BHM 647 CAPITAL INVESTMENT AND FINANCIAL DECISIONS

Course Guide

COURSE GUIDE

BHM 647
CAPITAL INVESTMENT AND FINANCIAL DECISIONS

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Introduction

BHM 647: Capital Investment and Financial Decisions is a semester course work of two credit hours. It will be taken by students running the Post Graduate Diploma progrmame in the School of Business and Human Resources Management.

Capital Investment and Financial Decisions consist of 14 units involving conceptual issues in investment and financial decisions through viability tests. The course will involve some application of elementary mathematics. Students are expected to be familiar with the use of simple calculators.

The course guide tells you what the course BHM 647 is all about.

What You will Learn in this Course

The course contents consist of conceptual issues in investments such as definition, types and characteristics of investments; definition, types and features of decisions. Financial decisions predicated on viability tests shall also be discussed.

Course Aims

The truth is that the future is very uncertain. Yet decisions are future-oriented. This course, therefore, aims at exposing one to the various techniques that can be applied in financial decisions – thus leading to scientific decisions being taken.

The aims will be achieved by:

- explaining the basis for long-term decision making
- discussing the traditional technique for appraising investments which include the Accounting Rate of Return (ARR) and the Payback Period
- discussing the discounted techniques, namely, the Net Present Value (NPV), Internal Rate of Return (IRR) and Profitability Index (PI)
- explaining the merits and demerits of the various techniques
- highlighting the impacts of inflation on investment appraisal
- discussing why uncertainty must be considered in investment appraisal
- explaining how probabilities can be used to influence the impact of risk and uncertainty in investment decisions
- explaining how to conduct a sensitivity analysis of an investment

Course Objectives

At the end of this course programme, one should be able to:

- define capital investment – distinguishing between the various classes.
- compute the Accounting Rate of Return (ARR) and the Payback Period of Investments.
- compute the Net Present Value (NPV), Internal Rate of Return (IRR) and Profitability Index (PI) of projects.
- appraise capital investments based on both the traditional and discounted techniques.
- apply probabilities to compute the (i) expected value (i) standard deviation and (ii) co-efficient of correlation of projects.
- conduct sensitivity analysis of investments.
- evaluate investments under inflationary condition
- evaluate investments when capital is not adequate thus resulting to capital rationing

Course Materials

- Course Guide
- Study Units
- Textbooks
- Assignment File

Study Units

There are 14 units (including this Course Guide) of this course which should be studied carefully:

The Modules

Module 1

Unit 1	Conceptual Issues in Capital Investment
Unit 2	Decisions-types and Features and Tools for Decision Taking
Unit 3	The Payback Period
Unit 4	The Accounting Rate of Return
Unit 5	Compounding and Discounting

Module 2

Unit 1	The Net Present Value (NPV)
Unit 2	The Net Present Value (Annuity)

Unit 3 The Internal Rate of Return
Unit 4 The International Rate of Return
Unit 5 The Profitability Index

Module 3

Unit 1 The Impact of Inflation on Investment Proposals
Unit 2 Using Probability to Assess Impact of Risks on Capital Investments
Unit 3 Sensitivity Analysis
Unit 4 Capital Rationing

The first two units are to give the basic principles in capital investments. Module 1 Units 3 – Module 2 Unit 5 focused on the basic capital investment appraisal techniques while Module 3 Units 1 to 4 variously looked at the impact of inflation on investment appraisals, the use of probabilities in controlling the impact of uncertainty in investment, sensitivity analysis and capital rationing.

Each study unit is expected to take at least two hours of concentrated studies. Every unit includes introductions, objectives, main content, exercises, conclusion, summary and references. Also included are the Tutor-Marked Questions (TMQs). One is required to study the materials religiously and thereafter try the exercises. This is what is called "practice." Being a quantitative course, these practices are very crucial and central to understanding the topics under consideration. One is advised to use some of the textbooks under references, for further reading and practices. They are meant to give additional information. All these efforts, put together, shall enable us to achieve the learning objectives which we stated earlier.

Assignment File

All together, there are five assignment questions and one is expected to attempt all of them. One may wish to be guided by the following schedules:

Question One: This is centred on the basic principles of investment and financial decisions (refer to units 2, 3, and 4).

Question Two: Computation of the Accounting Rate of Return (ARR) and Payback Period (PBP) of capital investments (refer to units 5and 6).

Question Three: Computation of Net Present Value (NPV) of projects (refer to Units 8 and 9).

Question Four*:* Computation of the Internal Rate of Return (IRR) of some capital investments (refer to units 10, 11 and 12).

Question Five: Computation of expected value, standard deviation and coefficient of variation of some projects (refer to unit 14).

Tutor-Marked Assignment

In doing the tutor marked assignments, one is expected to apply what one has learnt in the contents of the study units. These assignments which are five in number are expected to be turned in to one's tutor for grading. They constitute 40% of the total score.

Final Examinations and Grading

At the end of the course, one will write the final examination. It will attract the remaining 60%. This makes the total final score to be 100%.

Summary

This course, Capital Investment and Financial Decisions (BHM 647) exposes one to the basic principles of capital investment and investment appraisal techniques (viability tests). Having successfully completed the course, one is now expected to be at home with the procedures and techniques that facilitate financial decisions, variously called, capital budgeting investment appraisal and project evaluation.