Question **4**

Complete

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Flag question

Accrual accounting rate of return is calculated by dividing an increase in expected average annual after-tax operating income by the net initial investment.

Select one:

- (selected) True
- False

The correct answer is 'True'.

Which of the following methods of capital budgeting divides the average annual accrual accounting income of a project by a measure of the investment in it?

Select one:

- A. internal rate of return
- B. payback method
- C. net present value
- D. accrual accounting rate of return

The correct answer is: accrual accounting rate of return

AARR indicates the average rate at which ________.

Select one:

- A. a dollar of investment generates after-tax operating income
- B. a dollar of investment generates a positive cash flow
- C. a dollar of after-tax non-operating income generates net income
- D. a dollar of after-tax cash flow generates net income

The correct answer is: a dollar of investment generates after-tax operating income

The Golden Shades Corporation disposes a capital asset with an original cost of $320,000 and accumulated depreciation of $140,000 for a salvage price of $42,000. Golden Shades's tax rate is 35%. Calculate the NET after-tax cash inflow from the disposal of the capital asset.

Select one:

- A. $42,000
- B. $48,300
- C. $138,000
- D. $90,300

The correct answer is: $90,300

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If the net present value for a project is positive, which of the following is true?

Select one:

- A. its expected rate of return is below the required rate of return
- B. its internal rate of return is less than its cost of capital
- C. its internal rate of return is more than its cost of capital
- D. the project should be accepted because its expected rate of return is greater than the cost of capital

The correct answer is: the project should be accepted because its expected rate of return is greater than the cost of capital

Question 5

Complete

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The use of an accelerated method of depreciation for tax purposes would usually decrease the present value of the investment.

Select one:

- True
- False

The correct answer is 'False'.

Question 9

Complete

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A loss on the disposal of a replacement asset is an irrelevant fact when estimating relevant cash flows of a capital asset decision.

Select one:

- True
- False

The correct answer is 'False'.

Which of the following methods utilizes discounted cash flows when analyzing potential capital expenditures?

Methods:

1. Accrual accounting rate-of-return
2. Internal Rate of Return (IRR)
3. Payback Period
4. Net Present Value (NPV)

Select one:

- A. 1 and 2
- B. 1 and 3
- C. 1 only
- D. 2 and 4

The correct answer is: 2 and 4

Question 7

Complete

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Flag question

Which of the following capital budgeting methods uses discounted cash flows?

Select one:

- A. accrual accounting rate-of-return method
- B. payback method
- C. net present value method
- D. projected income method

The correct answer is: net present value method

Concose Park Department is considering a new capital investment. The cost of the machine is $280,000. The annual cost savings if the new machine is acquired will be $165,000. The machine will have a 3-year life and the terminal disposal value is expected to be $35,000. There are no tax consequences related to this decision. If Concose Park Department has a required rate of return of 14%, which of the following is closest to the present value of the project?

Select one:

- A. $126,755
- B. $103,130
- C. $190,880
- D. $87,750

The correct answer is: $126,755

The Zeron Corporation wants to purchase a new machine for its factory operations at a cost of $380,000. The investment is expected to generate $225,000 in annual cash flows for a period of four years. The required rate of return is 10%. The old machine can be sold for $30,000. The machine is expected to have zero value at the end of the four-year period. What is the net present value of the investment? Would the company want to purchase the new machine? Income taxes are not considered. (Rounded)

Select one:

- A. $363,250; yes
- B. $375,650; no
- C. $22,500; no
- D. $350,000; yes

The correct answer is: $363,250; yes

Which of the following methods is described as follows: "It calculates the expected monetary gain or loss from a project by discounting all expected future cash inflows and outflows to the present point in time using the required rate of return"?

Select one:

- A. accrual accounting rate-of-return method
- B. net present value method
- C. payback method
- D. internal rate of return

The correct answer is: net present value method

Forge Company wants to purchase a new cutting machine for its sewing plant. The investment is expected to generate annual cash inflows of $140,000. The required rate of return is 10% and the current machine is expected to last for seven years. Of the following choices, which is the dollar amount the company would be willing to spend for the machine, assuming its life is also seven years? Income taxes are not considered.

Select one:

- A. $1,328,180
- B. $882,000
- C. $681,520
- D. $702,660

The correct answer is: $681,520

Ambinu Flower Company provides flowers and other nursery products for decorative purposes in medium to large sized restaurants and businesses. The company has been investigating the purchase of a new specially equipped van for deliveries. The van has a value of $133,750 with a six-year life. The expected additional cash inflows are $52,500 per year. What is the payback period for this investment?

Select one:

- A. 1.5 years
- B. 6 years
- C. 3.5 years
- D. 2.5 years

The correct answer is: 2.5 years

Depreciation is usually NOT considered an operating cash flow in capital budgeting because ________.

Select one:

- A. depreciation usually has no effect on the disposal price of the machine
- B. deducting depreciation from operating cash flows would be counting the lump-sum amount twice
- C. depreciation usually does not result in an increase in working capital
- D. depreciation is usually a constant amount each year over the life of the capital investment