



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**14-16 AHMADU BELLO WAY, VICTORIA ISLAND LAGOS**  
**SCHOOL OF MANAGEMENT SCIENCES**  
**MAY/JUNE 2012 EXAMINATION**

BHM 613/713 Capital Investment & Financial Decisions  
Time Allowed: 2 Hours

Instruction:

Attempt any three (3) questions of your choice. Each question carries 23.3 marks. Present your answers legibly and logically using relevant examples.

1. (a) Explain 'inflation' relative to investment appraisal. [7 marks]

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

Calculate:

- (i) The Net Present Value at 10%. [7 marks]
- (ii) The Net Present Value assuming a general inflation rate of 8% and an increase in cash flows to N510,000.00 per annum. [9.3 marks]

2. (a) Define investment. [5.3 marks]

(b) Highlight the essential features of investment. [12 marks]

(c) Differentiate between avoidable cost and opportunity cost. [6 marks]

3. (a) State and discuss the basic types of decisions. [6 marks]

(b) Highlight the merits and demerits of the Pay Back Period. [6 marks]

(c) 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	N	Year	N
1	7,000	5	9,000
2	8,000	6	9,000
3	8,000	7	8,000
4	9,000	8	8,000

Question:

Is the project worth accepting if it is financed out of funds on which 6% interest per annum is payable? [11.3 marks]

4. (a) Outline the advantages and disadvantages of sensitivity analysis. [6 marks]

(b) Enumerate four each, of the typical components of cash inflows and cash outflows.

[8 marks]

(c) A company 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. [9.3 marks]

5. (a) Write short notes on the following:

- (i) Compound interest
- (ii) Feasibility and Viability studies
- (iii) Incremental costs
- (iv) Time value of money
- (v) Annuity

[2 marks each = 10 marks]

(b) Wacky Nigeria Ltd is proposing to purchase a new machine for N20 million, which have 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

and removed in year 6, an estimated net cash outflow of N1,477,000. The company's cost of capital is 15%. Should investment be proceeded with? [13.3 marks]