



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91, Cadastral Zone, Nnamdi Azikiwe Express Way, Jabi-Abuja
Faculty of Management Sciences, Department of Financial Studies
2023_2 EXAMINATIONS.....

Course Code: MBF843

Credit Unit: 3.

Course Title: CAPITAL INVESTMENT AND FINANCIAL DECISION

Time Allowed: 2 ½ HOURS

Instructions:

- 1. Attempt Question 1 and any other three (3) Questions.**
- 2. Question 1 is compulsory and carries 25 marks while the other Questions carry 15 marks each.**
- 3. Present all your points in a coherent and orderly manner.**

Question ONE

- a. In business, going into an investment must begin with this simple truth: investment requires taking some risks, what do you understand by i. conventional and non-conventional investments ii. Dependent and Independent investment?
- b. Apart from the traditional techniques of investment analysis which ignore the timing of cash flow, a new approach known as the discounted cash flow has been developed, discuss the assumptions underlying the new technique as given by Lucey (1988)
(25 marks)

Question TWO

Modesta Nig. Ltd. is considering three projects each with an initial capital of N1, 000,000 and a life of 10 years. The profits generated by the projects are estimated to be as follows.

After tax and depreciation profits

YEAR	Project A N000	Project B N000	Project C N000
1	100	175	75
2	100	175	75
3	100	100	75
4	100	100	75
5	100	75	75
6	100	75	75
7	100	75	100
8	100	75	100
9	100	75	175
10	100	75	175
Total	1000	1000	1000

Required: Calculate the Accounting Rate of Return (ARR) using:

- i. Initial capital
- ii. Average capital

(15 marks)

Question THREE

- a. As another modern method of investment appraisal, what do you understand by Profitability index?
- b. Explain the three decision rules under profitability index.
(15 marks)?

Question FOUR

- (a) Inflation is a factor in investment appraisal, explain what is inflation (5 marks)
- (b) Explain both Synchronized and Differential types of Inflation.
- (c) What does these terms Money cash flows and real cash flows stand for under inflation
(15 marks)

Question FIVE

- a. Mention any five methods of analyzing risk and the uncertainty of capital expenditure projects.
- b. State three each advantages and disadvantages of sensitivity analysis. **(15 marks)**