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**KIRIRI WOMEN'S UNIVERSITY OF SCIENCE AND TECHNOLOGY**  
**UNIVERSITY EXAMINATION, 2024/2025 ACADEMIC YEAR**  
**FIRST YEAR, FIRST SEMESTER EXAMINATION**  
**FOR THE DIPLOMA IN COMMUNITY DEVELOPMENT AND SOCIAL WORK**  
**DDS 107: PROJECT FINANCING**

Date: 16<sup>TH</sup> APRIL 2024  
Time: 8:30AM-10:30AM

**INSTRUCTIONS TO CANDIDATES**

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

**QUESTION ONE (30 MARKS)**

- a) Your client has received confusing advice from three different advisers and has come to you for help. He wishes to invest Sh.100,000 for two years (with interest compounded) but with the right to withdraw at a moment's notice. The following are the advices she has been given:
- Pesa Haraka, one of the investment advisers, has recommended the Nyumba Building Society currently offering an interest rate of 8% per annum, with interest paid half yearly.
  - Mrs. Jana Brokers have recommended investing with Kijiji Bank Ltd., at an interest rate of 6.5% per annum, interest paid half yearly.
  - Kesho Hatari Associates have suggested investing with Hasara Bank Ltd., which is offering an interest rate of 5.85% per annum, interest paid every three months.

**Required**

After carrying out a suitable analysis, make recommendations to your client regarding which of the three pieces of investment advice she should take. (10 Marks)

- b) Explain five objectives of carrying out financial appraisal of a project. (5 Marks)
- c) List down five limitations of ratio analysis. (5 Marks)
- d) Rahab is a project manager and she wants to know some of the the ethical dilemmas she might face in the course of her duty and how they can be solved. Kindly explain to her any five ethical issues in project financing and how they can be solved. (10 Marks)

**QUESTION TWO (20 MARKS)**

- a) Ujuzi Ltd. is considering which of the following mutually exclusive projects to invest in. Each project will generate cash flows over a three-year period.

**Cash flows(Sh.)**

<b>Project</b>	<b>Cost(Sh.)</b>	<b>Year 1</b>	<b>Year 2</b>	<b>Year 3</b>
M	10 million	5 million	5 million	5 million
N	10 million	0	0	17.28 million

The cost of capital for each of the projects is 10%.

**Required:**

Advise the company on which project to implement using

- the net present value (NPV). (5 Marks)
  - the internal rate of return (IRR) appraisal methods. (5 Marks)
- b) Give five differences between debt financing and equity financing. (10 Marks)

**QUESTION THREE (20 MARKS)**

a) Sunrise Limited presented the following financial statements for the year ended 31 December 2023:

Income statement for the year ended 31 December 2023:

	Sh.	Sh.
Sales		9,040,00
Cost of sales opening stock	2,500,000	
Purchases	6,820,000	
	9,320,000	
Closing stock	(2,860,000)	6,460,000
Gross profit		2,580,000
Expenses		(2,640,000)
Net loss		(60,000)

Balance sheet as at 31 December 2023

<b>Non-current assets:</b>	<b>Sh.</b>	<b>Sh.</b>
Premises		
Fixtures and fittings (net book value)	5,600,000	
Motor vehicles (net book value)	500,000	
	1,040,000	7,140,00
<b>Current assets:</b>		
Stocks	2,860,000	
Debtors	3,260,000	
	6,120,000	
<b>Current liabilities</b>		
Trade creditors	2,900,000	
Bank overdraft	2,800,000	
	5,700,000	
Net current assets		420,000
Net assets		7,560,000
<b>Financed by:</b>		
Ordinary share capital		2,000,000
Retained profit		3,160,000
Long-term loans		2,400,000
Capital employed		7,560,000

Assume a 360-day year.

**Required**

- i) Quick ratio. (2 Marks)
- ii) Current ratio. (2 Marks)
- iii) Debt to equity ratio. (2 Marks)
- iv) Operating profit margin ratio. (2 Marks)
- v) Debtors turnover ratio. (2 Marks)

b) Explain five significance of the cost of capital. (10 Marks)

**QUESTION FOUR (20 MARKS)**

a) The following is the capital structure of Mwihoko Limited as on 31<sup>st</sup> December 2023

Particulars	Amount
Equity shares: 20,000 shares @ Ksh 100	2,000,000
10% preference shares @ Ksh 100	800,000
12% debentures	1,200,000

The market price of the company's share is Ksh 110 and it is expected that a dividend of Ksh 10 per share would be declared after one year. The dividend growth rate is 6% and the corporation tax rate is 30%

Required:

- i The cost of finance of each component of the capital structure. (6 Marks)
- ii The Weighted Average Cost of Capital. (4 Marks)
- b) List six assumptions of CAPM. (6 Marks)
- c) Outline two finance requirements for a new project. (4 Marks)

**QUESTION FIVE (20 MARKS)**

- a) Give factors that may influence the cost of financing a project. (5 Marks)
- b) Outline five assumptions of the Capital Asset Pricing Model (CAPM). (5 Marks)
- c) Highlight five limitations of debt financing. (5 Marks)
- d) Explain five needs of capital budgeting. (5 Marks)