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# KIRIRI WOMENS' UNIVERSITY OF SCIENCE AND TECHNOLOGY
# UNIVERSITY EXAMINATION, 2023/2024 ACADEMIC YEAR
# FIRST YEAR, FIRST SEMESTER EXAMINATION
# FOR THE DIPLOMA IN COMMUNITY DEVELOPMENT AND SOCIAL WORK
# DDS 107 – PROJECT FINANCING

Date: 18TH APRIL, 2023
Time: 8:30AM- 10:30AM

**INSTRUCTIONS TO CANDIDATES**
**ANSWER QUESTION ONE (COMPULSORY) AND ANY OTHER TWO QUESTIONS**

**QUESTION ONE (30 MARKS)**

a) Discuss the importance of project financing. (6 Marks)

b) Explain the meaning of the term "cost of capital" and explain why it's important to Calculate cost of capital with care. (4 Marks)

c) Discuss the problems and ways to resolve the problems that might exist in the relationships (sometimes referred to as agency relationships) between:

i) Investors and managers. (5 Marks)

ii) Investors and creditors. (5 Marks)

d) ABC ltd just borrowed Shs. 600,000 4 years loan from a bank payable at 10% p.a. The loan is to be repaid in equal end period instalments.

**Required**

i) Determine the annual instalment. (4 Marks)

ii) Prepare a loan amortization schedule. (6 Marks)

**QUESTION TWO (20 MARKS)**

a) Discuss the internal sources of funds. (6 Marks)

b) Distinguish between equity financing and debt financing. (6 Marks)

c) Outline advantages of debt financing. (8 Marks)

**QUESTION THREE (20 MARKS)**

a) Discuss features of a good method for evaluation of project. (8 Marks)

b) Distinguish between Internal rate of return and accounting rate of return. (4 Marks)

c) Enumerate advantages and disadvantages of NPV method of evaluation. (8 Marks)

**QUESTION FOUR (20 MARKS)**

a) Discuss factors for consideration in determining source of finance. (12 Marks)

b) Explain four limitations of the use of ratios as a basis of financial analysis. (8 Marks)

**QUESTION FIVE (20 MARKS)**

Paul was recently appointed to the post of investment manager of Masada limited, a quoted company. The company has raised sh. 8,000,000 through a right issue.

Paul has a task of evaluating two mutually exclusive projects with unequal economic lives. Project x has 7 years and project y has 4 years of economic life. Both projects are expected to have zero salvage value. Their expected cash flows are as follows:

| YEAR | PROJECT X CHASHFLOWS | PROJECT Y CASHFLOWS |
|---|---|---|
| 1 | 2,000,000 | 4,000,000 |
| 2 | 2,200,000 | 3,000,000 |
| 3 | 2,080,000 | 4,800,000 |
| 4 | 2,240,000 | 800,000 |
| 5 | 2,760,000 | |
| 6 | 3,200,000 | |
| 7 | 3,600,000 | |

The cost of equity of the firm is 20%

**Required:**

a) The net present value of each project (6 Marks)

b) The internal rate of return (IRR) of the projects (rediscount cash flows at 24% for project x and 25% for project y) (10 Marks)

c) Enumerate the advantages of NPV method of evaluation. (4 Marks)