



**MURANGA UNIVERSITY COLLEGE**

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

**MAINCAMPUS**

**SPECIAL/SUPPLEMENTARY UNIVERSITY EXAMINATIONS**

**2015/2016 ACADEMIC YEAR**

**THIRD YEAR SECOND SEMESTER EXAMINATIONS**

**FOR THE DEGREE OF**

**BACHELOR OF COMMERCE**

**COURSE CODE: HBF 2306**

**COURSE TITLE: PROJECT APPRAISAL**

**DATE**

**TIME:**

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**INSTRUCTIONS TO CANDIDATES**

Question ONE (1) is compulsory  
Answer any other TWO(2)) questions

MRUC observes Zero tolerance to examinations irregularities

This paper consists of 2 printed pages. Please turn over



**QUESTION ONE**

- a) Marianne company is considering a project that will involve an investment of sh 10,000. The interest rate is 15%. 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 expected net present value of the project and advise management whether to invest(12 marks)

- b) Mohammed 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 240,00 respectively.

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

- b) Discuss three advantages of using pay back period to appraise projects (6marks)

**QUESTION TWO**

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

Year	0	1	2	3	4
Project W	-300,000	63,000	72,000	105,000	30,000
Project X	-225,000	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 THREE**

- a. Claycity ltd has a cost of capital of 15% and has a limit of sh 100,000 in the current period. 5 divisible projects are being considered whose requirements are as follows

Project	outlay	NPV at 15%
V	20,000	8000
W	40,000	28000
X	35,000	37500
Y	50,000	31000
Z	15,000	3500

Project W and Y are mutually exclusive  
Advise Claycity which projects to invest

(14 marks)

a) Explain three features of a good investment appraisal technique

(6marks)

#### QUESTION FOUR

b) Makita company wish to invest sh100,000 in one of the two projects Y and Z .The interest rate is 10%.The projects cash flows are as follows

Project	Year1	Year2	Year3
Y	20,000	40,000	120,000
Z	100,000	30,000	30,000

Rank the projects using

- i) Net present value (5marks)
- ii) Internal rate of return (7marks)
- iii) Explain why there is a conflict in ranking (2marks)

b) Discuss three limitations of capital asset pricing model

(6marks)