



(Knowledge for Development)

KIBABII UNIVERSITY

UNIVERSITY EXAMINATIONS

2022/2023 ACADEMIC YEAR

MAIN EXAMINATION

FOR THE BACHELOR OF EDUCATION

FOURTH YEAR FIRST SEMESTER

COURSE CODE:IRD400

COURSE TITLE: PROJECT APPRAISAL

DATE:15TH DECEMBER,2022 TIME: 2.00PM - 4.00PM

INSTRUCTIONS TO CANDIDATES

1. Answer Question One in Section A and Any other TWO (2) Questions in Section B
2. Question **one** carries **30**marks and each of the other two questions carry **20** marks each.

TIME: 2 Hours

SECTION A

QUESTION ONE

- a. consider a 5 year project with initial cash outlay of ksh 10,000 and a salvage value of ksh 400, the project is expected to generate the following cash flow

YEAR	1	2	3	4	5
EAT	800	600	500	400	200

Calculate the rate of return. (5mks)

- b. Joan is confused whether to use the money she has today or to the money use in the future, she comes to you for advice. Basing on the concept of time value of money what will be your advice and why? (5mks)
- c. Differentiate between NPV and payback period (4mks)
- d. Explain the following terms as used in risk analysis. (6mks)
- I. Risk averse.
 - II. Risk seeker.
 - III. Risk indifference.
- e. An investor is expecting to receive Shs.1000 after five years. If the discounting rate is 5%. Determine the present value of the sum. (5mks)
- f. Discuss the two types of annuities. (3 mks)
- g. Explain the term discounting cash flows (2mks)

(Total 30 Marks)

QUESTION TWO

- a. The following information relates to the forecast returns of security A and B and their probabilities, during financial year ending 31st December 2010.

probability	security	
	A	B
0.2	10%	8%
0.1	12%	10%
0.35	8%	7%
0.05	15%	12%

0.15	14%	11%
0.15	9%	8%

Required.

Find the expected return, standard deviation and co-efficient of variation on securities A and B (16mks)

- b. Before making any investment in a company, a few questions arise in the mind of the investor, state the questions. (4mks)

(Total 20 Marks)

QUESTION THREE

- a. Mutiso has been in the business of capital investment. In this two year of business he has faced several problems while making the decision under the same. Explain at least five of the problems encountered by him. (10mks)
- b. Elaborate on the five basis of classification of risks. (10 mks)

(Total 20 Marks)

QUESTION FOUR

- a. A company undertakes four year project with the following cash flows and abandonment values. If the cost of capital is 10% and there are several abandonment alternatives, advice the company on the best abandonment period. (14mks)

YEAR	0	1	2	3	4
Cash flow	15000	6000	5000	3000	3000
Abandonment value.		11000	7000	5000	

- b. An investor intends to deposit ksh 8,000 in a bank earning interest rate at the rate of 12% per annum the amount to be withdrawn after six years. Determine the future value of this amount. (5mks)
- c. Define the term Risk? (1mk)

(Total 20 Marks)

QUESTION FIVE

- a. Mr. Frank Wafula obtained a loan of 10,000,000 on 1st January 2020. The rate of interest is 12% per annum. The loan is to be repaid quarterly over a period of five years. Prepare an Amortization schedule over the five years. (14mks)
- b. Discuss the three types of inflation that a country may experience. (6mks)

(Total 20 Marks)