PAN AFRICA CHRISTIAN UNIVERSITY

BUE 3313. SMALL BUSINESS FINANCE.

END OF TERM EXAMINATION, NOVEMBER. 2017

ROYSAMBU CAMPUS – EVENING.

Instructions:

Read all the questions carefully. Answer QUESTION ONE (40) MARKS) and ANY OTHER FOUR questions.(15 MARKS EACH) Time: Three Hours.

QUESTION ONE

(a) Discuss Microfinance;

i. As a service **(5 Marks)**

ii. As an idea **(5 Marks)**

(b) As an entrepreneur, trade credit is an essential tool for financing growth of your business. Discuss:

i. Three costs associated with this tool **(6 Marks)**

ii. Four advantages associated with this tool. **(8 Marks)**

(c) Consider a business that is deciding between a sh.200,000 loan at 18% interest or selling 25% of the shares in the business to raise the sh.200,000. If the business expects to earn sh.300,000:

i. What is the net income available to the owner under the debt option? **(6 Marks)**

ii. What is the net income available to the main owner under the equity option? **(6 Marks)**

iii. Which option would you take and why? **(4 Marks)**

QUESTION TWO

(a) Using appropriate illustrations, describe three kinds of costs that a Micro Finance Institution has to cover when it makes microloans. **(9 Marks)**

(b) Discuss three sources of financing a business under the debt financing option. **(6 Marks)**

QUESTION THREE

(a) Outline five ways to improve your business cash flow. **(5 Marks)**

(b) As the owner of a limited liability business, you'll want to draw money from your company for your own use. Explain five ways this can be achieved. **(10 Marks)**

QUESTION FOUR

You are the Chief Financial Officer (CFO) of ABC Company and have been invited to address students of PAC University on your role in the company. Prepare a speech outline divided in the following sections:

a) Meaning of Financial Management. **(2 Marks)**

b) Scope/Elements of Financial Management. **(3 Marks)**

c) Objectives of Financial Management. **(5 Marks)**

d) Functions of Financial Management. **(5 Marks)**

QUESTION FIVE.

(a) Define ownership investment **(2 Marks)**

(b) Discuss four examples of this type of investment. **(8 marks)**

(c) As a conservative investor, how would you manage your investment portfolio? **(5 Marks)**

QUESTION SIX

(a) Explain why you would rather invest through a mutual fund than invest on your own. .

(5 Marks)

(b) As a capital market institution, The Nairobi Securities Exchange plays important roles in the process of economic development. Discuss five such roles. **(10 Marks)**