

1922/203
PROJECT FINANCING
July 2016
Time: 3 hours



THE KENYA NATIONAL EXAMINATIONS COUNCIL
CRAFT CERTIFICATE IN PROJECT MANAGEMENT
PROJECT FINANCING
3 hours

INSTRUCTIONS TO CANDIDATES

*This paper consists of EIGHTEEN questions in TWO sections; A and B.
Answer ALL the questions in BOTH section A and B in the answer booklet provided.
All questions carry equal marks.
Show all your workings.
Candidates should answer the questions in English.*

SECTION A (32 marks)

Answer ALL the question in this section.

1. Name two sources of fixed capital of a business. (2 marks)
2. Johnson Wende is a salesman for a firm in Nairobi. In addition to his monthly salary of Ksh.25,000, he is paid a commission on sales made as shown in the table below:

Sales Kshs	Commission (%)
0 - 5,000	0
5,001 - 10,000	34
above - 10,000	25

He sold goods worth 35,000 in November 2010. Calculate the total income he earned for the month. (4 marks)

3. Discuss two disadvantages of loan capital for a project. (4 marks)
4. Highlight four advantages of equity financing over debt financing. (4 marks)
5. Consider a four year project whose initial cash outlay is Ksh.100,000 with no salvage value. The project is expected to generate the following cash inflows:

Year	1	2	3	4
Cash flow Ksh (000)	20	30	40	50

The cost of capital is 10%.

Using Net Present Value (NPV) method, advise whether the project is viable or not. (4 marks)

6. Identify the types of preference shares according to the classifications below: (2 marks)
 - (i) Redemption
 - (ii) Participation
7. Explain the meaning of 'project financing'. (2 marks)

8. Differentiate a stag from a bear, in securities exchange market. (2 marks)
9. Explain the importance of financial statements in project financing. (4 marks)
10. Nyakwana bought a car on 1st January 2001 at a cost of Ksh.1,000,000. He allowed a depreciation on the car at the rate of 10% per annum on a straight line basis. Compute the car's book value as at 31 December 2006. (4 marks)

SECTION B (68 marks)

Answer ALL the questions in this section.

11. (a) Outline **four** advantages of internal rate of return method (IRR) as a tool for assessing the visibility of an investment. (8 marks)
(b) Explain **five** advantages of leasing an asset as opposed to buying the same asset. (10 marks)
12. (a) The capital employed by Buffalo Investment is Ksh.30,000,000. The company made a net profit of Ksh.5,400,000 during a certain period. Using a capitalization rate of return of 15% per annum, compute the value of goodwill, the buyer of this company will have to pay. (10 marks)
(b) Discuss **four** factors which may determine the requirements of fixed capital. (8 marks)
13. (a) Discuss **four** advantages of ploughing back the profits of a firm. (8 marks)
(b) Distinguish between money market and capital market. (8 marks)

14. (a) The following information was extracted from the books of Elsa Akoth Traders on December 31st 2011.

	Ksh
3 year loan from ADC	450,000
5 year loan from AFC	1,000,000
Land	1,200,000
Premises	700,000
Cash at bank	600,000
Motor vehicle	600,000
Tractors	500,000
Debtors	400,000
Cash in hand	200,000
Creditors	700,000
Stock	800,000
Bank overdraft	59,400

- (i) Calculate the:
- (I) owners equity;
 - (II) working capital;
 - (III) fixed capital;
 - (IV) circulating capital;
- (ii) Using working capital as calculated in (II) above, explain the liquidity position of the firm. (8 marks)
- (b) Examine four ways through which a company can meet its corporate social responsibility. (8 marks)

Table A
Present Value of Sh 1 Received at the End of n Periods:
 $PVIF_{r,n} = 1/(1 + r)^n$

