



NATIONAL OPEN UNIVERSITY OF NIGERIA
14-16 AHMADU BELLO WAY, VICTORIA ISLAND, LAGOS
SCHOOL OF MANAGEMENT SCIENCES
JANUARY/FEBRUARY 2013 EXAMINATION

Course Code: ENT 426. **Credit Unit:** 2.
Course Title: Investment Analysis.
Time Allowed: 2 Hours.
Instructions: 1. Attempt Question 1 and any other two (2)
Questions.

2. Question 1 is compulsory and carries 30 marks while the other 2 Questions carry 20 marks each.
3. Show all your calculations for appropriate

marks.

Question 1 (Compulsory)

Cost of investment is N135,000. The equipment of the project has operational life of 6 years. The written-down value of the equipment is N15,000 after 6 years. The company is in the tax bracket of 10%. The company's average cost of capital is 15%. The company depreciates equipment on a straight-line basis. Below are the estimated future earnings before depreciation and tax charges:

Year:	1	2	3	4	5	6
Amount:	35,000	45,000	60,000	42,000	35,000	27,000

- a) What is the annual amount of depreciation on the equipment?
b) What are the earnings after depreciation and taxes for the six years?
c) What is the cumulative earning after depreciation and taxes at the end of sixth year?

Question 2

Quotex Limited is considering investment in either of two projects. The Company's cost of capital is 15% and in the tax bracket of 35%. The projects have the following information.

Cost of Investment: Project A - N500,000. Project B - N450,000.

Expected net cash flows are as follows:

Year	Project A Amount (N)	Project B Amount (N)
1	130,000	120,000
2	140,000	230,000
3	210,000	110,000
4	150,000	100,000
5	100,000	120,000
6	120,000	110,000

- (a) Calculate the Average Rate of Return for the Projects.
(b) Calculate the Payback Period for the Projects. Advise the company on the investment.

Question 3

Cost of proposed investment is N1,500,000. Cost of capital for the firm is 24%. The expected cash flows from the investment are as given below.

Year	Amount (N)	Discount Factor @ 24%
1	425,000	0.8065
2	615,000	0.6504
3	850,000	0.5245
4	845,000	0.4230
5	354,000	0.3411

Determine the Net Present Value of the cash flows. Advise on the proposed investment.

Question 4

(I) (a) Define the term investment.

(b) Identify 3 objectives of investment appraisal.

(II) Enumerate and explain various classifications of projects on the basis of their relationships.

Question 5

Enumerate and discuss 5 methods or techniques of investment appraisal.

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