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**Question 1**

1. ABC Company has the following projections for Year 1 of a capital budgeting project.

             Year 1 Incremental Projections:

            Sales                                              $937,675

            Variable Costs                               $50,385

            Fixed Costs                                   $55,644

            Depreciation Expense                   $118,965

            Tax Rate                                        35%

 Calculate the operating cash flow for Year 1.

**Question 2**

1. ABC has a proposed project which will generate sales of 120 units at a selling price of $227 each. The fixed costs are $12,967 and the variable costs per unit are $36. The project requires $160,912 of machinery which will be depreciated on a straight-line basis over the 5-year life of the project. The tax rate is 36%. What is the operating cash flow for year 5?

**Question 3**

1. Which of the following cash flows are NOT considered in the calculation of the initial outlay for a capital investment proposal?

|  |  |  |
| --- | --- | --- |
|  |  | Interest expense related to financing a project |
|  |  | All of the above should be considered |
|  |  | Equipment Cost |
|  |  | Increase in net working capital requirements |
|  |  | Cost of Installing new equipment |

**Question 4**

1. ABC Company purchased some new equipment 2 years ago for $229,472. Today, it is selling this equipment for $48,486. What is the aftertax cash flow from this sale if the tax rate is 29 percent? The MACRS allowance percentages are as follows, commencing with year one: 20.00, 32.00, 19.20, 11.52, 11.52, and 5.76 percent.

**Question 5**

1. A project requires $347,241 of equipment that is classified as 7-year property. What is the book value of this asset at the end of year 5 given the following MACRS depreciation allowances, starting with year one: 14.29, 24.49, 17.49, 12.49, 8.93, 8.92, 8.93, and 4.46 percent?

**Question 6**

1. A project requires $320,027 of equipment that is classified as 7-year property. What is the depreciation expense in year 3 given the following MACRS depreciation allowances, starting with year one: 14.29, 24.49, 17.49, 12.49, 8.93, 8.92, 8.93, and 4.46 percent?

**Question 7**
2. ABC Company purchased $24,914 of equipment 5 years ago. The equipment is 7-year MACRS property. The firm is selling this equipment today for $8,758. What is the aftertax cash flow from this sale if the tax rate is 33 percent? The MACRS allowance percentages are as follows, commencing with year one: 14.29, 24.49, 17.49, 12.49, 8.93, 8.92, 8.93, and 4.46 percent.

**Question 8**

1. ABC Inc. has estimated the following revenues and expenses related phase I of a proposed new housing development? Incremental sales= $6,398,220, total cash expenses $2,659,171, depreciation $605,913, taxes 26%, interest expense, $200,000. What are the operating cash flows?

**Question 9**

1. ABC Company purchased $17,686 of equipment 4 years ago. The equipment is 7-year MACRS property. The firm is selling this equipment today for $7,719. What is the aftertax cash flow from this sale if the tax rate is 33 percent? The MACRS allowance percentages are as follows, commencing with year one: 14.29, 24.49, 17.49, 12.49, 8.93, 8.92, 8.93, and 4.46 percent.

**Question 10**

1. A project has an annual operating cash flow of $18,887. Initially, this 4-year project required $4,051 in net working capital, which is recoverable when the project ends. The firm also spent $10,000 on equipment to start the project. This equipment will have a book value of $3,524 at the end of year 4. What is the total cash flow for year 4 of the project if the equipment can be sold for $5,890 and the tax rate is 35%?

**Question 11**

1. ABC Corporation is considering an expansion project. The necessary equipment could be purchased for $27,231 and shipping and installation costs are another $1,771. The project will also require an initial $7,987 investment in net working capital. The company's tax rate is 40%. What is the project's initial investment outlay?

**Question 12**

1. ABC Company has a proposed project that will generate sales of 214 units annually at a selling price of $272 each. The fixed costs are $5,441 and the variable costs per unit are $99. The project requires $32,666 of equipment that will be depreciated on a straight-line basis to a zero book value over the 4-year life of the project. The salvage value of the fixed assets is $6,900 and the tax rate is 36 percent. What is the operating cash flow for year four?

**Question 13**

1. The net working capital invested in a project is generally:

|  |  |  |
| --- | --- | --- |
|  |  | recovered at the start of the project. |
|  |  | depreciated to a zero balance over the life of the project. |
|  |  | an opportunity cost. |
|  |  | recovered at the end of the project. |
|  |  | a sunk cost. |

**Question 14**

1. A project requires $264,894 of equipment that is classified as 7-year property. What is the book value of this asset at the end of year 3 given the following MACRS depreciation allowances, starting with year one: 14.29, 24.49, 17.49, 12.49, 8.93, 8.92, 8.93, and 4.46 percent?

**Question 15**
2. ABC Inc. has estimated the following revenues and expenses related phase I of a proposed new housing development? Incremental sales= $519,458, total cash expenses $277,947, depreciation $48,206, taxes 39%. What are the operating cash flows?

**Question 16**

1. A project has an initial requirement of $182,625 for new equipment and $14,822 for net working capital. The installation costs to get the new equipment in working condition are 6,659. The fixed assets will be depreciated to a zero book value over the 4-year life of the project and have an estimated salvage value of $140,298. All of the net working capital will be recouped at the end of the project. The annual operating cash flow is $112,088 and the cost of capital is 10% What is the project's NPV if the tax rate is 37%?

**Question 17**

1. Sunk costs are a type of incremental cash flow that should be included in all capital-budgeting decisions.

True

False

**Question 18**

1. A project has an initial requirement of $219,794 for new equipment and $12,215 for net working capital. The fixed assets will be depreciated to a zero book value over the 3-year life of the project and have an estimated salvage value of $76,846. All of the net working capital will be recouped at the end of the project. The annual operating cash flow is $99,723 and the cost of capital is 14% What is the project's NPV if the tax rate is 34%?