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MOI UNIVERSITY

OFFICE OF THE DVC ACADEMIC AFFAIRS, RESEARCH AND EXTENSION

UNIVERSITY EXAMINATIONS

2014/2015 ACADEMIC YEAR

FOURTH YEAR END OF SEMESTER EXAMINATIONS

FOR THE DEGREE OF BACHELOR OF BUSINESS MANAGEMENT

EXAM CODE: BMM 485

EXAM TITLE: AVIATION FINANCE

DATE: 12TH AUGUST, 2015 TIME: 9.00 A.M. -12.00NOON.

INSTRUCTION TO CANDIDATES

➤ SEE INSIDE

THIS PAPER CONSISTS OF (1) PRINTED PAGE

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BBM 485: AVIATION FINANCING

Instructions to candidates

- Attempt Question ONE and any other THREE Questions
- Present & Future Value Tables to be provided
- Clarity and Conciseness is required

QUESTION ONE

- a) Exhaustively, but briefly, discuss the *short-term* and *long-term* sources of external financing available to airlines (10 Marks)
- b) Identify and explain FOUR institutions involved in aviation financing worldwide (4 Marks)
- c) If an airline borrows US\$10 million at 10 per cent interest and is required to repay the loan over 10 years, with repayments annually in arrears, what would be the annual repayment amount? (3 Marks)
- d) Using examples where appropriate, highlight SIX working capital items found in the books of an airline (8 Marks)

QUESTION TWO

- a) 82.5 percent of the Indian airline, Jet Airways, IPO consisted of new shares, the remainder coming from Tail Winds, a company owned by their founder, Naresh Goyal. What is an IPO and what is involved in its rollout? (7 Marks)
- b) With the use of examples known to you, discuss FOUR ways in which an airline may be privatised (8 Marks)

QUESTION THREE

- a) An airline borrows US\$ 10 million to acquire an aircraft, which is then depreciated on a straight-line basis over 15 years to 10 per cent residual value. After five years the airline decides to sell the aircraft for its market value of US\$ 8 million.
 - i. Establish the book profit realised (4 Marks)
 - ii. If the outstanding loan balance is \$6,169,370, what is the airlines cash flow? (1 Mark)
- b) With regard to airline investment appraisal;
 - i. Identify and explain two non-discounted cash flow criterion (4 Marks)
 - ii. Contrast between NPV and IRR criterion. In your opinion, which criterion is superior? (6 Marks)

QUESTION FOUR

- a) Various classes of share may be issued by an airline to finance the expansion of its fleet. The holder of the share has various rights. Outline FOUR of these rights (6Marks)
- b) Securitisation, which started in the US in the mid-1970s, is the conversion of identifiable and predictable cash flows into securities. Enumerate SIX advantages of airline securitisation (9 Marks)