



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

Course Code: BHM 713 **Credit Unit:** 2 **Time Allowed:** 2
Hours
Course Title: Capital Investment & Financial Decisions
Instructions: 1. Attempt question number one (1) and any other
two (2).
2. Question number 1 is compulsory and carries 30
marks while the other 2 questions carry 20 marks
each.

3. Present all your points in coherent and orderly manner

1. (a) Zach Nigeria Ltd is proposing to purchase a new machine for N20 million, which has a life of 6 years. The cash inflows estimated to be generated are as follows:

Year	N
1	12,400,000
2	6,000,000
3	7,100,000
4	2,203,000
5	2,774,000

An estimated net cash outflow of N1, 477,000:00 was removed in year 6. The company's cost of capital is 15%. Should the investment be proceeded with? (15 marks)

(b) Define sensitivity analysis, and discuss its merits and demerits. (7 marks)

(c) Enumerate four each, of the typical components of cash inflows and cash outflows. (8 marks)

2. (a) Rolls Investments is trying to decide whether to buy a machine for N750.00, which will save cost at N200.00 per annum for 6 years, and will have a resale value of N50.00. Calculate the Internal Rate of Return for such an investment. (10 marks)

(b) Write short notes on the following:

- i) Net present value
- ii) Feasibility and Viability studies
- iii) Time value of money
- iv) Incremental costs
- v) Money cash flows and real cash flows (10 marks)

3. (a) A firm is considering a project with a cash outlay of N1 million now and 5-yearly cash flows N500,000.00.

Calculate:

The Net Present Value at 10%. (6 marks)

The Net Present Value assuming a general inflation rate of 8% and an increase in cash flows to N510, 000.00 per annum. (8 marks)

(b) Discuss the merits and demerits of the Pay Back Period. (6 marks)

4. (a) Investment decisions are carried out under any one of three possible environmental conditions. Discuss. (10 marks)

(b) Discuss the essential features of investment. (10 marks)

5. (a) A proposal has been submitted for a factory extension. The following data are available:

Initial investment = N50,000
Life = 8 years

Scrap value		= Nil	
Cash flow:			
Year	₦	Year	₦
7,000	5	9,000	
8,000	6	9,000	
8,000	7	8,000	
9,000	8	8,000	

Is the project worth accepting if it is financed out of funds on which 6% interest per annum is payable? (10 marks)

- (b) State and discuss the basic types of decisions. (6 marks)
- (c) Differentiate between avoidable cost and opportunity cost. 4 marks)

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