Corporate finance: sample test problems assignment

Business

Flowers Unlimited is considering purchasing an additional delivery truck. The cost of the new truck will be $42, 000. Cost savings are expected to be $1 2, 800 for the next two years and $8, 900 for the following two years and $5, 000 for the last 3 years of the truck's useful life. What Is the payback period for this project? What Is the discounted payback period for this project assuming a discount rate of 10 percent? 10. 3 What Is the average accounting rate of return (EAR) on equipment that will initially cost SSL . Lion and will result in pretax cost savings of $380, 000 for the next three years and then $280, 000 for the following three years. The machinery will be depreciated to a salvage value of O over 6 years using the straight-line method. The company's tax rate is 32 percent and the firm's acceptance decision on any project is based on an EAR of 20% percent. Should this machinery be purchased? 10. 4 If a project has a positive NP what do we know about that project's AIR? 10. 5 West Street Automotive is considering adding state Inspections to their service offerings.

The equipment accessory to do these Inspections will cost $557, 000 and will generate cash flows of $195, 000 over each of the next five years. If the cost of capital Is 14 percent, what Is the MIR on this project? 11. 1 Which of the following are relevant cash flows in the evaluation off proposed a. Decrease in the cash flows of a substitute product b. Alternative of leasing an existing building that will be used for manufacturing this product c. The cost of a new machine to produce this product d. Salvage value of the new machine at the end of its useful life e.

Increase in net working capital at he beginning of the project's life f. Cost to develop a product prototype last year 11. 2 A division of Blackwell

Manufacturing is considering purchasing an auto insert machine to load computer components on mother boards for $1 The machine will have annual operating costs of $50, 000 and save the company $370, 000 in labor costs each year. The machine will have a useful life of 10 years. For tax purposes, straight-line depreciation will be used with an estimated salvage value of $300, 000 (which will be the market value at that time).

The discount rate is 12% and he corporate tax rate is 32%. What is the NP of this proposal? 11. 3 After examining a potential project's NP analysis, the manager advises that the initial fixed capital outlay be increased by $480, 000. The initial fixed capital outlay is fully depreciated straight-line over a twelve year life. The tax rate is 35 percent and the required rate of return is 10 percent. No other changes are made to the analysis. What is the effect on the project NEAR 11. 4 Central Embroidery needs to purchase a new monogram machine and is considering two options.