Period	1%	2%	3%	4%	5%	6%	7%	8%	9%	10%	12%	14%	15%	16%	18%	20%	24%
1	.9901	.9804	.9708	.9615	.9524	.9434	.9346	.9259	.9174	.9091	.8929	.8772	.8619	.8472	.8329	.8190	.8056
2	.9803	.9612	.9426	.9246	.9070	.8902	.8734	.8572	.8417	.8264	.7972	.7695	.7432	.7182	.6944	.6718	.6504
3	.9706	.9423	.9151	.8880	.8628	.8386	.8153	.7938	.7722	.7513	.7118	.6750	.6575	.6407	.6248	.6096	.5954
4	.9610	.9236	.8865	.8508	.8227	.7921	.7629	.7350	.7084	.6830	.6365	.6021	.5718	.5432	.5158	.4893	.4730
5	.9515	.9057	.8626	.8219	.7835	.7473	.7120	.6826	.6499	.6209	.5674	.5394	.4972	.4751	.4571	.4419	.4211
6	.9420	.8890	.8375	.7893	.7452	.7050	.6693	.6302	.5903	.5645	.5006	.4596	.4323	.4104	.3904	.3749	.3551
7	.9327	.8706	.8121	.7599	.7107	.6651	.6227	.5825	.5470	.5132	.4523	.3990	.3759	.3538	.3329	.3191	.3018
8	.9235	.8535	.7894	.7307	.6768	.6274	.5820	.5403	.5019	.4655	.4039	.3506	.3289	.3050	.2850	.2716	.2559
9	.9143	.8368	.7664	.7025	.6448	.5919	.5439	.5002	.4604	.4241	.3606	.3075	.2843	.2630	.2455	.2325	.2184
10	.9053	.8203	.7441	.6756	.6139	.5584	.5083	.4632	.4224	.3855	.3220	.2697	.2472	.2267	.2111	.1975	.1824
11	.8963	.8043	.7224	.6496	.5847	.5268	.4731	.4239	.3875	.3505	.2875	.2366	.2149	.1954	.1819	.1685	.1528
12	.8874	.7885	.7014	.6248	.5569	.4970	.4440	.3971	.3635	.3266	.2637	.2076	.1869	.1685	.1552	.1422	.1257
13	.8787	.7730	.6810	.6008	.5303	.4688	.4150	.3677	.3362	.2997	.2362	.1821	.1625	.1452	.1325	.1205	.1040
14	.8700	.7579	.6611	.5775	.5051	.4423	.3878	.3405	.3082	.2733	.2095	.1597	.1413	.1252	.1135	.1019	.0862
15	.8613	.7420	.6419	.5553	.4810	.4172	.3624	.3152	.2745	.2394	.1827	.1401	.1229	.1079	.0955	.0849	.0697
16	.8526	.7284	.6232	.5339	.4581	.3936	.3387	.2919	.2519	.2176	.1631	.1229	.1069	.0930	.0808	.0705	.0558
17	.8444	.7142	.6050	.5124	.4363	.3714	.3166	.2703	.2311	.1978	.1456	.1078	.0929	.0802	.0690	.0581	.0438
18	.8360	.7002	.5874	.4926	.4155	.3503	.2959	.2502	.2120	.1799	.1300	.0946	.0808	.0691	.0588	.0481	.0342
19	.8277	.6884	.5703	.4746	.3957	.3305	.2765	.2317	.1945	.1635	.1161	.0829	.0700	.0596	.0491	.0387	.0254
20	.8195	.6730	.5507	.4564	.3769	.3118	.2584	.2145	.1784	.1486	.1037	.0728	.0611	.0514	.0413	.0313	.0185
25	.7798	.6095	.4776	.3751	.2953	.2330	.1842	.1460	.1160	.0923	.0589	.0378	.0304	.0245	.0190	.0145	.0096
30	.7419	.5621	.4120	.3083	.2214	.1741	.1314	.0994	.0754	.0573	.0324	.0196	.0151	.0116	.0070	.0042	.0016
40	.6717	.4029	.2066	.1083	.1420	.0972	.0668	.0460	.0318	.0221	.0107	.0053	.0037	.0026	.0013	.0007	.0002
50	.6080	.2715	.1281	.1407	.0872	.0542	.0329	.0213	.0134	.0085	.0035	.0014	.0009	.0006	.0003	.0001	.0000
60	.5604	.2048	.1697	.0931	.0535	.0303	.0173	.0099	.0057	.0033	.0011	.0004	.0002	.0001	.0000	.0000	.0000