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**W1-2-60-1-6**

JOMO KENYATTA UNIVERSITY OF AGRICULTURE AND TECHNOLOGY

# **UNIVERSITY EXAMINATIONS 2014/2015**

THIRD YEAR SECOND SEMESTER EXAMINATION FOR THE DEGREE OF BACHELOR OF COMMERCE

**HBF 2306 : PROJECT APPRAISAL**

**DATE: APRIL 2015 TIME: 2 HOURS**

**INSTRUCTIONS:**

**ANSWER QUESTION ONE[COMPULSORY] AND ANY OTHER TWO QUESTIONS**

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**QUESTION ONE [COMPULSORY]**

1. Discuss the two main types of project appraisal what can be conducted to evaluate the viability of a project. [10 marks]
2. Explain the following terms as used in capital budgeting
3. Feasibility [2 mark]
4. Franchising [2 marks]
5. Venture capitalist [2 marks]
6. Profitability index [2 marks]
7. Highlight five disadvantages of using IRR as a project appraisal method. [10 marks]

**QUESTION TWO**

1. Differentiate the key elements between ordinary shares and preference shares. [10 marks]
2. What is sensitivity analysis and why is it used in project evaluation? [10 marks]

**QUESTION THREE**

1. Imarika Enterprises an owner-managed company has developed anew product that requires plant expansion. Advice the management on 5 sources of finance for the company and state clearly one advantage and disadvantage of each. [10 marks]
2. Diamond holdings is a Ltd company with a marginal income tax rate of 35% and a before tax cost of debt of 6%. Calculate the after-tax cost of debt. [10 marks]

**QUESTION FOUR**

1. Describe the life development cycle of a typical project [10 marks]
2. Highlight the impact of taxation in capital budgeting [10 marks]

**QUESTION FIVE**

1. Discuss the strategic options available when dealing with risks. [10 marks]
2. Premier logistics plans to acquired a new asset for its operations. The cost of the asset is shs. 300 000. It is expected to generate an annual cash inflow of kshs. 100 000 for the next 5 years after which it will have no salvage value. The company wants a 14% rate of return on all investment.

**REQUIRED:**

1. Calculate the Net present value of this investment project [8 marks]
2. Give your recommendation to the company based on your NPV analysis. [2 marks]