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**UNIVERSITY EXAMINATIONS**  
**2021/2022 ACADEMIC YEAR**  
**SPECIAL/SUPPLEMENTARY EXAMINATION**  
**FOURTH YEAR FIRST SEMESTER**  
**FOR THE DEGREE OF**  
**BACHELOR OF EDUCATION**

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**COURSE CODE:** IRD 400

**COURSE TITLE:** PROJECT APPRAISAL

**DATE:** 21<sup>ST</sup> NOVEMBER, 2022

**TIME:** 2.00PM – 4.00PM

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**INSTRUCTIONS TO CANDIDATES**

1. Answer a total of **three** questions; question **one** and any other **two** questions.
2. Question **one** carries **30 marks** and each of the other two questions carry **20** marks each.

**TIME:** 2 Hours

### QUESTION ONE

- a. It is important when it comes to project appraisal to be realistic about the amount of capital that is going to be tied up and the length of time it will take. Explain five consequences that may arise if that condition is not met (10 Marks)
- b. As a junior consultant in project appraisal, you've been approached by members in your community concerning risk on investment. Basically they wanted to be sure whether risks can be avoided during investment. Demonstrate your answers using relevant examples (10 Marks)
- c. As a project manager your input is greatly required during the implementation of a specific project. Discuss five factors to consider in order to implement the project as expected. (10 Marks)

### QUESTION TWO

- a. Discuss any five ways that managers can use to improve their negotiation skills to make them effective. (10 Marks)
- b. For any project to be efficient, resources are fundamental. So for managers to succeed on these, they ensure most of the organizational expenditure should be on human resources. Explain why and how (10 Marks)

### QUESTION THREE

- a. Time value of money is one of the major objectives in project appraisal. Justify this statement with appropriate examples (10 Marks)
- b. Project appraisal is a process which means it undergoes certain steps. Do you think it is true/false? For any of the response give evidence. (10 Marks)

### QUESTION FOUR

Kiongozi Limited is considering to invest in three risky projects namely Jembe and Zululu. You have obtained the following information:

Elephant:

The project will require initial investment of Kshs 100 million. The estimated annual net cash inflows over the next five years under three environmental factors are as follows:

Environmental factor	Probability	Amount '000
Most pessimistic	0.25	27,000
Most likely	0.5	36,000
Most optimistic	0.25	40,000

Concerns have been raised by National Environment Management Authority (NEMA) on the environmental impact assessment of this project. The estimated cost to be paid to NEMA is Kshs 200 million in the 3<sup>rd</sup> year and there is a probability of 0.1 that this will happen.

#### Jembe

Will require initial capital outlay of Kshs 100 million spread in equal instalments for the next 3 years for research work. If the project is successful and there is a probability of 0.5. If so, it will lead to a issuance of patent rights with estimated value at end of 3 years of Kshs 400 million. If not successful the whole expenditure will be written off.

#### Zululu

The project will have an initial cost of Kshs 40 million and is expected to yield annual cash flows of Kshs 16 million in each of its first two years. Thereafter the outcome is uncertain that no estimate can be given.

The company cost of capital is 14%.

#### Required:

- To determine at what percentage is either of the project is viable for investment (10 marks)
- Calculate the expected present value (10 marks)

(Total 20marks)



### **QUESTION FIVE**

- a. Cost estimation produces accurate estimates leading to successful execution of projects. Explain five benefits associated with producing genuine costs (10 Marks)
- b. Economic appraisal is one of the components in project appraisal, confirm in detail some of the decisions that require its input (10 Marks)