



# **MURANG'A UNIVERSITY OF TECHNOLOGY**

## **SCHOOL OF BUSINESS AND ECONOMICS**

### **DEPARTMENT OF COMMERCE**

#### **UNIVERSITY ORDINARY EXAMINATION**

**2017/2018 ACADEMIC YEAR**

**THIRD YEAR FIRST SEMESTER EXAMINATION FOR THE BACHELOR OF  
COMMERCE.**

**BCF – PROJECT APPRAISAL**

**DURATION: 2 HOURS**

**DATE: 11<sup>TH</sup> DECEMBER, 2017**

**TIME: 2.00 – 4.00 PM.**

#### **Instructions to Candidates:**

1. Answer **Question 1** and **Any Other Two** questions.
2. Mobile phones are not allowed in the examination room.
3. You are not allowed to write on this examination question paper.

## SECTION ONE - COMPULSORY

### QUESTION ONE

- (a) Discuss four differences between the Internal Rate of Return and the Net Present Value methods of Project appraisal. (8 marks)
- (b) Bassel Company is considering investing sh. 850,000 in a new project. The project life is 3 years. The project net cash flows have been estimated as follows:-

Year 1 Cash flow	Probability	Year 2 Cash flow	Probability	Year 3 Cash flow	Probability
300,000	0.6	400,000	0.3	500,000	0.5
200,000	0.4	200,000	3.7	300,000	0.5
-	-	300,000	0.4	100,000	0.2
-	-	100,000	0.6	150,000	0.8
-	-	-	-	250,000	0.9
-	-	-	-	300,000	0.1
-	-	-	-	200,000	0.3
-	-	-	-	400,000	0.7

- Calculate the Expected net present Value. (12 marks)
- (c) Explain four methods a firm can use to finance its International Investments. (4 marks)
- (d) Discuss three differences between cash flows in a business and the accounting profit reported by the business. (6 marks)

## SECTION TWO – ANSWER ANY TWO QUESTIONS

### QUESTION TWO

- (a) Paliz Ltd. is considering two mutually exclusive projects X and Y. The following are the cash flows for the two projects.

Year	0	1	2	3	4	5
Cash flow A	(2,000,000)	800,000	700,000	750,000	600,000	500,000
Cash flow B	(1,000,000)	400,000	400,000	400,000	400,000	400,000

- Calculate the Net Present Value of the incremental cash flow. (6 marks)

- (b) Explain five reasons why investment decisions require careful planning. (10 marks)
- (c) Discuss four assumptions of Capital asset pricing model (CAPM). (4 marks)

**QUESTION THREE.**

- a) Tex. Ltd. is considering the lease of equipment which has a purchase price of sh. 800,000. The equipment has an estimated economic life of 5 years. Depreciation is 25% on written down values. The lease rentals per year are Sh. 200,000. The before tax interest rate is 10%. The corporation tax rate is 30%.

**Required.**

- Using NAL analysis, advise management on whether to lease the equipment. (15marks)
- (b) Highlight five components of a cash flow. (5marks)

**QUESTION FOUR**

- (a) A company is considering to install a processing machine which require Shs. 6 million and installation cost of Sh. 400,000. The expected life of the project is 5 years with salvage Value of Sh. 100,000. The company is allowed to charge depreciation on straight line basis for tax purposes. The tax rate is 30%. The estimated before tax cash flows are as given below.

<b>Year</b>	1	2	3	4	5
<b>Cash flow</b>	220,000	240,000	200,000	180,000	160,000

If the opportunity cost of capital is 8%. Calculate the Net Present Value and Internal rate of return for the project. (10 marks)

- (b) Moulders Ltd. has a cost of 10% and has a limit of Sh. 3,000,000 available for investment. The following indivisible projects are being considered.

<b>Project</b>	<b>Investment</b>	<b>Net Present Value</b>
A	1,000,000	520,000
B	1,200,000	600,000
C	2,000,000	1,100,000
D	1,500,000	920,000
E	850,000	620,000
F	400,000	(50,000)

Surplus funds can be invested to produce 11% in perpetuity. Determine the best investment plan. (10 marks)