MUEO

MOI UNIVERSITY

OFFICE OF THE DEPUTY VICE CHANCELLOR, ACADEMIC AFFAIRS, RESEARCH & EXTENSION

UNIVERSITY EXAMINATIONS

2013/2014 ACADEMIC YEAR

FORTH YEAR END OF SEMESTER I/II EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

EXAM CODE:- **BBM 485**

COURSE TITLE:- **AVIATION FINANCING**

DATE:- 20TH FEBRUARY, 2014 **TIME:- 9.00A.M. - 12.00 NOON.**

INSTRUCTION TO CANDIDATES

- SEE INSIDE.

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BBM: 485 AVIATION FINANCING

INSTRUCTIONS: ANSWER QUESTION **ONE** AND ANY **THREE** QUESTIONS:

QUESTION ONE

(a) Explain the concept of cost of capital and its impact on the operations of a Gr Company.

(b) Jumbo Ground Handling Company Ltd wishes to raise additional finance and is plann following issues for the purpose:

250,000 shs 20 ordinary shares at shs 23 each.

100,000 shs 20 8% preference share at par.

100,000 shs 20 12% debenture at shs 19

Assumptions (a) the corporation tax rate to be 50% of profits.

(b) Ordinary share holders are currently being paid 15% dividend.

(c) 1,000 debenture bonds to be redeemed.

Calculate the cost of the new issue to the company

QUESTION TWO

A newly formed Airline is considering financing the construction of a Hangar for ma fleet. It is considering either to raise the funds through internal sources or external source As a financial consultant advise the Management of the Company on the best option by recommendation with at least five reasons.

QUESTION THREE

A Regional Airport is currently experiencing congestion which has threatened its surviva as a number of Airlines have given indications of shifting their operations to other Airpor In order to retain its customers the management has decide to source for financing the e airport.

The management has approached you as a financial expert to propose to them the appr financing Airports in Aviation Industry.

Advise them with appropriate ways of raising funds for expansion of the Airport.

QUESTION FOUR

a) P. Muli was recently appointed to the post of Investment Manager of Fly comfor company. The company has raised KSh.8, 000,000 through a rights issue. P. Muli evaluating two mutually exclusive projects with unequal economic lives. Project X

Project Y has 4 years of economic life. Both projects are expected to have zero salv
expected cash flows are as follows:

Project	X	Y
Year	**Cash flows (K sh)**	**Cash flows (K sh)**
1.	2,000,000	4,000,000
2.	2,200,000	3,000,000
3.	2,080.000	4,800,000
4.	2,240,000	800,000
5.	2,760,000	-
6.	3,200,000	-
7.	3,600,000	-

The amount raised would be used to finance either of the projects. The company ex dividend per share of Shs 6.50 in one year' time. The current market price per share comfort ltd. Expects the future earnings to grow by 7 % per annum due to the undertak the projects. Fly comfort ltd has no debt capital in its capital structure.

Required

a) The net present value of each project

b) The Internal Rate of return (IRR) of the projects. (Rediscount cash flows at 24% fo 25% for Project Y).

QUESTION FIVE

a) Using three illustrations, explain the importance of the knowledge of cost of finance Manager. Use an Airline of your choice.

b) Using an illustration, demonstrate how an Airline can benefit from any one hedging st

QUESTION SIX

You are the Managing Director of ComfiAviation ltd, a start up Airline based in Nairob intends to intensify its presence in the East African region. For this to be implemente requires, a capital injection of five billion shillings, advise other board members on;

a) Five factors he should consider in selecting an appropriate source of finance. Justi

b) Five factors that influence the capital structure of an Airline. Explain why tl should pay attention to each factor.

c) Five ways of resolving cash flow crisis in an Airline