



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91 Cadastral Zone Nnamdi Azikiwe Express Way, Jabi-Abuja
FACULTY OF MANAGEMENT SCIENCES
DEPARTMENT OF FINANCIAL STUDIES
JANUARY 2018 EXAMINATIONS

Course Code: MBF 845 Course Title: CAPITAL INVESTMENT AND FINANCIAL DECISIONS

Time Allowed: 2 ½ Hours

Instructions:

- i). Attempt question number one (1) and any other (3) questions.**
- ii). Question number 1 carries 30 marks, while the other three (3) questions carry 15 marks each.**
- iii). Present all your points in coherent and orderly manner**

Q1(a). Define the following terms:

- a) Investment
- b) Feasibility study
- c) Viability study
- d) Committed cost
- e) Differential cost

Q1(b). Explain the categories in decision making that you know. (25 Marks). _____

Q2. What is the management accountant's role in short term decision making? (15 marks). _____

Q3. Ojodomo Nig. Ltd is proposing to purchase a new machine for ₦40,000,000 which will have a life span of 6 years. The cash inflows estimated to be generated by the machine are as follows: Year 1 = ₦248,400,000; Year 2 ₦12,000,000; Year 3 = ₦14,200,000; Year 4 = ₦4,406,000 and Year 5 ₦5,548,000 and removed in year 6 an estimated net cash outflow of ₦2,954,000.

The company's cost of capital is 15%. Should investment be proceeded with? (15 marks).

Q4. What is the Internal Rate of Return with the following cash flow?

Year	Cash flow
0	(200,000)
1	20,000
2	80,000
3	40,000
4	80,000
5	140,000

18% is the minimum rate of return expected by the provider of capital. (15 marks).

Q5. Identify the characteristics of investment. (15 marks).

Q6. What are the basic distinctions between investment and speculation? (15 marks).