



NATIONAL OPEN UNIVERSITY OF NIGERIA  
Plot 91 Cadastral Zone Nnamdi Azikiwe Express Way, Jabi-Abuja  
FACULTY OF MANAGEMENT SCIENCES  
DEPARTMENT OF FINANCIAL STUDIES

**2024 1 EXAMINATION**

Course Code: MBF 843

Course Title: Capital Investment and Financial Decisions

Credit Unit: 3

Time Allowed: 3 HOURS

Instructions:

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

**QUESTION ONE**

a. A company wishes to invest a sum of ₦350,000 in a project. The project is expected to have streams of net cash flows for five (5) years as shown below:

Year	Cash flows
1	200,000
2	100,000
3	100,000
4	40,000
5	10,000

The acceptable interest rate is 10%. You are required to compute:

- i. The net present value (NPV)
  - ii. The Internal rate of return for the project
- b. Mention and discuss four (4) categories in decision making.
- c. Highlight at least THREE (3) advantages and THREE (3) disadvantage of the payback period.

(11 marks)

(8 marks)

(6 marks)

**(Total = 25 marks)**

**QUESTION TWO**

- a. Discuss at least five (5) distinctions between investment and speculation.
- b. List and explain FOUR (4) types of investment.

(10 marks)

(5 marks)

**(15 marks)**

(Total 15 marks)

### QUESTION THREE

a. Johnbull Engineering Company is trying to decide which type of machine tool to buy, of the two types available. Type A costs ₦60,000,000 and the net annual income from three years of its life will be ₦18,000,000, ₦24,000,000 and ₦30,000,000 respectively. At the end of this period, it will be worthless except for scrap value of ₦6,000,000. To buy a type A tool, the company would need to borrow from a finance group at 8%. Type B will last for three years too, but will give a constant net annual cash flow of ₦18,000,000. It costs ₦36,000,000 but credit can be obtained from its manufacturer at 7% interest. It has no ultimate scrap value.

Which investment would be the more profitable? Give reason for your answer. (11 marks)

b. There are basic assumptions underlying the basic discounted cash flow appraisal. Highlight FOUR (4) of these assumptions. (4 marks)

(Total 15 marks)

### QUESTION FOUR

Blue Nig. Plc is considering a project having the following cash flow profit.

Year	Outlay ₦	Savings ₦	Running Cost ₦
0	(750,000)	--	--
1		315,000	105,000
2		336,000	147,000
3		630,000	262,500
4		787,500	378,000

The company's cost of capital is 15%

You are required to calculate the net present value of the project.

(Total 15 marks)

### QUESTION FIVE

a. Explain the following terms:

(i) Real cash flow

(2 ½ marks)

(ii) Money cash flow.

(2 ½ marks)

b. A labour saving machine costs ₦72,000 p.a. at current wage rates. The initial outlay of the machine is ₦180,000. The machine is expected to have a four-year life and nil scrap value. The firm's cost of capital is 10%.

Calculate the project's NPV:

i. with no inflation

(5 marks)

ii. with general inflation of 15% which wage rates are expected to follow (i.e. synchronized inflation)

(5marks)

(Total 15 marks)