1. Capital budgeting is

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|  | a. | is use to make the best choice among several alternatives. |
|  | b. | the financial analysis of long-term projects. |
|  | c. | is used to determine if a proposed project is acceptable. |
|  | d. | all of the above. |

1. The payback method of analysis evaluates

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|  | a. | projects based on how long it takes to recover the money invested. |
|  | b. | the amount of money invested in the project. |
|  | c. | the pre-tax dollars invested in a project. |
|  | d. | the net present value of an initial investment. |

1. You must decide between two mutually exclusive projects. Project A has cash flows of -$10,000; $5,000; $5,000; and $5,000; for years 0 through 3, respectively. Project B has cash flows of -$20,000; $10,000; $10,000; and $10,000; for years 0 through 3, respectively. The firm has decided to assume that the appropriate cost of capital is 10% for both projects. Which project should be chosen? Why?

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|  |  | A; Project A's NPV > Project B's NPV. |
|  |  | A or B; Makes no difference which you choose because the IRR for A is identical to the IRR for B and both IRRs are greater than 10 percent, the cost of capital. |
|  |  | B; Project B's NPV > Project A's NPV. |
|  |  | Neither A nor B; The NPVs of both projects are negative   1. The rate of return required in order for a project to be acceptable is called the  |  |  |  | | --- | --- | --- | |  | a. | cost of capital. | |  | b. | required rate of return. | |  | c. | hurdle rate. | |  | d. | all of the above.   1. The method of analysis that determines whether a project earns more or less than a stated desired rate of return is  |  |  |  | | --- | --- | --- | |  | a. | future value. | |  | b. | present value. | |  | c. | net present value. | |  | d. | net future value. | | |

1. The rate of return promised by an investment project over its useful life is the

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|  | a. | internal rate. |
|  | b. | long-term rate. |
|  | c. | hurdle rate. |
|  | d. | discounted cash flow rate. |
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1. Woatich Windmill Company is considering a project that calls for an initial cash outlay of $50,000.  The expected net cash inflows from the project are $7,791 for each of 10 years.  What is the IRR of the project?

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|  | a. | 6% |
|  | b. | 7% |
|  | c. | 8% |
|  | d. | 9% |

8  Initial investment is the

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|  | a. | initial cash in-flow that is paid by a capital project. |
|  | b. | initial cash outlay necessary to purchase the asset and put it in operating order |
|  | c. | beginning calculation for future value of a project. |
|  | d. | initial amount of money that the investor thinks the project is worth.  9.Capital budgeting may involve   |  |  |  | | --- | --- | --- | |  | a. | new buildings. | |  | b. | new machinery. | |  | c. | new projects. | |  | d. | all of the above. | |

**Question 10**

1. To the nearest dollar, what is the net present value of a replacement project whose cash flows are -$104,000; $34,444; $39,877; $25,000; and $52,800 for years 0 through 4, respectively? The firm has decided to assume that the appropriate cost of capital is 10% and the appropriate risk-free rate is 6%.

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|  | a. | $15,115 |
|  | b. | $26,798 |
|  | c. | $33,346 |
|  | d. | $48,121 |
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11, Lease purchase requires the manager to evaluate

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|  | a. | before-tax, cash inflow, and future value comparison. |
|  | b. | before-tax, cash outflow, and present value comparison. |
|  | c. | after-tax, cash outflow, and present value comparison. |
|  | d. | after-tax, cash inflow, present value comparison  12, A project has the following cash inflows $34,444; $39,877; $25,000; and $52,800 for years 1 through 4, respectively. The initial cash outflow is $104,000. Which of the following four statements is correct concerning the project internal rate of return (IRR)?   |  |  |  | | --- | --- | --- | |  | a. | The IRR is less than 10%. | |  | b. | The IRR is greater than or equal to 10%, but less than 14%. | |  | c. | The IRR is greater than or equal to 14%, but less than 18%. | |  | d. | The IRR is greater than or equal to 18%.  13, Variable Cash Flow is also known as   |  |  |  | | --- | --- | --- | |  | a. | Advanced Cash Flow (ACF). | |  | b. | Discounted Cash Flow (DCF). | |  | c. | Discounted Cash Cost (DCC). | |  | d. | Advanced Cash Discount Cost (ACDC | | 14. NPV and IRR require knowledge of   |  |  |  | | --- | --- | --- | |  | a. | time value of money. | |  | b. | banking procedures. | |  | c. | market rates. | |  | d. | future value of the present. | | 15. The Pan American Bottling Co. is considering the purchase of a new machine that would increase the speed of bottling and save money. The net cost of this machine is $45,000. The annual cash flows have the following projections.  Yearly Cash Flow 1 $15,000 2 20,000 3 25,000 4 10,000 5 5,000  What is the net present value of selecting the new machine, assuming cost of capital of 10%?   |  |  |  | | --- | --- | --- | |  | a. | $11,883 | |  | b. | $13,883 | |  | c. | $15,883 | |  | d. | $17,883 | |  |  | |  |  | | |