KENYATTA UNIVERSITY

SPECIAL/SUPPLEMENTARY EXAMINATIONS 2023/2024

EXAMINATION FOR DEGREE OF MASTER OF BUSINESS ADMINISTRATION

BAC 827: PROJECT FINANCING AND SCHEDULING

APRIL/MAY 2024 **TIME: 3 HOURS**

INSTRUCTIONS: Answer ALL Questions

Question One (25 marks)

(a) David has been appointed by the British conglomerate AMKON ltd a group which has vast interest in oil, gas and mineral exploration in many countries in Africa. The company has developed interest in the disputed Migingo highlands between Kenya and Uganda. It is even rumored that the waters belong to Kenya but the mineral deposits belongs to Uganda. The territorial dispute is still at the East African dispute settlement center and the matter is scheduled for discussion at the upcoming African Unions head of states meeting. The Addis Ababa meeting will give a direction how the matter will be resolved and may give preliminary ruling on whether it's Kenya or Uganda who owns the disputed section. AMKON having done feasibility study of the section. Knows that the section has huge deposits of oil and Gas. David a Uganda born but educated and married to a Kenya was appointed to navigate the various environments to lead. Advise David at least four core areas that a project manager must conduct a detailed analysis before determining if this project is feasible. (8 marks)

(b) The project to drill the oil and gas requires more than 5 billion dollars and David is expected to decide how to finance the project. Advise David three disadvantages of external sources of financing a project in project management. (6 marks)

(c) You have assigned to lead the project of selling badges in the forthcoming World under 18 athletics Champions to be held in K.U stadia on 10^{th} to 16^{th} December 2021. The competitions Director recommends that you sell the badges at sh. 100 each. The badges cost Sh. 60 to produce and you will incur a Ministry of Health COVID protocols compliance license of Kshs, 30.000.

Required:

(i) Compute the breakeven point (3 marks)

(ii) Compute the margin of safety (2 marks)

(iii) Compute the number of units that must be sold to earn a before tax profit of 20%. (3 marks)

(iv) Compute the number of units that must be sold to earn an after tax profit of Sh. 24,000. assuming that the tax rate is 30%. (3 marks)

Question Two (25 marks)

(a) Project risk management is a focal aspect of successful project management and financing. Discuss five risks a project managers are faced with outlining how to manage the risks exposures. (10 marks)

(b) Discuss five characteristics of project finance. (10 marks)

(c) Explain challenges faced by mangers in project financing (5 marks)

Question Three (25 marks)

(a) Umoja enterprises. Ltd intends to invest in two projects whose cash outlay is Kshs. 5,000,000. The project A has a salvage value of Ksh 500,000 while B has Nil salvage value. Both projects are expected to have a useful life of 4 years. The following are cash flows from two projects.

Year	Cash from A (Kshs.)	Cash flow from B (Ksh.)
1	1,500,000	2,000,000
2	4,500,000	3,000,000
3	400,000	850,000
4	100,000	2,500,000

Additional information

(i) The cost of capital is at 12%

Required: Calculate

(i) Payback period (3 marks)

(ii) Net present Value (5 marks)

(iii) Profitability index (3 marks)

(iv) Internal rate of return (4 marks)

(v) Advise the management which project to undertake (2 marks)

(b) Discuss the features of a sound investment appraisal technique (8 marks)

Question Four (25 marks)

(a) Explain four problems encountered by managers when carrying out investment decisions. (8 marks)

(b) A small project consisting of eight activities has the following characteristics;-

Activity	Time estimates in weeks			
	Preceding activity	Most optimistic (a)	Most likely(m)	Most pessimistic (b)
A	None	2	4	12
B	None	10	12	26
C	A	8	9	10
D	A	10	15	20
E	A	7	7.5	11
F	B,C	9	9	9
G	D	3	3.5	7
H	E,F,G	5	5	5

Required:

(i) Draw the PERT network for the project. (8 marks)

(ii) Determine the critical path (2 marks)

(iii) Calculates the floats for this projects (4 marks)

(iv) If a 32 weeks deadline is imposed, what is the probability that the project will be finished with the time limit? (3 marks