

Q2 (a). Workings

$$\begin{aligned} \text{W1. Selling Price} &= (0.30 \times 27) + (0.45 \times 31) + (0.25 \times 34) \\ &= \$ 30.55. \end{aligned} \quad \left. \begin{array}{l} \\ \end{array} \right\} 2 \text{ Marks.}$$

W2.	Year	1	2	3	4
	Units	140,000	260,000	410,000	310,000
x 1.02 EACH YR	S. Price.	31.16	31.78	32.42	33.07
	Revenue 000	4,362	8,263	13,292	10,252
				2 Marks	

W3. Overheads	1	2	3	4
x 1.06 EACH YR	477,000.	505,620	535,957	568,115
			1 Mark	

W4 Capital Allowances.	Cost	\$M	
	Scrap	0.75	
	Capital Allow	$\frac{5.25}{4}$	$= 1.3125 \times 0.20$
			$= 0.2625 \text{ Tax Benefit}$
			3 Marks

Q2 (a) Contd.

year	1	2	3	4
Revenue w2	4,362	8,263	13,292	10,252
Var Costs	(2,400)	(4,300)	(7,100)	(6,200)
Contribution	1,962	3,963	6,192	4,052
Fixed Costs w3	(477)	(506)	(536)	(568)
Profit	1,485	3,457	5,656	3,484
Taxation at 20%	(297)	(691)	(1,131)	(697)
Capital Allow.	262	263	262	263
Residual Value				150
Cash Flow	1,450	3,029	4,787	3,800
Discount Factor	0.909	0.826	0.751	0.681
Present Value	1,318	2,502	3,595	2,595

10 Marks

	\$
Present Value	10,010
Cost	(6,000)

P.V. 4,010. Accept as Positive.

Part a) 18 Marks

(b). The following need to be considered & evaluated.

- Opportunity Costs. 2 Marks for each adjustment.
- Method of financing.
- Effects of taxation. Max of 12 Marks
- Adjusted present value (APV)
- systematic & unsystematic risk
- international portfolio diversification.
- Beta Values.

4.

Total 30 Marks