BUE3313 SMALL BUSINESS FINANCE

ONLINE

Instructions

- **i) This exam paper contains SIX questions carrying 10 mark each.**
- **ii) Answer Question 1 (Compulsory) and any other three questions**
- **iii) Read all questions carefully before attempting.**

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Question 1

The owner of ABC limited approached a bank to obtain Ksh. 10 million loan to revive the business which had collapsed. The owner *ear-marked real estate property valued at over Ksh 50 million that he is willing to put up as security for the loan if necessary. He has Ksh. 3 million in savings that he intends to inject in the business. However, after doing a quick background check, the Officer established that the business is listed in the Credit Reference Bureau because of ksh. 1 million loan from another bank that the owner was not able to pay. When the Credit Officer asked him about it, he explained that his suppliers had increased prices to the extent that he could not make any profits which forced him to default on the loan.*

Citing from the above case, critically discuss:

a) The three C's of credit that may make the loan application declined

(6 marks)

b) The two C's of credit that may make the loan application approved

(4 marks)

Question 2

A self-help group approached a grant funding institution to obtain capital to start an income generating project. The Grant Manager examined the group's financial projections for the project.

a) Explain three pro-forma financial statements that the aspiring entrepreneur should present

(6 marks)

b) *Upon examining the financial projections, the Grant Manager realized that the business has a very high profit and cash flow potential.* Giving an example in each case, explain two types of financial ratios that would increase the aspiring entrepreneur's chances of obtaining the grant.

(4 marks)

Question 3

A retail store owner requested for trade credit from his suppliers. However, he had not been maintaining proper books of account. Explain to the retail store owner:

a) Three merits of proper book keeping

(6 marks)

b) Two reasons why the retail store owner should invest in an accounting software in the future

(4 marks)

Question 4

A fast growing start-up company is considering whether to obtain a bank loan to fund business expansion to raise funds from internal sources.

a) Explain three reasons why the company is better off obtaining the bank loan instead of financing the expansion using internal sources of finance

(6 marks)

b) Discuss two alternative external sources of finance the start-up company could consider instead of a bank loan.

(4 marks)

Question 5

You are an angel investor and you have received a request to invest Ksh.10 million in exchange for 20 percent equity in a new but promising venture.

a) Calculate the net-worth of the venture from the perspective of the proposer.

(2 marks)

b) Your own industry experience tells you that the venture is worth considering. However, you decide to give the owner a counter-offer of the same amount but at 50 percent equity. Justify 4 reasons for your offer.

(8 marks)

Question 6

Your longtime friend has invited you to partner with him in reviving his high potential business which had previously collapsed. However, few months after the revival of the business, you quickly realize that the business had previously collapsed because of lack of budgeting and proper cash-flow management. Your intuition tells you that unless these weaknesses are resolved, the business is headed for another collapse. You decide to call an urgent board meeting.

a) Discuss three cash-flow management strategies that you will suggest in the meeting.

(6 marks)

b) Explain two merits of financial budgeting that you will include in your presentation to the Board.

(4 marks)