

CAPITAL BUDGETING PRACTICE QUIZ

28. (Ignore income taxes in this problem.) The Baker Company purchased a piece of equipment with the following expected results:

Useful life	7 years
Yearly net cash inflow	\$50,000
Salvage value	\$0
Internal rate of return	20%
Discount rate	16%

The initial cost of the equipment was:

- A. \$300,100
- B. \$180,250
- C. \$190,600
- D. Cannot be determined from the given information.

29. (Ignore income taxes in this problem.) The Yates Company purchased a piece of equipment which is expected to have a useful life of 7 years with no salvage value at the end of the 7-year period. This equipment is expected to generate a cash inflow of \$32,000 each year of its useful life. If this investment has a internal rate of return of 14%, then the initial cost of the equipment is:

- A. \$150,000
- B. \$137,216
- C. \$12,800
- D. \$343,360

30. (Ignore income taxes in this problem.) The following information is available on a new piece of equipment:

Cost of the equipment.....	\$21,720
Salvage value.....	\$0
Annual cash inflows	\$5,000
Internal rate of return.....	16%
Required rate of return.....	10%

The life of the equipment is approximately:

- A. 6 years
- B. 4.3 years
- C. 8 years
- D. It is impossible to determine from the data given.

34. (Ignore income taxes in this problem.) Benz Company is considering the purchase of a machine that costs \$100,000, has a useful life of 18 years, and no salvage value. The company's discount rate is 12%. If the machine's net present value is \$5,850, then the annual cash inflows associated with the machine must be (round to the nearest whole dollar):

- A. \$42,413
- B. \$14,600
- C. \$13,760
- D. It is impossible to determine from the data given.

62. (Ignore income taxes in this problem.) The Jackson Company has invested in a machine that cost \$70,000, that has a useful life of seven years, and that has no salvage value at the end of its useful life. The machine is being depreciated by the straight-line method, based on its useful life. It will have a payback period of four years. Given these data, the simple rate of return on the machine is closest to:

- A. 7.1%
- B. 8.2%
- C. 10.7%
- D. 39.3%

69. (Ignore income taxes in this problem.) Blaine Corporation is considering replacing a technologically obsolete machine with a new state-of-the-art numerically controlled machine. The new machine would cost \$180,000 and would have a ten-year useful life. Unfortunately, the new machine would have no salvage value. The new machine would cost \$12,000 per year to operate and maintain, but would save \$48,000 per year in labor and other costs. The old machine can be sold now for scrap for \$20,000. What is the simple rate of return on the new machine (round off your answer to the nearest one-hundredth of a percent)?

- A. 10.00%
- B. 26.67%
- C. 22.50%
- D. 11.25%

136. (Ignore income taxes in this problem.) The management of an amusement park is considering purchasing a new ride for \$40,000 that would have a useful life of 10 years and a salvage value of \$4,000. The ride would require annual operating costs of \$19,000 throughout its useful life. The company's discount rate is 8%. Management is unsure about how much additional ticket revenue the new ride would generate-particularly because customers pay a flat fee when they enter the park that entitles them to unlimited rides. Hopefully, the presence of the ride would attract new customers.

Required:

How much additional revenue would the ride have to generate per year to make it an attractive investment?