksh. 000
1	400
2	800
3	500
4	400
5	300

**Required:**

- i. If a firm has been offered the opportunity to receive the above amounts and if it's required rate of return is 9% what is the most it should pay for this opportunities? **(5 marks)**

**[Total: 30 Marks]**

**QUESTION TWO**

Entrepreneurs have the opportunity to turn their ideas into a business but determining minimum capital required significantly slows most people to start. Such requirements also fail them to serve their intended purpose of serving their customers from hastily established and potentially operating businesses. Most entrepreneurs get their businesses started by bootstrapping. Assume that you have an idea of starting a car wash business in your area of residence.

**Required:**

- a) Explain **TWO (2)** main components of start-up capital **(4 marks)**

b) Describe how you would calculate start-up capital to start the car wash business and the approximate amount required **(6 marks)**

c) Discuss **FIVE (5)** different ways of financing your start up business. **(5 marks)**

**[Total: 15 Marks]**

### QUESTION THREE

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

**(6 marks)**

ii. Discuss **SIX (6)** important tools or components for financial planning **(9 marks)**

**[Total: 15  
Marks]**

### QUESTION FOUR

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:

	<b>20X1</b>
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
<b>Additional information:</b>	
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]

### 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 need to conquer in order to succeed.

#### Required:

- i. Define the term business financing lifecycle (1 mark)
  - ii. Explain financing sources available at each stage of business lifecycle (4 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)
- v. Assume that Joy 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]