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University Examinations 2011/2012

THIRD YEAR, FIRST SEMESTER EXAMINATIONS FOR THE DEGREE OF BACHELOR OF COMMERCE

HCB 2202: PROJECT APPRAISAL

DATE: APRIL 2012 **TIME: 2 HOURS**

INSTRUCTIONS: *Answer question **one** and any other **two** questions*

QUESTION ONE (30 MARKS)

a. Explain the term project and state the need for project appraisal (7 Marks)
b. Explain the following facets of project analysis:
   i. Technical analysis (6 Marks)
   ii. Financial analysis (6 Marks)
c. outline the steps in cost benefit analysis methodology (7 Marks)
d. differentiate between financial analysis and economic analysis (4 Marks)

QUESTION TWO (20 MARKS)

a. Differentiate between risk and uncertainty in relation to investment decisions (4 Marks)
b. A project has the following cash flows:

Year 1		**Year 2**	
Cash flow	probability	cash flow	probability
60,000	0.3	50,000	0.3
		60,000	0.5
		70,000	0.2
80,000	0.4	60,000	0.2
		80,000	0.5
		100.000	0.2
100,000	0.3	80,000	0.3

100,000	0.5
120,000	0.2

The projects initial cash outlay issh.100, 000. With a cost of capital of 12%.

Required:

The projects NPV (12 Marks)

Explain the following terms:

i. Shadow prices
ii. Traded goods (2 Marks)

QUESTION THREE (20 MARKS)

a. The following infuriation relates to an extract of the balance sheet of Jua kali Ltd as at 31 December 2005.

Capital and liability	**sh.(000)**
Ordinary share capital 1 milion	
Ordinary shares of sh. 10 each	10,000
Capital reserves	20,000
Revenue reserves	90,000
10% debentures	30,000
	150,000

Additional information:

1. The profit before interest and time for the year ended 31 December 2005 was sh. 9,000,000
2. The dividend payout ratio for the year 2005 was 40%
3. The market price per share as at 31 December 2005 was sh.36
4. The corporation tone rate is 30%

Required:

i. Gearing ratio (2 Marks)
ii. Dividend yield ratio (2 Marks)
iii. Times interest earned ratio (2 Marks)
iv. Return on capital employed (2 Marks)
v. Return on equity (2 Marks)
vi. Price earnings ratio (2 Marks)

b. Explain why canton must be taken when using financial ratios (4 Marks)

c. Determine the NPV of a project whose cost is sh. 10,000 and useful life of five years. The project promises profit before depreciation and tax of sh.4, 000 per annum. Deprecation is on straight line basis and the corporate rate is 30%. Should the project be undertaken? (4 Marks)

QUESTION FOUR (20 MARKS)

a. It was estimated that the cost of distribution service account for 40% for the unit price. Maize is an exportable commodity whose average international price over the period corresponding to the life of the project was estimated at sh.100.

Required:

Determine the shadow price of maize (4 Marks)

b. The following is an extract of the financial statements of Ujenzi Ltd for 2005 and 2006.

Balance sheet as at 30 June 2006.

	2005	**2006**
	Sh.(000)	**SH.(000)**
Non -current assets	72,500	75,000
Current assets:		
Inventory	24,500	26,500
Receivables	34,000	36,500
Cash at bank	1,250	2,250
	59,750	65,250
Total assets	132,250	140,250

Profit and loss account for the year ended 30 June 2006

	SH. (000)
Sales revenue	195,000
Profit from operations	13,750
Interest cost	(2,150)
Profit before taxation	11,600
Income tax expense	(2,950)
Profit after tax	8,650

Dividends	(2,150)
Net profit for the period	6,500

Additional information:

i. Depreciation charge for the year wash.6,000,000
ii. Non-current assets disposed in the year at sh. 300,000 had an accumulated depreciation of sh. 175,000 and had a cost of sh. 500,000.

Required:

A statement of cash flows for the year ended 30 June 2006 (16 Marks)