Module 24 – Financial & Managerial Accounting for MBAs, 4th Edition by Easton, Halsey, McAnally, Hartgraves, and Morse

Practice Quiz

1. This statement is false:

a. A basic requirement for a systematic approach to capital budgeting is a defined mission.
b. For adequate oversight all capital expenditure proposals should be subject to formal evaluation.
c. A post-audit review of approved projects helps to improve the quality of capital expenditure proposals.
d. Increasing uncertainty adds to the difficulty of planning as the time horizon increases.

The following tables are presented for use with questions 2, 3, and 4.

Periods	Present value of $1			Present value of an annuity of $1		
	8%	10%	12%	8%	10%	12%
1	0.926	0.909	0.893	0.926	0.909	0.893
2	0.857	0.826	0.797	1.783	1.736	1.690
3	0.794	0.751	0.712	2.577	2.487	2.402
4	0.735	0.683	0.636	3.312	3.170	3.037

2. Chloe is considering an investment proposal that requires an initial investment of $88,700, has predicted cash inflows of $28,000 per year for four years and no salvage value. At a discount rate of 8 percent the projects net present value is:

a. $ 4,036
b. $15,256
c. $23,300
d. $92,736

3. The internal rate of return of the investment proposal presented in question 2 is:

a. 8 percent
b. 10 percent
c. 12 percent
d. Less than 8 percent

4. The Salt Store is evaluating a capital expenditure proposal with the following predicted cash flows:

Initial investment	$(75,000)
Operations, each year for four years	25,000
Salvage	8,000

At a discount rate of 10 percent the project's net present value is:

a. $ 4,250
b. $ 1,214
c. $ 9,714
d. $15,178

5. The payback period of the investment proposal presented in question 4 is:

a. 1.55 years
b. 4.72 years
c. 3.17 years
d. 3.00 years

6. The accounting rate of return on the initial investment presented in question 4 is:

a. 0.123
b. 0.110
c. 0.223
d. 0.250

7. The accounting rate of return on the average investment presented in question 4 is:

a. 0.199
b. 0.447
c. 0.404
d. 0.220

8. This is a key difference between the internal rate of return and the net present value models.

a. The net present value method gives explicit consideration to investment size while the internal rate of return model does not.
b. The net present value method assumes all net cash inflows are reinvested at the discount rate while the internal rate of return model assumes all net cash inflows are reinvested at the organization's cost of capital.
c. The internal rate of return model requires knowledge of an organization's time value of money while the net present value model does not require such knowledge.
d. In the absence of a computer, unequal cash flows require more complex computations in the net present value model than in the internal rate of return model.

9. This is an error management should avoid when evaluating proposals for investments in high-tech projects:

a. Investing in overly complex equipment
b. Underestimating incremental sales or cost savings
c. Overestimating cost savings
d. All of the above

10. When determining a project's net present value, the time-adjusted depreciation tax shield is computed as:

a. Depreciation x (1 – tax rate) x present value factor
b. Depreciation x (1 – present value factor) x tax rate
c. Depreciation x tax rate x present value factor
d. Depreciation x (1/tax rate) x present value factor