KENYATTA UNIVERSITY

UNIVERSITY EXAMINATIONS 2017/2018

FIRST SEMESTER EXAMINATION FOR THE DEGREE OF

BACHELOR OF COMMERCE

BAC 412: ENTREPRENEURIAL FINANCE

DATE: **Monday 20th November 2017** **TIME:** **2.00p.m-4.00p.m**

INSTRUCTIONS: Attempt **ALL** questions.

QUESTION ONE

When Agness drew up his business plan, she was certain it would help her get venture capital. Agness is in the process of putting together a monthly magazine directed towards executive women in the workplace. The objective of the periodical is to provide information useful to women who are nursing careers. The first issue is scheduled to go to press in 90 days. Some of the articles included in this issue are "managing your time for fun and profit," "what you need to know about dressing for success," and "money management: Do it like the experts." A section also is devoted to successful women at work. It is titled "Women in the news" other features include a question-and-answer section find responds to letters and inquiries form readers (the first issue's questions were submitted by a grouping in a question); a stock market section that reviews industries or companies and points out the benefits and risks associated with investing in them; and a column on the state of the economy and the developments or trends expected over the next 12 months.Agness's business plan consisted of six parts: a summary, a business description, a production segment, a management segment, a milestone schedule, and an appendix. When she was returned with her rejection letter, the venture capital firm wrote, without a marketing segment, attention to critical risks, and a financial segment, this plan is incomplete and cannot be favorably reviewed by us. If you would provide us with this additional information and submit the rewritten plan within the next 60 days, we will be happy to review the plan and give you our opinion within 10 working days.

Required

i. Define a business plan and outline who needs it **(3 Marks)**

ii. Would the business plan be of any value to Agness? why or why not **(4 Marks)**

iii. Advise Agness on what should be put in the marketing plan **(5 Marks)**

iv. Explain to Agness the importance of the executive summary in the business plan **(3 Marks)**

QUESTION TWO

a) Venture capital was first experience in Kenya in the 1990s particularly in the mining industry but the concept is still unknown to many enterpreneurs. Describe 2 reasons why venture capitalists are rare in Kenya. **(6 Marks)**

b) Discuss five factors that may influence the ability of a new venture to acquire entrepreneurial finance **(10 Marks)**

c) Explain the meaning of the following terms as they apply in entrepreneurship finance

i. Business Incubation **(2 Marks)**

ii. Business Angels **(2 Marks)**

QUESTION THREE

a) Identify and discuss the sources of entrepreneurial finance for the various stages in entrepreneurship financing, **(8 Marks)**

b) The following are the estimated cashflows of MedICT Enterprises.

Cash flow forecast	2010	2011	2012	2013	2014
Sales	395,315	461,244	470,469	479,878	489,476
Pre-tax income	47,907	74,949	78,312	80,292	82,289
Income taxes	16,767	26,232	27,409	28,102	28,801
Net income	31,140	48,717	50,903	52,190	53,488
Plus: Depreciation	22,354	22,354	22,354	22,354	22,354
Less: Increase in working capital	9,388	888	906	924	942
Net cash flow	44,106	70,183	72,351	73,620	74,900

MedICT has chosen the perpetuity growth model to calculate the value of cash flows after the forecast period. They estimate that they will grow at about 6% for the rest of these years. Given the discounting rate to be 16% calculate the value of the firm **(7 Mks)**

QUESTION FOUR

a) Discuss the steps an entrepreneur needs to follow during an initial public offering **(7 Marks)**

b) Explain two possible reasons why an underwriter may prefer underpricing in initial public offering. **(4 Marks)**

c) Risk management is a serious issue for small firms as well as large companies regardless of the nature of the business. Explain five steps required to implement risk management

(5 Marks)

d) Outline what insurance firms look for in determining premiums for small business insurance covers. **(4 Marks)**