NATIONAL OPEN UNIVERSITY OF NIGERIA
14/16, AHMADU BELLO WAY, VICTORIA ISLAND, LAGOS
SCHOOL OF MANAGEMENT SCIENCES
2013_2 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)

Quotex Limited is considering investment in either of two projects. The Company's cost of capital is 12% 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)	Discount Factor 12%
0			1.0000
1	130,000	120,000	0.8929
2	140,000	230,000	0.7972
3	210,000	110,000	0.7118
4	150,000	100,000	0.6355
5	100,000	120,000	0.5674

Evaluate the two projects (Project A and Project B) using:

(a) Net Present Value (NPV).

(b) Profitability Index.

(c) State four (4) Advantages of using NPV for evaluating Investment.

Question 2

Cost of proposed investment in Project A is N1,500,000 and that of Project B is N2,500,000, which are being considered by Oshodi Bottle Water Company Ltd for diversification. The expected cash flows from the investment are as given below.

Year	Project A (N)	Project B (N)
1	425,000	450,000
2	615,100	650,400
3	850,400	924,500
4	845,500	823,100
5	354,000	341,000
6	245,000	235,000

(a) Determine the Payback Period of the two projects and advise the firm on the proposed investment.

Year	Project A N	Depre + other Costs N
1	425,000	140,000
2	615,100	200,100
3	850,400	425,400
4	845,500	345,500
5	354,000	104,000
6	245,000	105,000

(b) Calculate the Average Rate of Return for Project A.

Question 3

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:	N35,000	N45,000	N60,000	N42,000	N35,000	N27,000

Calculate the earnings after depreciation and taxes for the six years.

Question 4

(a) Differentiate between Risk and Uncertainty.

(b) Mention and briefly explain five methods of treating Risk and Uncertainty in investment analysis.

Question 5

Write short notes on the following terms in relation to investment analysis.

a) Sunk Cost
b) Working Capital
c) Opportunity Costs
d) Excess Capacity
e) Allocated Cost