PAN AFRICA CHRISTIAN UNIVERSITY

BACHELOR OF BUSINESS LEADERSHIP

END OF SEMESTER EXAMINATION

BUE 3313 SMALL BUSINESS FINANCE - ONLINE

DAY: THURSDAY

TIME: 2:00 PM - 5:00 PM

Instructions:

- Answer Question One and Any Other Three Questions
- Show all your workings
- Read all questions carefully before attempting.
- Write your **student number** on the answer booklet provided.

QUESTION ONE

Janet is planning to invest in a poultry farming business, with eggs and broiler meat being the core products. She has saved up 75% of the initial investment amount she requires, including working capital and she will have to finance the remaining amount of sh. 250,000 through borrowing. She has identified retail businesses near her place of residence as her potential clients, though she knows that some prefer to buy on credit. Moreover, she knows that she is venturing into a market that is quite competitive because some of her neighbours are already engaging in this type of business. After undertaking some market research, she has determined that dealing with such types of clients, she can expect payment defaults at the rate of 2% p.a. as this is generally considered the industry average. She is expecting to incur total operating costs of sh. 400,000 p.a. but her targeted profit margin is 20%. Janet intends to write a business plan and she has requested your assistance.

Required

a. Given Janet's targeted profit margin, determine the expected sales revenue p.a. for her business **(4 Marks)**

b. Explain **SIX** elements that should be included in her financial plan **(6 Marks)**

c. Discuss **FOUR** types of risks that Janet should consider under risk analysis **(4 Marks)**

d. Explain **SIX** ways in which a budget would be of importance to Janet's business **(6 Marks)**

e. Within the context of a small business such Janet's business explain **FIVE** ways in which microfinance programs in promote financial inclusion **(10 marks)**

QUESTION TWO

Peter runs a small business called Kayamba Enterprise. The business made sales on credit in the first four months of the year **2026**, as follows:

Month	**Sh. ' 000's**
January	50
February	60
March	40
April	50

Cash is received from debtors as follows: 60% after 1 month; 30% after 2 months; and 10% after 3 months.

The following information is also available:

1. The company acquired a machine costing **Sh. 50,000** in January. The money is paid in the following month.
2. Rent is paid quarterly in advance. The rent is **Sh. 10,000** per month and January is the first month of the quarter.
3. Rates are paid at the rate of **Sh. 1,000 per month**.
4. Sales for October, November and December of the prior year were **Sh. 70,000**, **Sh. 85,000** and **Sh. 90,000** respectively.
5. Salaries are **Sh. 10,000** per month. **80%** is paid out in the month incurred and the other **20%** overtime is paid in the following month.
6. The opening cash balance on 1st January 2026 was **Sh. 100,000**.

Required

Prepare a cash budget for Kimberley Holdings that shows the cash flows for the first four months of the year 2026. **(10 Marks)**

QUESTION THREE

George operates a merchandise business called White Enterprise. He has estimated that the variance of its daily net cash flows is **1,440,000**. The business pays **Sh. 45** for transaction costs to transfer funds into and out of this money market to trade securities. The rate of interest on marketable securities traded in the money market is **8.5% p.a**. and the minimum cash balance that it has set is **Sh.25,000**. George applies the Miller-Orr Model to set the target cash balances.

Required

a. Compute the upper cash limit and the average cash balance **(8 Marks)**

b. Explain **TWO** factors that can affect the working capital George's business **(2 Marks)**

QUESTION FOUR

Kayamba Plc., a small company owned by Mary and her husband, is seeking to expand its capacity by investing in a new production machine that will require an initial investment cost of **Sh. 100,000** and has a useful life of **5 years. I**t is not expected to have a scrap value. The machine is to be deprecated on a straight line basis and is expected to produce **40,000 units** p.a., generating a contribution of **Sh. 4 per unit**. The estimated additional fixed costs associated with this machine are **Sh. 30,000 p.a. (**exclusive of depreciation). The tax rate is 20%. and the cost of capital is **12%.**

Required

a. Determine, on the basis of the above figures, whether the project is viable. (Use **NPV**) **(6 Marks)**

b. Calculate the sensitivity to change, of the following variables and identify :

i) the initial investment **(2 Marks)**

ii) the contribution **(2 Marks)**

QUESTION FIVE

Octopus co. ltd has been in operations for the last 5 years engaging in the production and sale of executive tiles. The table below contains a list of balances extracted from the financial statements of this entity for the years 2024 and 2025.

	2024	**2025**
	Sh.	**Sh.**
Current assets		
Cash	30,000	20,000
Accounts Receivable	200,000	260,000
Inventory	400,000	480,000
	630,000	**760,000**
Equity and Liabilities		
Owners Equity		
Ordinary Share Capital	500,000	550,000
Retained earnings	130,000	160,000
	630,000	**710,000**
Non-current liabilities		
10% Debentures	300,000	300,000
Current liabilities		
Accounts payable	230,000	300,000
Accruals	200,000	210,000
Short-term loan	100,000	100,000
	530,000	**610,000**

Additional information:

i) The statement of financial position extract is shown below:

	2024	**2025**
	Sh	**Sh.**
Sales	4,000,000	4,300,000
Cost of goods sold	(3,200,000)	(3,600,000)
Gross profit	**800,000**	**700,000**
Operating expenses (excluding interest)	(500,000)	(300,000)
Profit Before Interest and Tax	**300,000**	**400,000**
Interest expense	(30,000)	(30,000)
Profit Before Tax (PBT)	**270,000**	**370,000**
Corporation Tax	(81,000)	(111,000)
Profit After Tax	**189,000**	**259,000**

ii) In the year **2024**, the opening balance for inventory was **sh. 350,000**

Required

a. For each of the two years, calculate the following ratios and give a comment on the performance of the company

i) Quick ratio **(2 Marks)**

ii) Return on Capital Employed **(2 Marks)**

iii) Inventory Turnover **(2 Marks)**

iv) Debt-to-equity ratio **(2 Marks)**

b. Explain **TWO** limitations of ratio analysis to Octopus co. ltd **(2 Marks)**