



NATIONAL OPEN UNIVERSITY OF NIGERIA
Plot 91, Cadastral Zone, Nnamdi Azikiwe Express Way, Jabi-Abuja
Faculty of Management Sciences, Department of Financial Studies
2025_1 EXAMINATION

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.**

THEORY QUESTIONS

Question ONE

- a. In business, investment involves some elements of sacrifice in anticipation of future returns. Expatriate this statement on your understanding of what an investment means.
- b. Investments could direct or indirect, real or paper assets, having known this, what are the features of investment? **(25 marks)**

Question TWO

- a. According to Okafor (1983), the distinction between investment and speculation is not easy to make by simply observing the overt actions of the individuals involved. In line with this, what are the possible considerations that could be based when comparing the two?
- b. Before embarking on any capital investment, it is always advisable to conduct both feasibility and viability studies, explain your understanding of these studies and the considerations in a feasibility study. **(15 marks)**

Question THREE

- a. In real life situations, one is often faced with more than one choice out of many possible courses of action. This entails deciding, how do you define decision making?
- b. Enumerate the five categories of decision making. **(15 marks).**

Question FOUR

(a) An average rational investor often asks one question before embarking on a capital investment: how long shall it take to recover or recoup the amount to be invested? In line with this, what is the meaning of a payback period? **(5 marks)**

(b) Illustration

i. When the cash flows form an annuity, the payback period is simply “cash outflow divided by cash inflow.” Example, Alhaji Haruna spent N10, 000,000 to build a house and receives N1, 000,000 annually as rent. The payback period is $N\ 10m \div N1m = 10\ \text{years}$.

ii. When the cash inflows do not form an annuity. Ebele Nig. Ltd. has the option of investing in any of the following three projects which associated cash flows are presented thus:

YEAR	Project I cash flow N000	Project II cash flow N000	Project II cash flow N000
0	(5,000)	(15,000)	(15,000)
1	6,000	4,000	3,000
2	5,000	5,000	5,000
3	4,000	6,000	4,000
4	-	-	3,000
5	-	-	2,000
6	-	-	1,000

Required: Advise the company on which of the three projects to invest in (base your advice on the payback approach). **(10 marks)**

Question Five

- a. Briefly explain the role of Management Accountant in the problem-solving process in an organisation
- b. Against the backdrop that the traditional techniques which ignore the timing of cash flow, a new approach known as the discounted cash flow has been developed. In line with this, state the decision rule for the selection of investments on the following modern methods:
 - i. Net Present Value (NPV)
 - ii. Internal Rate of Return (IRR)
 - iii. Profitability Index (PI)

(15 marks)