



STRATHMORE BUSINESS SCHOOL

**BACHELOR OF SCIENCE IN SUPPLY CHAIN AND OPERATIONS
MANAGEMENT**

END OF SEMESTER EXAM

SCM 2104: SUPPLY CHAIN FINANCE

DATE: Monday, 16th March 2026

TIME: 8:30 – 10:30

INSTRUCTIONS:

Answer Question **ONE** and **ANY** other **TWO** Questions

QUESTION ONE

(30 Marks)

Ephany Ltd. is a small and medium-sized enterprise that supplies goods to retailers on credit. To remain competitive, the company offers its clients 45-day payment terms. However, Ephany Ltd. has faced increasing challenges in managing its trade receivables over the past year. Approximately 45% of its clients consistently delay payments, with some extending their payments to 90 or even 120 days. This situation has resulted in cash-flow constraints, thereby affecting the company's ability to settle supplier invoices and maintain operational continuity. The company is currently integrating its financial and operational functions. The board of directors at Ephany Ltd. has expressed concern regarding the current circumstances.

Required

- a) Propose to the board of directors Three strategies to ameliorate the effects of the current situation **(6 Marks)**
- b) Evaluate how Ephany Ltd can use factoring and its variations in stabilising the situation **(8 Marks)**
- c) Ephany Ltd must maintain a minimum cash balance of Sh. 36,000 and a daily variance of Sh cash flows. 81,000,000. The interest rate is equal to 0.085% per day, and the transaction cost for each sale or purchase of securities is Sh. 75.

Required:

Compute the spread, return point, and the upper limit

(8 Marks)

- d) Why is the cost of debt considered to be cheaper than the cost of equity (5 Marks)
- e) Evaluate the **THREE** main flows in the supply chain (3 Marks)

QUESTION TWO (20 MARKS)

Golden Grains Processing Ltd., a Kenyan agro-processing enterprise, procures raw maize from more than 4,000 smallholder farmers throughout western Kenya. To improve liquidity management and guarantee timely payments to suppliers, the organisation is considering establishing a Supply Chain Finance (SCF) arrangement with its commercial banking partner. Under the proposed agreement, farmers would receive immediate payment upon delivery, whereas Golden Grains would fulfil its financial obligation to the bank after 90 days.

- a) Using the trade-off and pecking-order theories, evaluate whether Golden Grains should adopt the SCF facility. (10 Marks)
- b) Explain the **FIVE** costs linked to maintaining excessive inventory within the organization (5 Marks)
- c) Differentiate between the physical supply chain and the financial supply chain (3 Marks)
- d) Financing the supply chain can be provided through debt or equity. Explain TWO limitations associated with using equity finance (2 Marks)

QUESTION THREE (20 MARKS)

The following information relates to two companies, Anneliese and Jasmine Ltd, which operate in the same industry.

	Anneliese	Jasmine
Net Credit Sales	200,000	160,000
Cost of Goods Sold (COGS)	135,000	118,000
Average Inventory	15,800	24,600
Average Accounts Receivable	18,200	31,400
Average Accounts Payable	19,500	10,800

Use 365 days in a year.

Required: Determine the Cash Conversion Cycle (CCC) for both companies. Analyse and comment on the results, highlighting what they reveal about the financial health and operational efficiency of Anneliese and Jasmine Ltd. (8 Marks)

- a) Giving examples, critically evaluate overcapitalisation and how it manifests in an organization **(6 Marks)**
- b) Describe **THREE** direct and three indirect costs associated with financial distress **(6 Marks)**

QUESTION FOUR

(20 MARKS)

Lance Supplies Ltd and Levi Procurement Ltd operate within Kenya's competitive supply chain sector. Lance Supplies maintains consistent contractual relationships with non-governmental organisations and county governments. Its financial documents demonstrate profitability, moderate debt levels, and effective cash-flow management. Conversely, Levi Procurement has faced delays in client payments, heavy reliance on short-term loans, and inadequate inventory management. Its financial statements indicate increasing losses, substantial debt, and negative equity.

	Lance	Levi
Income Statement	Kes'000	Kes 000'
Revenue (Sales)	10,000	9,000
Cost of Goods Sold	6,500	6,300
Gross Profit	3,500	2,700
Operating Expenses	1,700	2,200
EBIT	1,800	500
Finance Costs (Interest)	500	700
Profit Before Tax	1,300	-200
Tax (30%)	390	0
Net Profit / (Loss)	910	-200
Balance Sheet		
Cash & Bank	600	300
Accounts Receivable	2,400	2,200
Inventory	2,000	3,000
Prepaid Expenses	200	300
Total Current Assets	5,200	5,800

Property, Plant & Equipment	2,800	2,200
Total Assets	8,000	8,000
Accounts Payable	1,600	2,300
Bank Overdraft	700	1,000
Short-term Loan	900	1,200
Total Current Liabilities	3,200	4,500
Long-term Loan	1,300	1,500
Total Liabilities	4,500	6,000
Total Equity	3,500	2,000

Required

- Perform a ratio analysis for the **TWO** companies and give a comment for each (compute the gross profit margin, net profit margin, current ratio, debt equity ratio, inventory turnover, inventory conversion period) **(12 Marks)**
- Evaluate **FIVE** limitations associated with ratio analysis **(5 Marks)**
- Explain the difference between financial and operational flexibility **(3 Marks)**

QUESTION FIVE **(20 MARKS)**

- Giving examples, discuss **FOUR** reasons why sustainable supply chain finance is important **(8 Marks)**
- The following information relates to the financing information for Carter Limited, a manufacturing firm that was scouting for new financing options for its project

Equity	"000"	"000"
Ordinary shares (nominal value 50 cents)	4,000	
Reserves	18,000	22,000
Long-term liabilities		
4% Preference shares (nominal value Kes 1)	3,000	

7% Bonds redeemable after six years	3,000	
Long-term bank loan	1,000	7,000
		29,000

The ordinary shares of Carter are trading at Ke 5·20 per share, and an ordinary dividend of 40 cents per share has just been paid expected to grow at 10%

The preference shares of Carter are not redeemable and have a market value of 40 cents per share. The 7% bonds have a nominal value of Kes100 per bond and have a market value of Kes104·50 per bond with a maturity period of 6 years

In recent years, the bank loan has a variable interest rate of 4% per year. Alicia Co. pays profit tax at an annual rate of 30% per year

Required

- (i) Determine the Weighted average cost of capital for Carter Limited **(8 marks)**
- (ii) Evaluate **two** agency problems that Carter Limited is likely to face in its ordinary course of business **(4 Marks)**