



MAASAI MARA UNIVERSITY

**REGULAR UNIVERSITY EXAMINATIONS
2017/2018 ACADEMIC YEAR
FOURTH YEAR SECOND SEMESTER**

**SCHOOL OF BUSINESS AND ECONOMICS
BACHELOR OF ARTS (ECONOMICS)
BACHELOR OF SCIENCE (COMMUNICATIONS
AND PUBLIC RELATIONS)**

COURSE CODE: IRD 400

COURSE TITLE: DEVELOPMENT PROJECT APPRAISAL

DATE: 26TH APRIL 2018

TIME: 08:30 TO 10:30 A.M

INSTRUCTIONS TO CANDIDATES

Question **ONE** is compulsory

- Answer any other **THREE** questions

This paper consists of 3 printed pages. Please turn over.

QUESTION ONE (Compulsory) - (25 Marks)

- (a) Explain why a project for development has to be subjected to economic analysis. **(3 marks)**
- (b) What are the possible sources of project financing for an investor? **(3 marks)**
- (c) (i) Mr Musyoka borrowed Kshs.165,000/= for 2 years at 15% compounded quarterly. Find the amount she has to pay in 2 years and interest paid for the loan. **(4 marks)**
(ii) What is the present value at 10% compounded semi-annually of Kshs.20,000/= due in the bank in two years. **(4 marks)**
- (d) A project's initial cost is Kshs.850,000/= and expected to generate annual returns of 25% of initial cost. How long will it take to recoup the amount invested? (Show your workings). **(4 marks)**
- (e) Explain why in practice costing of projects presents many problems. **(3 marks)**
- (f) Explain what you understand by risk analysis of a project and state any three elements of this analysis. **(4 marks)**

QUESTION TWO (15 Marks)

- (a) (i) Explain the meaning of an annuity. **(2 marks)**
(ii) What is the relationship between discounting and compounding as used in financial analysis? **(2 marks)**
- (a) Explain the aspects that are considered in a project's technical analysis. **(4 marks)**
- (b) (i) State the factors considered in the choice of project technology. **(4 marks)**
(II) What are the various ways of acquiring technology? **(3 marks)**

QUESTION THREE (15 Marks)

The project information for the custom order project of an Automobile Company is presented here.

- i) Draw a project network for this project. **(6 marks)**
- ii) Compute the early and late activity times and the slack times. **(7 marks)**
- iii) Identify the critical path **(2 marks)**

ID	Activity	Predecessor	Time
A	Order review	None	2
B	Order standard parts	A	15
C	Produce standard parts	A	10
D	Design custom parts	A	13
E	Software development	A	18
F	Manufacture custom hardware	C,D	15
G	Assemble	B,F	10
H	Test	E,G	5

QUESTION FOUR (15 Marks)

(a). Tuinuane group intends to start a development project in Limuru town. They have approached you as a project consultant with the following information relating to the proposed project.

<u>Year</u>	<u>Cash outflows</u>	<u>Benefits</u>
0	800,500	-
1	20,000	70,000
2	10,050	160,000
3	25,000	150,000
4	40,000	300,100
5	30,000	255,000

Given that the cost of capital is 15% p.a. advice this group with regard to Net Present Value (NPV), Payback Period (PBP) and Accounting Rate of Return (ARR). **(10 marks)**

(b). (i) What is the difference between Pre-liminary project analysis and a feasibility study? **(3 marks)**

(ii). Explain how risk avoidance kills creativity and innovation. **(2 marks)**

QUESTION FIVE (15 Marks)

a). PWC Company is considering investing Sh. 1 million at 8% compounded semi-annually and quarterly for 2 years. Evaluate the two investment options and advice accordingly. **(7 marks)**

b). You have been appointed the chairman of DDC at a local level, describe by designing a screening matrix how you could use it to prioritize the numerous project proposals presented to you. **(8 marks)**

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