MURANGA UNIVERSITY COLLEGE

(A constituent College of Jomo Kenyatta University of Agriculture & Technology)

MAIN CAMPUS

ORDINARY UNIVERSITY EXAMINATIONS

2015/2016 ACADEMIC YEAR

SECOND YEAR FIRST SEMESTER EXAMINATIONS

FOR THE DEGREE OF

BACHELOR OF COMMERCE

COURSE CODE: HBF 2306

COURSE TITLE: PROJECT APPRAISAL

DATE: TIME:2HOURS

INSTRUCTIONS TO CANDIDATES

Question ONE (1) is compulsory
Answer any other two questions

MRUC observes Zero tolerance to examinations irregularities

This paper consists of 3 printed pages. Please turn over

QUESTION ONE

a) Sideways ltd is considering a project that will involve an investment of sh 10,000. The expected cash flows and probabilities are as follows

Year1 cashflow	probability	Year2 Cashflow	probability	Year3 cashflow	probability
1,000	0.10	1,000	0.20	1,000	0.30
2,000	0.20	2,000	0.30	2,000	0.40
3,000	0.30	3,000	0.40	3,000	0.20
4,000	0.40	4,000	0.10	4,000	0.10

Calculate the coefficient of variation for the project (10marks)

b Mapya ltd wish to invest sh100,000 in one of the two projects X and Y .The interest rate is 10%.The projects cash flows are as follows

Project	Year1	Year2	Year3	Year4	Year5
X	20,000	40,000	100,000	120,000	
Y	100,000	40,000	30,000	20,000	20,000

Rank the projects using

i) Net present value (5marks)
ii) Internal rate of return (5marks)
iii) Explain why there is a conflict in ranking (2marks)

c. Explain four reasons why investment in long term projects require careful planning (8marks)

QUESTION TWO

a. Midland ltd has a cost of capital of 12% and has a limit of sh 200,000 in the current period. 5 indivisible projects are being considered whose requirements are as follows

Project	outlay	NPV at 15%	EPVI
A	40,000	16000	0.4
B	80,000	56000	0.7
C	70,000	75000	1.07
D	100,000	62000	0.63
E	30,000	7000	0.23

Project B and D are mutually exclusive
Advise management which projects to invest (14 marks)

QUESTION THREEE

a) A company is considering two mutually exclusive projects X and Y which have a life of four years. the cost of capital is 10%. The following are the cashflows for the two projects

Year	0	1	2	3	4
Project X	-300,000	66,000	72,000	105,000	30,000
ProjectY	-275,000	60,000	67,500	64,000	18,000

Calculate the IRR of the incremental cashflow (14 marks)

b) Distinguish between a lease and hire purchase (6marks)

QUESTION FOUR

Jakorda ltd is considering a proposal to install a new machine. Whose Cost is sh   900,000. It requires a working capital of sh 120,000.the expected life of the machine is 6 years without any salvage value .the company is allowed to charge depreciation on straight line basis . Tax rate is 30%.the cost of capital is 12%. The expected cash flows for the first three years are sh 315,000, 270,000 and 240,000 respectively.

Calculate the net present value for three years (12marks)

Explain four components of a cashflow (8marks)