

1. The net present value and internal rate of return methods of capital budgeting are superior to the payback method in that they:
 - A) are easier to implement.
 - B) consider the time value of money.
 - C) require less input.
 - D) reflect the effects of depreciation and income taxes.

2. (Ignore income taxes in this problem.) The following data pertain to an investment in equipment:

Investment in the project	\$10,000
Net annual cash inflows	2,400
Working capital required	5,000
Salvage value of the equipment	1,000
Life of the project	8 years

At the completion of the project, the working capital will be released for use elsewhere. Compute the net present value of the project, using a discount rate of 10%:

- A) \$606.
 - B) \$8,271.
 - C) (\$1,729).
 - D) \$1,729.
3. (Ignore income taxes in this problem.) The following data pertain to an investment proposal:

Present investment required	\$26,500
Annual cost savings	\$ 5,000
Projected life of the investment	10 years
Projected salvage value	\$ -0-

The internal rate of return, interpolated to the nearest tenth of a percent, would be:

- A) 11.6%.
 - B) 12.8%.
 - C) 13.6%.
 - D) 12.4%.
4. (Ignore income taxes in this problem.) The following data pertain to an investment proposal:

Investment in the project (equipment)	\$14,000
Net annual cash inflows promised	2,800
Working capital required	5,000

Salvage value of the equipment	1,000
Life of the project	10 years

The working capital would be released for use elsewhere when the project is completed. What is the net present value of the project, using a discount rate of 8%?

- A) \$2,566.
- B) (\$251).
- C) \$251.
- D) \$5,251.

5. (Ignore income taxes in this problem.) A piece of equipment has a cost of \$20,000. The equipment will provide cost savings of \$3,500 each year for ten years, after which time it will have a salvage value of \$2,500. If the company's discount rate is 12%, the equipment's net present value is:

- A) \$580.
- B) (\$225).
- C) \$17,500.
- D) \$2,275.

6. (Ignore income taxes in this problem.) The following data are available on a proposed investment project:

Initial investment	\$142,500
Annual cash inflows	\$30,000
Life of the investment.	8 years
Required rate of return	10%

The internal rate of return, interpolated to the nearest tenth of a percent, would be:

- A) 13.3%.
- B) 12.1%.
- C) 15.3%.
- D) 12.7%.

7. (Ignore income taxes in this problem.) Buy-Rite Pharmacy has purchased a small auto for delivering prescriptions. The auto was purchased for \$9,000 and will have a 6-year useful life and a \$3,000 salvage value. Delivering prescriptions (which the pharmacy has never done before) should increase gross revenues by at least \$5,000 per year. The cost of these prescriptions to the pharmacy will be about \$2,000 per year. The pharmacy depreciates all assets using the straight-line method. The payback period for the auto is:

- A) 3.0 years.
- B) 1.8 years.
- C) 2.0 years.
- D) 1.2 years.

8. (Ignore income taxes in this problem.) The following data pertain to an investment proposal:

Present investment required	\$14,000
Annual cost savings	\$ 2,500
Projected life of the investment	8 years
Projected salvage value	\$ -0-
Required rate of return	6%

The internal rate of return, interpolated to the nearest tenth of a percent, would be:

- A) 6.7%.
 B) 9.3%.
 C) 8.7%.
 D) 7.3%.
9. (Ignore income taxes in this problem.) Jarvey Company is studying a project that would have a ten-year life and would require a \$450,000 investment in equipment that has no salvage value. The project would provide net income each year as follows for the life of the project:

Sales		\$500,000
Less cash variable expenses		<u>200,000</u>
Contribution margin		300,000
Less fixed expenses:		
Fixed cash expenses	\$150,000	
Depreciation expenses	<u>45,000</u>	<u>195,000</u>
Net income		\$105,000
		aaaaaaa

The company's required rate of return is 12%. What is the payback period for this project?

- A) 3 years
 B) 2 years
 C) 4.28 years
 D) 9 years
10. (Ignore income taxes in this problem.) Parks Company is considering an investment proposal in which a working capital investment of \$10,000 would be required. The investment would provide cash inflows of \$2,000 per year for six years. The working capital would be released for use elsewhere when the project is completed. If the company's discount rate is 10%, the investment's net present value is:
- A) \$1,290.

- B) (\$1,290).
- C) \$2,000.
- D) \$4,350.

Answer Key -- Quiz Chapter 14

1. B consider the time value of money.
Format: Multiple Choice
Difficulty: Medium
Type: CPA adapted
Origin: Chapter 14, Capital Budgeting Decisions....18
2. A \$606.
Format: Multiple Choice
Difficulty: Medium
Type: (None)
Origin: Chapter 14, Capital Budgeting Decisions....44
3. C 13.6%.
Format: Multiple Choice
Difficulty: Medium
Type: (None)
Origin: Chapter 14, Capital Budgeting Decisions....57
4. A \$2,566.
Format: Multiple Choice
Difficulty: Medium
Type: (None)
Origin: Chapter 14, Capital Budgeting Decisions....47
5. A \$580.
Format: Multiple Choice
Difficulty: Medium
Type: (None)
Origin: Chapter 14, Capital Budgeting Decisions....45
6. A 13.3%.
Format: Multiple Choice
Difficulty: Medium
Type: (None)
Origin: Chapter 14, Capital Budgeting Decisions....58
7. A 3.0 years.
Format: Multiple Choice
Difficulty: Medium
Type: (None)
Origin: Chapter 14, Capital Budgeting Decisions....63
8. C 8.7%.
Format: Multiple Choice

Difficulty: Medium

Type: *(None)*

Origin: Chapter 14, Capital Budgeting Decisions....59

9. A 3 years

Format: Multiple Choice

Difficulty: Medium

Type: *(None)*

Origin: Chapter 14, Capital Budgeting Decisions....62

10. D \$4,350.

Format: Multiple Choice

Difficulty: Medium

Type: *(None)*

Origin: Chapter 14, Capital Budgeting Decisions....46