

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

CHUKA/EMBU

**THIRD YEAR EXAMINATION FOR THE AWARD OF DEGREE OF  
BACHELOR OF ENTERPRENEURSHIP AND ENTERPRISE MANAGEMENT**

**BEEM 324: SMALL BUSINESS FINANCING****STREAMS: BEEM Y3S1****TIME: 2 HOURS****DAY/DATE: THURSDAY 25/03/2021****2.30 P.M. – 4.30 P.M.****INSTRUCTIONS:**

- **Answer question ONE and any other TWO Questions**
- **Marks will be awarded for clarity and originality of ideas**
- **Do not write on the question paper**

**SECTION A COMPULSORY (30 MARKS)**

The start-up challenge

Jane and Jedida have an established small business dealing with electronics imported from China. They have a vision of a multinational enterprise with its headquarters in Nairobi and several branches in other countries. Their starting capital was raised from own contribution and that of well wishers. They were able to raise 30% of the required capital of Ksh. 3 million. They approached a commercial bank that approved and disbursed the remaining 70%. Currently the business is performing poorly and it's overcapitalized.

Required

- (a) Briefly explain to them two most suitable sources of finance for a start-up. (9 marks)
- (b) Assuming you were the commercial bank manager, do you think there was justification to lend the money? Explain your answer (7 marks)

- (c) Explain the obstacles they are likely to face in obtaining funds from commercial banks in future (7 marks)
- (d) With the aid of practical examples explain the consequences of overcapitalization to a small business (7 marks)

### **QUESTION TWO**

Kamau and Njugush have a track record of success in the hospitality industry. They own and manage five hotels in Nakuru. In the year 2020, their business experienced a gradual decline in sales and profit due to the political and economic forces as well as Covid-19 pandemic. Currently, the business can hardly meet its financial obligation and two of the hotels have been recommended for closure.

- (a) Identify and explain the effect of Covid-19 pandemic in the hospitality sector (10 marks)
- (b) Discuss the major economic forces that contributed to the poor performance of the hotels (10 marks)

### **QUESTION THREE**

- (a) Briefly explain why microfinance credit is an appropriate source of finance for micro and small enterprises. (10 marks)
- (b) Discuss the financing decisions which small business make and their implications (10 marks)

### **QUESTION FOUR**

- (a) Working capital is a critical component that determines operational efficiency in MSEs. Briefly discuss the major determinants of working capital. (10 marks)
- (b) Discuss the challenges experienced by entrepreneurial ventures that adopt the group lending model (10 marks)