

CHUKA



UNIVERSITY

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RESIT/SPECIAL EXAMINATIONS

**EXAMINATION FOR THE AWARD OF DEGREE OF BACHELOR OF
ENTREPRENEURSHIP AND ENTERPRISE MANAGEMENT**

BEEM 324: SMALL BUSINESS FINANCING

STREAMS: BEEM

TIME: 2 HOURS

DAY/DATE: TUESDAY 02/02/2021

11.30 A.M – 2.30 P.M

INSTRUCTIONS:

Answer question one and any other two questions

QUESTION ONE (Compulsory)

Peter and Jane are business partners in the manufacturing of consumer goods for the international market. Their business is currently experiencing financial constraints and performing. They are contemplating borrowing funds from commercial banks to support the current operations and start a new enterprise in the hospitality sector in Kenya. They approached a financial expert who advised them not to use borrowed capital for start-up but to generate funds from personal sources.

Required:

(a) Discuss the main factors that they should consider before selecting a source of finance.

(10 marks)

(b) Assume you are the commercial bank manager, identify and explain the risks associated with financing a non-performing manufacturing enterprise. (10marks)

(c) Advise Mutuku and Kaparo why personal sources of funds are preferred for start-ups as opposed to loans from commercial banks. (10marks)

QUESTION TWO

With the aid of a diagram, discuss the small business life cycle stages and the financial requirements at each growth stage. (20marks)

QUESTION THREE

(a). Briefly explain why the group lending methodology is a popular small business financing model in Kenya. (10 marks)

(b) Identify and explain the major drawbacks of the Grameen model. (10 marks)

QUESTION FOUR

(a) The survival of small enterprises is dependent on management of working capital. Explain why it is critical for small enterprises to apply the best financial management practices to manage their working capital. (12marks)

(b) Explain the merits of the cooperative financing model. (8marks)

QUESTION FIVE

(a) Recent studies in Kenya indicate high rate of small business failure associated with financial inadequacy. Discuss the challenges that small businesses face in accessing in Kenya.

(b) Explain six benefits that small business derive from microfinance credit. (6marks)
