

UNIVERSITY OF ESWATINI

FACULTY OF SCIENCE AND ENGINEERING

DEPARTMENT OF ELECTRICAL AND ELECTRONIC ENGINEERING

MAIN EXAMINATION, DECEMBER 2018

TITLE OF PAPER: ENTREPRENEURSHIP

COURSE CODE: EE511

TIME ALLOWED: THREE(3) HOURS

INSTRUCTIONS:

1. THIS PAPER CONSIST OF SECTION A AND SECTION B.
2. SECTION A (CASE STUDY) IS COMPULSORY
3. ANSWER ANY THREE QUESTION FORM SECTION B.

YOU ARE REMINED THAT IN ASSESSING YOUR WORK, ACCOUNT WILL BE GIVEN OF THE ACCURACY OF LANGUAGE AND THE GENERAL QUALITY OF EXPRESSION, TOGETHER WITH THE LAYOUT AND FINAL PRESENTION OF YOUR FINAL ANSWER.

THIS PAPER MUST NOT BE OPENED UNTIL THE INVIGILATOR HAS GRANTED PERMISSION.

SECTION A: *This section is compulsory*

Question 1

Read the case below and answer the questions that follow:

The Harlow family opened its first motel in 1982. Initially, business was slow. It took almost 11 months to break-even and three years for the Harlows to feel that the operation was going to be a success. They stuck with it and by 1987; they were able to increase the size of the motel from 28 to 50 rooms. They expanded again in 1989, this time to 100 rooms. In each case, the motel's occupancy rate was so high that the Harlows had to turn people away during the months of November to April and the occupancy rate was 85 per cent during the other months. By industry standards, their business was one of the most successful motels in the country.

As they entered the 1990s, Harold and Becky Harlow decided that, rather than expanding, they would be better off buying another motel, perhaps in a nearby locale. They chose to hire someone to run their current operation and spend most of their time at the new location until they had it running properly. In 1992, they made their purchase. Like their first motel, the second location was an overwhelming success within a few years. From then on, the Harlows bought a number of new motels. By 1999, they had seven motels with an average of 100 rooms per unit.

During all this time, Becky and Harold kept their own financial records, bringing a chartered accountant only once a year to close the books and prepare their income tax returns. Last week the new accountant asked them how long they intended to keep seven motels. The Harlows told him that they enjoyed the operation and hoped to keep at it for another 10 years, when they planned to sell out and retire.

Harold admitted that trying to keep all of the motels going at the same time was difficult but noted that he had some excellent managers working for him. The accountant asked him whether he would consider incorporating (turning it into a company). 'If you incorporate', he said, 'you could sell shares and use the money to buy more motels. Additionally, you could keep some of the shares for yourself so you could maintain control of the operation, sell some for expansion purposes and sell the rest to raise some money you can put aside in a savings account or some conservative investment. That way, if things go bad, you still

will have a nest egg built up'. The accountant also explained to Harold and Becky that, as a partnership, they are currently responsible for all business debts. With a company, they would have limited liability; that is, if the company failed, the creditors could not sue them for their personal assets. In this way, their assets would be protected, so the money the Harlows would get for selling the shares would be safely tucked away.

The Harlows admitted that they had never really considered another form of organization. They always assumed that a partnership was the best form for them. Now they are willing to examine the benefits of a private company and they will go ahead and incorporate their business if this approach promises them greater advantages.

- a) Outline the characteristics and operations of a partnership. (10 marks)

- b) Contrast the nature, advantages and disadvantages of a partnership with those of a private company. (20 marks)

- c) Provide your opinion on whether the Harlows should be a private company. (5 marks)

- d) Would the limited liability public company option be of value to them? Explain. (5 marks)

(40 Marks)

SECTION B: Answer any three (3) questions from this section

Question 2

- a) Jack makes beautiful wooden tables. His material costs amount to E48 000, labour amounts to E72 000 and other costs amount to E5 400. These make up his variable costs. He can make 24 tables.
- i. Calculate Jack's variable costs per table (3)
- ii. If Jack sells these tables for E10 000 each and his fixed costs equal E231 000, calculate how many tables Jack must sell to break-even. (5)
- b) Use the following information to compile an income statement, showing the gross and net profit:

Sales	E360 000
Cost of Sales	E153 000
Telephone	E3 600
Stationery	E1 200
Delivery cost	E1 800
Rent	E10 000

(12)
(20 Marks)

Question 3

Eswatini is a neighbour to the Republic of South Africa (RSA) and Mozambique, sharing approximately two thirds of RSA border and one third with that of Mozambique. RSA is one of the most developed economies in Africa while Mozambique is one of the emerging economies. One would envisage that Swazi SMEs would take advantage of the neighbours' affluent markets and sell their products to these countries. However, the participation of local SMEs in these markets is negligible. Discuss the challenges that prevent Swazi SMEs from exporting to its neighbours. **(20 Marks)**

Question 4

It is often said that entrepreneurs are individuals who recognise opportunities where others see chaos or confusion, aggressive catalysts for change within the marketplace and act like Olympic athletes challenging themselves to break new barriers. Discuss about any five key characteristics of successful entrepreneurs.

(20 Marks)

Question 5

- a) Compare debt and equity financing as a source of start-up capital for a new business. (10)
- b) Discuss the five C's of credit and explain why entrepreneurs should pay special attention to them. (10)

(20 Marks)