



NATIONAL OPEN UNIVERSITY OF NIGERIA  
Plot 91 Cadastral Zone Nnamdi Azikiwe Express Way, Jabi-Abuja  
FACULTY OF MANAGEMENT SCIENCES  
DEPARTMENT OF FINANCIAL STUDIES  
**2024\_2 EXAMINATION**

**Course Code: MBF 843**

**Credit Unit: 3**

**Course Title: Capital Investment and Financial Decisions**

**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. Mr. Great is contemplating investing in a project and the following tentative estimates have been made.

Cash outlay	₦200,000 (in year 0)
Sales price/unit	₦60
Unit cost	₦40
Discount rate	10% p.a.
Life span of project	3 years
Year	Sales volume
1	8,000 units
2	12,000 units
3	6,000 units

Required:

a. Calculate the maximum tolerable unfavourable change in each of the areas ( as percentage of the original estimated value) in:

- i. Sales unit
- ii. Unit cost
- iii. Sales volume
- iv. Initial outlay

(12 marks)

b. List and explain five (5) main distinctions between investment and speculations (10 marks)

c. Under categories of decisions. Distinguish between routine decisions and non-routine decisions.

(3 marks)

**(Total = 25 marks)**

## QUESTION TWO

- a. What is capital rationing? (2 marks)
  - b. Distinguish between soft capital rationing and hard capital rationing (3 marks)
  - c. State five (5) advantages and five (5) disadvantages of the payback period (10 marks)
- (Total 15 marks)**

## QUESTION THREE

- a. Jane deposited the sum of ₦325, 000 in a savings account at Apex Bank plc for a period of 6 years with an interest rate of 7%. Assuming that interest is compounded quarterly. What would be the amount in her account at the end of 6 years. (7 marks)
  - b. Explain the following terms as it relates to annuity
    - i. Simple annuities
    - ii. Payment intervals
    - iii. Term of an annuity
    - iv. Amount of an annuity (8 marks)
- (Total 15 marks)**

## QUESTION FOUR

- a. Better-life Nig. Ltd. invested ₦100m in a project that gives it ₦10m per annum for 40 years. If the cost of capital is 10 per cent per annum. What is the Net Present Value of the project? (5 marks)
  - b. Explain the term profitability index (5 marks)
  - c. Explain the meaning of money and real cash flows (5 marks)
- (Total 15 marks)**

## QUESTION FIVE

- a. A labour saving machine costs ₦72, 000 p.a. at current wage rates. The machine is expected to have a 3 year life and nil scrap value. The firm's cost of capital is 10%. Calculate the project's NPV with general inflation of 15% and wages rising at 30% p.a. (i.e differential inflation). Note: The initial cost of the project is ₦180,000. (11 marks)
  - b. State two (2) advantages and two (2) disadvantages of accounting rate of return (4 marks)
- (Total 15 marks)**