



**NATIONAL OPEN UNIVERSITY OF NIGERIA**  
**PLOT 91, CADASTRAL ZONE, NNAMDI AZIKIWE EXPRESS WAY, JABI – ABUJA**  
**FACULTY OF MANAGEMENT SCIENCES**  
**DEPARTMENT OF FINANCIAL STUDIES**  
**2019\_1 EXAMINATION**

**COURSE CODE: BFN409**

**CREDIT UNIT: 3**

**COURSE TITLE: PROJECT EVALUATION**

**TIME ALLOWED: 2<sup>1/2</sup>HRS**

**INSTRUCTIONS:**

- 1. Attempt Question One (1) and any other three (3) questions**
- 2. Question 1 carries 25 marks, while the other questions carry 15 marks each.**
- 3. Present all points in coherent and orderly manner**

**1a.** A project costs ₦100,000 and has a scrap value of ₦40,000. The stream of income before depreciation and taxes are ₦40,000, ₦50,000, ₦60,000 for the first three years. The tax rate is 10% and depreciation is on straight line basis.

Calculate the accounting rate of return for the project.

**(15 Marks)**

**b.** Bola Plc. is considering the following three projects whose associated cash flows are given thus:

<b>YEAR</b>	<b>PROJECT A</b>	<b>PROJECT B</b>	<b>PROJECT C</b>
	₦'000	₦'000	₦'000
0	-500,000	-500,000	-500,000
1	100,000	150,000	200,000
2	150,000	250,000	250,000
3	250,000	300,000	300,000
4	500,000	300,000	450,000

Required: Calculate the payback periods for each of the projects and advice Bola Plc accordingly.

**(10 Marks)**

**2.** Discuss the five (5) stages of a project cycle.

**(15 Marks)**

**3a.** Discuss two traditional methods for evaluating a project

**(4 Marks)**

**b.** Discuss two Discounted Cash Flow Methods for project evaluation.

**(4 Marks)**

**c.** Compare and contrast financial analysis and economic analysis. **(7Marks)**

**4a.** Discuss the meaning of Cash Flow. **(5 Marks)**

**b.** Discuss four benefits of the cash flow information. **(8 Marks)**

**c.** Explain Cash Equivalents. **(2 Marks)**

**5a.** Project Evaluation is important to check certain things about a project. Discuss four (4). **(8 Marks)**

**b.** Explain **TWO** (2) Advantages and **THREE** (3) Disadvantages of Accounting Rate of Return. **(7 Marks)**

**6a.** Ebuka and Sons Ltd has three projects A, B and C to evaluate using Profitability Index criterion. Each project's cost of capital is 12% and the after-tax cash flows for each of the projects are as follows:

YEAR	PROJECT A	PROJECT B	PROJECT C
	₦	₦	₦
0	(10,000)	(30,000)	(18,000)
1	2,800	6,000	6,500
2	3,000	10,000	6,500
3	4,000	12,000	6,500
4	4,000	16,000	6,500

Calculate the PI for each of the projects. **(12 Marks)**

**b.** Explain three evaluation Techniques **(3 Marks)**