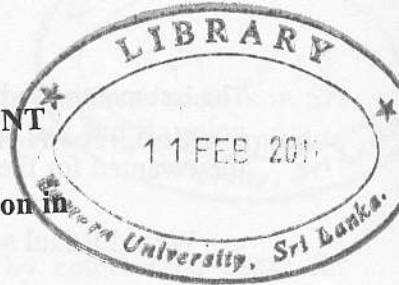


EASTERN UNIVERSITY, SRI LANKA
FACULTY OF COMMERCE AND MANAGEMENT
DEPARTMENT OF COMMERCE
Final Year First Semester Examination, Specialization in
Enterprise Development – 2009/2010
(December 2010) (Proper)



DED 4113 – Small Business Management

Time: 03 Hours

Answer all questions.

01. The Cosmetic Business

Ragavi and Rahul are both 38 years old and have been married 10 years ago. They have two children aged 08 and 10 years. Ragavi obtained her undergraduate degree in BSc.Specialization in Chemistry at University of Colombo and has worked as a Sales Representative at CIC Ltd. Colombo since leaving university. She is one of the company's best salespersons and has consistently earned above average in sales commissions. Rahul obtained his undergraduate degree in Business Administration and is now the Assistant Manager in a Furniture Manufacturing Company that produces retail store shelves and counters.

Ragavi and Rahul began talking about starting their own business even before they were married. The challenge of creating a business and making it grow appeals very much to them. Since the second year of marriage, they have lived on Rahul's salary and invested Ragavi's salary (after paying tax on it) with the idea of obtaining enough money to start a business. They now have Rs.2, 000,000/= and are ready to make their move into their own business.

They have investigated several ventures over the years and have changed their minds several times about what kind of business they wanted to create. About three years ago, Ragavi began to investigate the possibility of producing a limited line of cosmetics. The couple is now convinced that it offers them a good potential. Ragavi has decided the following items to be their products.

Women's Products

Face Cream
Hair rinse
Hand cream
Perfumes
Shampoo

Men's Products

Hair tonic
Shaving cream
After Shaving lotion
Men's cologne

Ragavi has attempted to make these products as allergy- safe as possible. These products appealed to both Ragavi and Rahul because the manufacturing process is basically mixing and filling the containers. The same general- purpose machinery needed to produce any one of these products will also produce the rest. As result, it is possible to produce all of them with a limited investment.

Rahul has leased a building that will fit their needs. He has also placed orders with manufacturers of the machinery they wanted. His estimates showed that they will have Rs.200, 000/= left to use as working capital after they have paid for everything required to produce the products.

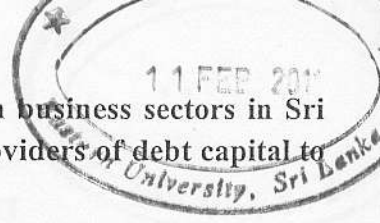
Rahul has tendered his resignation notice which will come to effect immediately. Ragavi will keep her job as a safety factor until the business can get off the ground and produce a profit.

The last month has been hectic for both of them, owing to their efforts to get the business going. It has just occurred to them that they have not decided on the form of ownership they wanted for the business.

- a. Would Rahul select “sole proprietorship” form of ownership? Explain your answer. (05 marks)
 - b. Would Rahul select “partnership” form of ownership? Explain your answer. If Rahul did select this form of ownership. What type of partners would he search for? (06 marks)
 - c. Would Rahul select the “Private limited liability company” form of ownership? Explain your answer. (07 marks)
 - d. Could things happen in the future that would cause a need for a change in the form of ownership? Explain your answer. (10 marks)
- (Total 28 Marks)

02. a. Discuss the importance of small business and entrepreneurship in promoting the development of Sri Lankan economy?
- b. What are the aspects to be emphasized in judging the scope of small businesses in Sri Lanka?
- c. Discuss the characteristics of a successful small business venture.
- d. What are the advantages and disadvantages of buying an existing business rather than starting a new business?
- e. What is a business idea? Briefly explain the methods normally used by a person to generate business ideas?
- f. What is a Business Plan? Briefly explain the key components of a good business plan.
- g. What is marketing? Why is it an important part in starting and running a business?
- h. What are the steps to be followed when you buy goods, raw materials, equipments or any other things for your business needs?
- i. How can stock control improve your business?
- j. What is record keeping? And how can records improve your business?
- k. Why is costing important for a manufacturer, service operator, wholesaler and retailer?
- l. “Many organizations indicate that only small and medium scale entrepreneurial ventures are the best for developing countries like Sri Lanka”. Discuss.

(12x 03 = 36 marks)



03. "There are many sources to finance the small and medium business sectors in Sri Lanka. Particularly Commercial Banks are the primary providers of debt capital to small and medium business firms in Sri Lanka".

a. What are the financial schemes recently introduced by commercial banks for starting a new small business or to expand an existing small business in Sri Lanka. Explain.

(06 marks)

b. Both parties the borrowers (entrepreneurs) and lenders (bankers) have to face some problems in obtaining loans from commercial banks in Sri Lanka. Justify this statement with suitable examples.

(06 marks)

c. What are the major problems involved in obtaining finance from friends and relatives?

(06 marks)

(Total 18 Marks)

04 "There is risk in everything that one does, and no one knows where he will make his landfall when his/ her enterprise is at its beginning. One man, trying to act effectively, fails to foresee something and falls into great and grin ruination, but to another man, one who is acting ineffectively, god gives good fortune in everything and he escapes from his folly".

a. What are the risks faced by an entrepreneur when operating a small business firm? Explain.

(06 marks)

b. What are the basic ways to cope with risk in a small business?

(06 marks)

c. "Shoplifting" is one of the risk faced by an entrepreneur to operate a small business firm in Sri Lanka and else where in the world. What are the various anti – shoplifting tactics to be taken by the small business firms to minimize shoplifting?

(06 marks)

(Total 18 Marks)