ADDIS COLLEGE

COTM 6301: Construction Economics and Financial Management

First Semester 2019/20 (2012 E.C) Date April…. 2020

Group 1 Final Examination

Note: ***Exam is Open book***

Attempt all questions

Date of Submission ……

1. A Construction Contractor intends to buy a construction hoist at a cost of 93,000 Birr. the hoist is expected to have a service life time of 10 years and the Operation and Maintenance costs are estimated to be 7500 Birr per year. At the end of a its service life the hoist will have no salvage value. If the company purchasing it has a MARR of 6.8 % what is the equivalent annual cost of the machine?
2. Cash flow Management is an important element of Financial Management. How can it be increased?
3. A 125 Km road project with a contract price of 500, million birr has been ongoing for 3 years (the contract period is 5 years). On April 24 2020, the cumulative to date budgeted cost of the project was estimated to be 300 million birr. Actual cost of the project on the same date was recorded to be 423 million birr, while the cost of what has been actually accomplished was 283.5 million birr.
    a. Is the project on time? Why?
    b. If you were the project manager what are the key problems from what you envisage from the given description?
    c. What would you do to rectify it? Elaborate your answers.
4. A construction Company has borrowed 250,000 Birr from a bank to purchase a medium size concrete mixer. The loan carries an interest rate of 8% per year and is to be repaid in equal installments over the next six years. Compute the amount of annual installment.
5. A machine supply company offers to sell a construction machinery at an agreed sale contract. The contract proposes that you may pay Birr 140 monthly for a period of 5 years (at the end of which you may own the machine) with the first payment due in one month. Alternatively, you may purchase the machine at 6800-birr cash today.
    a. If you were to obtain a 1% interest on your money which offer would you prefer? Why? Elaborate your answer.

b. If you opted to go for the cash purchase of the machine, what would be your rate of return?