



THE CATHOLIC UNIVERSITY OF EASTERN AFRICA

A. M. E. C. E. A

MAIN EXAMINATION

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MAY - JULY 2015 TRIMESTER

FACULTY OF ARTS AND SOCIAL SCIENCES

DEPARTMENT OF DEVELOPMENT STUDIES

REGULAR PROGRAMME

MPM 507: PROJECT APPRAISAL TECHNIQUES

Date: JULY 2015

Duration: 3 Hours

INSTRUCTIONS: Answer ANY FOUR Questions

- Q1. Giving relevant examples discuss the role of project appraisal in project planning. **(15 marks)**
- Q2. a) Discuss your understanding of project desirability and project feasibility. **(7 marks)**
- b) Explain the importance of environmental appraisal in project planning. **(8 marks)**
- Q3. Discuss how doing social benefit cost appraisal would help in bringing the project to a successful completion. **(15 marks)**
- Q4. a) Calculate the discounted payback period (PBP) of a project whose cost is Kshs 600,000 and has an annual cash inflows of 200,000 per year for five years, at a cut of rate of 10% **(8 marks)**
- b) Discuss the merits and demerits of payback period technique of project appraisal. **(7 marks)**

- Q5. From the following information calculate Net Present Value (NPV) of two projects and suggest which of the two projects should be accepted assuming a discount rate of 12%.

PROJECT X

Initial investment Ksh 20,000

Estimated life 5 years

Scrap value of ksh 1000

PROJECT Y

Initial investment Ksh 30,000

Estimated life 5 years

Scrap value of Ksh 2,000

Cash inflows for project X

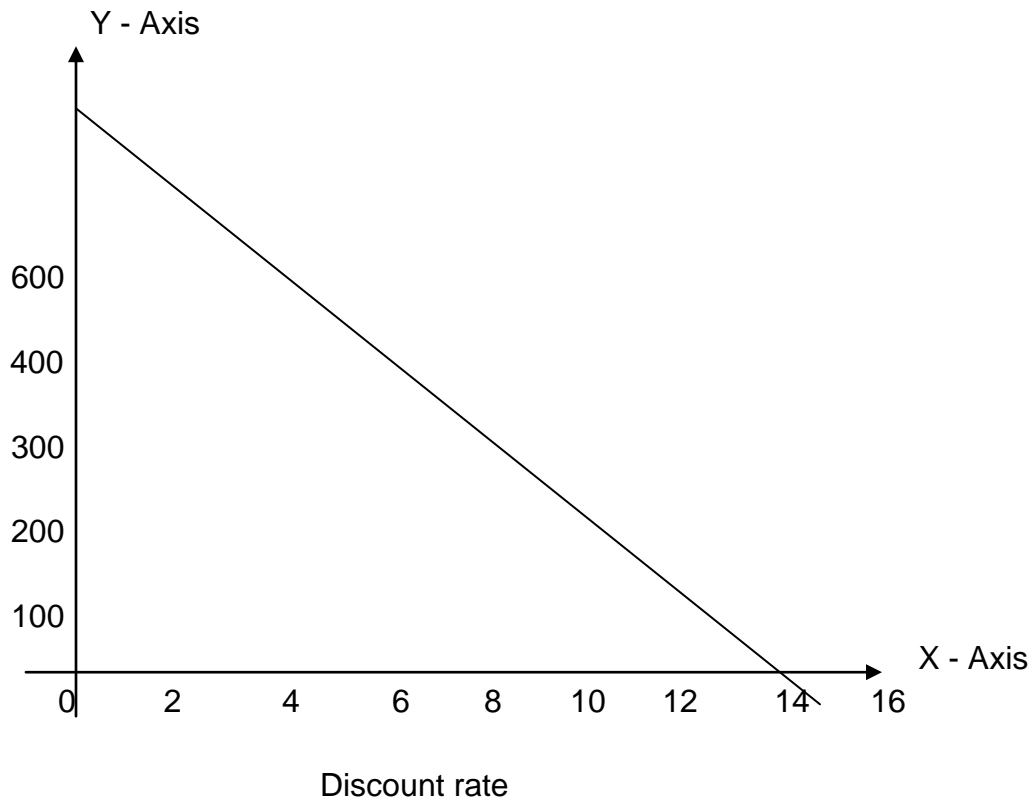
Year 1	50,000
Year 2	10,000
Year 3	10,000
Year 4	3,000
Year 5	2,000

Cash inflows for project Y

Year 1	20,000
Year 2	10,000
Year 3	5,000
Year 4	3,000
Year 5	2,000

- Q6. a) Jane Industries Limited is evaluating a project that has a cost of capital of 12%. Using the net BCR technique calculate the B/C ratio of the project and make a decision whether the project is to be accepted. The initial investment is Ksh 200,000 and benefits for the four years is as follows:
50,000, 80,000, 80,000 and 100,000 respectively. **(7 marks)**

b) Below is a graphical method for estimation of internal Rate of Return (IRR)



- i Explain how we arrive at graph W **(3 marks)**
- ii Explain point X **(2 marks)**
- iii Why is the IRR method preferred by many people **(3 marks)**

END