

CHUKA



UNIVERSITY

UNIVERSITY EXAMINATIONS

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

BENS 313: SMALL BUSINESS FINANCING

STREAMS: BENS (Y3S2)

TIME: 2 HOURS

DAY/DATE: THURSDAY 4/8/2016

8.30 A.M. – 10.30 A.M.

INSTRUCTIONS: ANSWER QUESTION ONE AND ANY OTHER TWO

QUESTION ONE

- (a) Financing of new and small enterprises is considered to be a major challenge by Kenyan investors. They would otherwise leave this form of investment to specialists. Discuss. [12 marks]
- (b) Describe some of the features of microfinance. [3 marks]
- (c) Outline any 3 characteristics of debt finance. [3 marks]
- (d) Ninja limited has decided to acquire a piece of equipment costing sh 240,000 for 5 years. The equipment is expected to have no salvage value at the end of 5 years and the company used straight-line method of depreciation on all its fixed assets. The company has two financing methods available which are leasing or borrowing. The loan has an interest rate of 15% paid in equal year endinstallments. 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 14% return on capital. The company's tax rate is 40% and the lease rentals are paid at the end of the year.

Required:

- (i) Annual lease rental payment
- (ii) Compute the present value of cash outflows 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.

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- (v) Calculate the present value of after tax Cashflows under the loan alternative.
- (vi) What alternative is better and why? [12 marks]

QUESTION TWO

- (a) Describe any 6 factors that would affect the type of finance sought by a business. [12 marks]
- (b) Outline the disadvantages of using debt finance. [5 marks]
- (c) Describe owners capital as a source of finance. [3 marks]

QUESTION THREE

- (a) Using a well labeled diagram, describe the successive developmental stages of a business highlighting the various financing needs at each stage and the possible sources of finance. [10 marks]
- (b) Discuss the features that affect the group lending approach as a source of financing. [6 marks]
- (c) Explain the role of NGOs in economic development of a country by promoting entrepreneurship. [4 marks]

QUESTION FOUR

- (a) Enterprises contribute to employment creation and growth of a country's economy. In view of this statement explain how the government can be involved in ensuring enterprise development. [10 marks]
 - (b) Describe any 4 of the barriers to enterprise development. [4 marks]
 - (c) Describe any 3 sources of financing for small businesses. [6 marks]
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