



**THE UNIVERSITY OF THE WEST INDIES
CAVE HILL**

EXAMINATIONS OF APRIL/MAY 2017.

CODE AND NAME OF COURSE: MGMT3090 – ENTREPRENEURIAL FINANCE

DATE AND TIME:

DURATION: 2 HOURS

INSTRUCTIONS TO CANDIDATES: This paper has 4 pages and 6 questions.

**Answer Section A, one (1) question in Section B and
ONE (1) in Section C.**

**Section A: This section is compulsory.
Read the case carefully and answer ALL questions. (20 marks)**

Adrian Forde has always been interested in working with computers and completed studies in that field at University. He started programming projects for a number of friends in business. Over the past ten years, the business, 'Devices 4 U' has expanded into sales of computers and electronic devices, repairs and training.

The business has grown in phases and with investment from Adrian's friends, family and personal funds. The business has also obtained a number of small loans over the period of time and has always been able to repay the loans on a regular basis and within the agreed period of time.

He has the opportunity to obtain the contract to be the sole distributor of a popular brand of electronic devices in Barbados and the Caribbean. To satisfy the requirements of the proposal he needs approximately \$400,000 in cash to be eligible. He has prepared financial statements which show that the business has accumulated over \$300,000 in net worth and has been profitable for the past eight years. Financial projections also suggest that the business should continue to be profitable in the short term.

He has heard about venture capital and wondered about the options for financing this expansion. Mr. Forde has approached you as a business advisor for answers to his questions and for recommendations to deal with this situation.

TURN OVER

Question 1 (cont'd)

Required

- a) Do you consider Mr. Forde to be an entrepreneur? Give TWO reasons for your answer. **(4 marks)**
- b) Identify THREE sections of a business plan. Identify ONE aspect of the plan which would be most important to a financial investor and discuss the reason for your answer. **(6 marks)**
- c) Mr. Forde wishes to highlight the success of the business to the potential financial institution. What type of analysis would you encourage him to present? Explain the advantage gained in highlighting the chosen analysis. **(4 marks)**
- d) Identify TWO items of information which would have assisted Mr. Forde in preparing his forecasted financial statements. **(2 marks)**
- e) After operating for another ten years Mr. Forde decides to leave this business to pursue other opportunities. Identify TWO options which should be investigated as exit strategies and identify the issues which should be considered while he is making that decision. **(4 marks)**

Section B:

Choose ONE question in this section. Each section is worth 25 marks.

- 1. Management of Yummy and Co. have prepared the following projections for three years in order to apply for financing to start a new restaurant. They have a cash investment of \$120,000, \$30,000 in equipment and have received a loan of \$75,000 from their credit union.

Required:

Prepare financial projections for three years – Income Statements, Cash Flow Statements and Balance Sheets, using the following assumptions.

- a. Sales are projected to be \$100,000 in the first year and increase by 15% in year 2 and 10% in year 3.
- b. Direct costs are estimated to be 30% of sales.
- c. Operating expenses are 35% of yearly sales.
- d. Depreciation is on a straight-line basis over 5 years. There is no salvage value.
- e. Based on industry norms the following has been suggested:
 - Ending inventory 25% of sales
 - Ending accounts receivable 10% of sales
 - Ending accounts payable 10% of cost of sales
- f. There is a moratorium on all loan payments for three months thereafter monthly payments of \$835 in interest and \$1,300 in loan principal are required.
- g. Taxation of 25% is paid in the same year in which it is incurred.

TURN OVER

2. Romney Ltd. is a manufacturer of furniture. The Financial Controller has prepared the following ratios for the Board of management to discuss.

	2013	2014	2015
Current ratio	1.70	1.80	1.87
Inventory turnover	5.21	4.93	3.90
Acid-test ratio	1.05	0.97	0.85
Fixed asset turnover	1.65	1.72	1.84
Accounts receivable turnover	9.25	7.95	6.85
Total debt to total assets	55%	49%	44%
Net income to sales	5.8%	6.1%	6.3%
Gross margin	37%	36.1%	34.9%
Long-term debt to total assets	33%	28%	23%
Return on total assets	8.2%	8.2%	8.4%
Return on stockholder's equity	12.9%	12.5%	11.3%

- Group the ratios into liquidity, activity, leverage and profitability.
- List the equations which are used to calculate any SIX of the above ratios.
- Use the identified groups to analyse the company's performance during the three-year period.
- What additional information could be gained from knowing that the industry averages for the gross and net profit margins were 45% and 9% respectively for 2013?

Section C: Answer ONE question. Each question is worth 15 marks.

- Karen Howell operates her own bed and breakfast inn. While cash management is one of the skills she needs to develop, she has asked for advice as she is faced with a variety of situations during the course of her financial year. Identify and discuss the issues that need to be considered in order to make an informed decision. Each situation is worth 3 marks.
 - The business ends the financial year with an excess of \$75,000 in cash.
 - The cash budget suggests that there is likely to be a shortfall of \$15,000 in the month of April although projections indicate that the month of July should generate extra cash of \$35,000.
 - The property is regularly used for business retreats. The existing customers have tended to delay payment to the inn. Karen has therefore decided to develop a credit policy to be applied to new customers.
 - Cash generated from operations is on the decline but there is excess cash due to the sale of assets during the period.
 - The business has approximately \$300,000 owed to them by various creditors. There is an opportunity for pursuing a factoring option where the business could receive 90% of the funds which were outstanding for the past six months.

TURN OVER

2. a) Identify the TWO major options available for obtaining business finance. **(2 marks)**
- b) Discuss ONE advantage and ONE disadvantage of each type of financing identified in the above question. **(6 marks)**
- c) Define 'bootstrapping'. Discuss ONE advantage of pursuing this method of business financing for an entrepreneur? **(3 marks)**
- d) A business tends to go through many cycles before it achieves maturity. How should the finance decision be influenced by the position of the firm in the business cycle? **(4 marks)**
3. a) Discuss the main difficulty with calculating the value of a new business as compared with the valuation of an existing business. **(3 marks)**
- b) List FIVE pieces of information which are essential to determining the true value of a business. Explain why the information is a necessary aspect of the decision-making process. **(5 marks)**
- c) Describe TWO methods of business valuation while explaining the advantages of each method. **(7 marks)**

END OF QUESTION PAPER