

1. Keiper, Inc., is considering a new three-year expansion project that requires an initial fixed asset investment of \$2.7 million. The fixed asset will be depreciated straight-line to zero over its three-year tax life, after which time it will be worthless. The project is estimated to generate \$2,080,000 in annual sales, with costs of \$775,000. If the tax rate is 35 percent, what is the OCF for this project?

2. Summer Tyme, Inc., is considering a new 3-year expansion project that requires an initial fixed asset investment of \$3.726 million. The fixed asset will be depreciated straight-line to zero over its 3-year tax life, after which time it will have a market value of \$289,800. The project requires an initial investment in net working capital of \$414,000. The project is estimated to generate \$3,312,000 in annual sales, with costs of \$1,324,800. The tax rate is 31 percent and the required return on the project is 13 percent.

What is the project's year 0 net cash flow?
 What is the project's year 1 net cash flow?
 What is the project's year 2 net cash flow?
 What is the project's year 3 net cash flow?
 What is the NPV?

3. Use the table below to answer this question.

MACRS 5-year property	
Year	Rate
1	20.00%
2	32.00%
3	19.20%
4	11.52%
5	11.52%
6	5.76%

Ronnie's Custom Cars purchased some fixed assets two years ago for \$95,000. The assets are classified as 5-year property for MACRS. Ronnie is considering selling these assets now so he can buy some newer fixed assets which utilize the latest in technology. Ronnie has been offered \$49,500 for his old assets. What is the net cash flow from the salvage value if the tax rate is 34 percent?

- A) \$38,251.44
- B) \$45,600.00
- C) \$41,972.40
- D) \$48,174.00
- E) \$49,500.00

4. Thornley Machines is considering a 3-year project with an initial cost of \$660,000. The project will not directly produce any sales but will reduce operating costs by \$400,000 a year. The equipment is depreciated straight-line to a zero book value over the life of the project. At the end of the project the equipment will be sold for an estimated \$72,000. The tax rate is 34 percent. The project will require \$16,000 in extra inventory for spare parts and accessories. Should this project be implemented if Thornley's requires a rate of return of 12 percent? Why or why not?

- A) yes; The NPV is \$88,246.08
- B) yes; The NPV is \$182,952.72
- C) yes; The NPV is \$245,092.47
- D) yes; The NPV is \$137,120.00
- E) no; The NPV is \$198,952.72