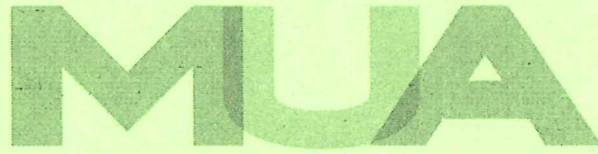


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**UNDERGRADUATE UNIVERSITY EXAMINATIONS**

**SCHOOL OF MANAGEMENT AND LEADERSHIP**

**DEGREE OF BACHELOR OF ARTS IN DEVELOPMENT STUDIES**

**PMT 404 : PROJECT FINANCING**

**DATE: 12<sup>TH</sup> AUGUST 2024**

**DURATION: 2 HOURS**

**MAXIMUM MARKS: 70**

**INSTRUCTIONS:**

1. Write your registration number on the answer booklet.
2. **DO NOT** write on this question paper.
3. This paper contains **SIX (6)** questions.
4. Question **ONE** is compulsory.
5. Answer any other **THREE** questions.
6. Question **ONE** carries **25 MARKS** and the rest carry **15 MARKS** each.
7. Write all your answers in the Examination answer booklet provided.

**QUESTION ONE**

**Read the Case Study below carefully and answer the questions that follow:**

Cedes limited has the following details of two of the future production plans. Only one of these machines will be purchased and the venture would be taken to be virtually exclusive. The Standard model costs £50,000 and the Deluxe cost £88,000 payable immediately. Both machines will require the input of the following:

- i) Installation costs of £20,000 for Standard and £40,000 for the Deluxe
- ii) A £10,000 working capital through their working lives.

Both machines have no expected scrap value at end of their expected working lives of 4 years for the Standard machine and six years for the Deluxe. The operating pre-tax net cash flows associated with the two machines are:

| Year     | 1      | 2      | 3      | 4      | 5      | 6      |
|----------|--------|--------|--------|--------|--------|--------|
| Standard | 28,500 | 25,860 | 24,210 | 23,410 | -      | -      |
| Deluxe   | 36,030 | 30,110 | 28,380 | 25,940 | 38,500 | 35,100 |

The deluxe machine has only been introduced in the market and has not been fully tested in the operating conditions, because of the high risk involved the appropriate discount rate for the deluxe machine is believed to be 14% per annum, 2% higher than the rate of the standard machine. The company is proposing the purchase of either machine with a term loan at a fixed rate of interest of 11% per annum, taxation at 30% is payable on operating cash-flows one year in arrears and capital allowance are available at 25% per annum on a reducing balance basis.

**Required**

- a) For both the Standard and the Deluxe machines, calculate the payback period. **(10 marks)**
- b) Explain the features of a sound project appraisal technique **(10 marks)**
- c) Outline the benefits of the payback period as a capital budgeting technique **(5 Marks)**

**QUESTION TWO**

- a) Define marginal costing and state its limitations. **(5 marks)**
- b) Explain Four reasons why Investment Decisions are necessary **(8 marks)**

- c) Define the term "Financial Accounting" (2 marks)

### QUESTION THREE

- a) State five limitations of breakeven analysis. (5 marks)
- b) Outline the advantages and limitation of zero base budgeting (6 marks)
- c) Explain the concept of "Venture Capital" (4 marks)

### QUESTION FOUR

- a) The cost of capital is important due to its applications. Explain the significance of cost of capital and the areas it influences (12 marks)
- b) Explain Public-Private Partnerships (3 marks)

### QUESTION FIVE

- a) Usually a conflict of interest will arise between the agent and the principal. This is called (Agency problem) in finance as propounded by Jensen and Maklin (1973). Agency problem in finance will occur in different forms depending on the agency relationship between the shareholders and other parties.

**Required:**

Describe the agency problem between the shareholders and the directors

(10 Marks)

- b) Outline the areas where the concept of time value of money can be applied. (4 marks)
- c) Define the term "long term investment decisions" (1 mark)

### QUESTION SIX

- a) Any firm exist in-order to achieve certain goals or to attain key objectives. Discuss the keys goals why any firm is established (12 marks)
- b) Describe what Build Operate Transfer (BOT) means in Public-Private Partnership? (3 marks)

