JARAMOGI OGINGA ODINGA UNIVERSITY OF SCIENCE AND TECHNOLOGY

SCHOOL OF SPATIAL PLANNING AND NATURAL RESOURCE MANAGEMENT

UNIVERSITY EXAMINATION FOR DEGREE OF MASTER OF SCIENCE IN URBAN ENVIRONMENTAL PLANING AND MANAGEMENT

1ST YEAR 1ST SEMESTER 2013/2014 ACADEMIC YEAR

MAIN

COURSE CODE: APP 814

COURSE TITLE: PROJECT FINANCE

EXAM VENUE: GIS LAB | **STREAM: (MA Spatial Planning)**

DATE: 14/04/14 | **EXAM SESSION: 9.00 – 12.00 NOON**

TIME: 3.00 HOURS

Instructions:

1. **Answer question 1(Compulsory) and ANY other 2 questions**
2. **Candidates are advised not to write on the question paper.**
3. **Candidates must hand in their answer booklets to the invigilator while in the examination room.**

QUESTION ONE

Jonty Inc is a large multinational corporation specializing in the manufacturer of specialized chemicals. Some of these chemicals are highly toxic and are subject to very tight production and handling controls.

The management of Jonty promotes their primary objective as being the maximization of shareholders wealth, although there have been rumors of conflicts between certain members of the management team with regards to the company's future direction. Production of some of the chemicals has been transferred to countries where production facilities and labour are cheaper than those in Jonty's home country. These countries are developing countries whose governments are anxious to attract foreign investment via such perks as low tax rates and protection measures.

Jounty's management team has approached you in your capacity as an independent consultant about some concerns they have about ethics and how they might affect the company's current operations and future strategies.

REQUIRED

i) Write a report to the management team of Jonty Inc pointing out the ethical issues that might affect the company's capital investment decisions and discussing the importance of issues for strategic financial management. (15 marks)

ii) Define Sole Trader and list its four advantages (5 marks)

iii) Define Partnership and list its four advantages (5 marks)

iv) Briefly explain the meaning of Limited company (2 marks)

v) Discuss three methods of depreciation (3 marks)

QUESTION TWO

a.) Explain the meaning of C.V.P analysis (2 marks)

b.) State five assumptions of C.V.P analysis. (3 marks)

c.) A company makes a single product with a sale price of sh 10 and a marginal cost of sh 6. Fixed costs are sh 60,000 per annum .Calculate

i. Break-even point (in units) (2 marks)

ii. Break-even point (in sh.) (2 marks)

iii. c/s ratio (2 marks)

iv. What number of units will need to be sold to achieve a profit of sh. 40,000 per annum? (2 marks)

v. What level of sales will achieve a profit of sh. 40,000 per annum? (2 marks)

QUESTION THREE

A company has investment opportunity costing ksh. 40,000,000 with the following expected net cash flow (i.e. after taxes and before depreciation):

Year	kshs
1	7,000,000
2	7,000,000
3	7,000,000
4	7,000,000
5	7,000,000
6	8,000,000
7	10,000,000
8	15,000,000
9	10,000,000
10	4,000,000

Using 10% as the cost of capital (rate of discount) determine the following:

i.) Payback period (6 marks).
ii.) Net present value at 10% discount factor (10 marks).
iii.) Profitability Index at 10% discount factor (4 marks).

QUESTION FOUR

. Homa bay investment company Ltd has had a good trading period and wants to raise further finance from the following sources.

To issue 100,000 ordinary shares of sh. 10 at sh. 5 each
To issue 100,000 10% preference shares of sh. 10 at sh. 12 each
To issue 100,000 15% debentures of sh.100 at sh. 90 each
To raise a medium- term loan of sh.5 million from a financial institution, which will be at an interest rate of 20% p.a.

The company will pay an annual dividend to ordinary shares of 14% and a corporation tax of 50%.

Required

a.) The total amount that this company will raise if the plan is released (5 marks)
b.) The average cost of additional finance (10 marks)
c.) Define Lease financing. . (2 marks)
d.) Differentiate a financial lease from an operating lease.

QUESTION FIVE

Describe briefly the following sources of finance

i.) Ordinary share capital (5 marks)
ii.) Debenture or long- term loans (5 marks)
iii.) Retained Earnings (5 marks)
iv.) Preference Share Capital (5 marks)