

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

THIRD YEAR 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: WEDNESDAY 06/12/2017

11.30 A.M. – 1.30 P.M.

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO

QUESTION ONE

- (a) Most small businesses face a lot of problems in accessing finance and a lot of people with ideas shy away from starting an enterprise due to lack of financing. Describe ways in which the government has tried to bring solution to this problem. [10 marks]
- (b) Mutheu limited has decided to acquire a piece of equipment costing sh 300 000 for 5 years. The equipment is expected have no salvage value at the end of 5 years and the company uses straight line method of depreciation on all its fixed assets. The company has two financing alternatives methods available which are leasing or borrowing. The loan has an interest rate of 16% paid in year-end installments. The lease will be set at a level that will amortise the cost of the equipment over the lease period and will provide the lessor with 15% return on capital. The company's tax rate is 30% and the lease rental are paid at the end.

Required:

- (i) Annual lease rental payment
- (ii) Compute present value of Cashflows under lease financing
- (iii) Calculate the annual loan installment payment
- (iv) For a period of 5 years, calculate the interest and principal component of loan repayment.
- (v) Calculate the present value of after tax Cashflows under loan alternative. Which alternative is better and why. [15 marks]

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- (c) Explain the nature of non-governmental organizations. [5 marks]

QUESTION TWO

- (a) Small businesses in Kenya are experiencing a high failure rate. Explain cause for this failure rate. [8 marks]
- (b) Describe 4 reasons for slow growth of venture capital financing in Kenya. [8 marks]
- (c) Outline the conditions under which leasing of an asset is ideal. [4 marks]

QUESTION THREE

- (a) Describe the characteristics of financing where members are jointly liable. [8 marks]
- (b) Explain the role of non-governmental organizations in enterprise development. [8 marks]
- (c) Describe any two forms of debt financing. [4 marks]

QUESTION FOUR

- (a) Microfinancing as a source of finance has been of great help to small business growth and poverty alleviation. Justify this statement. [8 marks]
- (b) Describe the importance of entrepreneur establishing and growing an enterprise. [8 marks]
- (c) Highlight the different stages of growth of business. [4 marks]
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