

Managerial Accounting for Undergraduates
2nd Edition
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PRACTICE QUIZ

Chapter 12: Capital Budgeting

1. What is capital budgeting?
 - a. Planning short-term investments in productive assets
 - b. Planning long-term investments in productive assets
 - c. Planning long-term investments in current liabilities
 - d. None of the above

2. Which of the following is an element of capital budgeting?
 - a. Identify potential investments
 - b. Select investments to be undertaken
 - c. Monitor the selected investments
 - d. All of the above

3. Which of the following sources of capital are used to calculate the weighted average cost of capital (WACC)?
 - a. Accounts Receivable
 - b. Preferred and Common stock
 - c. Cash
 - d. All of the above

4. \$100 received 3 years from now, at a discount rate of 10%, has a present value of approximately?
 - a. \$71
 - b. \$73
 - c. \$75
 - d. \$83

5. \$100 received 20 years from now, at a discount rate of 15%, has a present value of approximately?
 - a. \$6
 - b. \$9
 - c. \$12
 - d. \$14

6. If a company has a cost of capital of 12%, their minimum rate of return (hurdle rate) is expected to be?
- a. 11%
 - b. 11.9%
 - c. 12%
 - d. Greater than 12%

Reference the following information for Questions 7-9.

Valentino's Stage Productions is taking on a new project. The project is expected to increase net income by \$1,000,000 for each of the next 3 years. The equipment needed will cost \$7,000,000. Valentino's hurdle rate is 12% and has the following capital structure.

Bond issuance:	20% of total funds, requires 15% interest per year
Bank loan:	60% of total funds, requires 9.5% interest per year
Preferred Stock issuance:	20% of total funds, requires 5% dividend per year

7. What is Valentino's weighted average cost of capital?
- a. 8.0%
 - b. 8.4%
 - c. 9.7%
 - d. 10.1%
8. What is Valentino's average rate of return on the new project?
- a. 9.29%
 - b. 11.29%
 - c. 28.57%
 - d. 40.00%
9. Should Valentino invest in the project?
- a. No, the average rate of return does not exceed the hurdle rate
 - b. No, the average rate of return exceeds the hurdle rate
 - c. Yes, the average rate of return does not exceed the hurdle rate
 - d. Yes, the average rate of return exceeds the hurdle rate
10. Robinson Bottling Co. reported Sales of \$220,000, Cost of Goods Sold of \$87,000 (including depreciation expense of \$10,000), and Office Expenses of \$11,000. The tax rate is 15%. The company has no significant changes in Accounts Receivable, Inventory, Accounts Payable, Prepaid Expenses, or Unearned Revenue.

What are Robinson's net after-tax cash flows?

- a. \$103,700
- b. \$105,200
- c. \$110,800
- d. \$113,700

SOLUTIONS

Chapter 12: Capital Budgeting

1. b
2. d
3. b
4. c
5. a
6. d
7. c
8. c
9. d
10. d