The present value of an annuity of $1 table could be constructed using the factors contained in the present value of $1 table.

- True
- False

The instantaneous computation power of spreadsheet software makes it ideal for answering "what-if" questions regarding present values.

- True
- False

A dollar to be received in the future is subject to the effects of risk and inflation.

- True
- False

When a capital investment is expected to provide unequal annual cash inflows, the payback period can be calculated by accumulating the incremental cash inflows until the sum equals the amount of the original investment.

- True
- False

An annuity is a series of equal payments over equal time intervals that earn a constant rate of return.

- True
- False

Capital investments differ from stock and bond investments in that stock and bond investments can be sold in organized markets.

- True
- False

A project's net present value can be found by subtracting the cost of the project from the total present value of the future cash flows generated by the project.

- True
- False

A postaudit should be performed at the end of a capital investment project to determine whether the expected results were actually achieved.

- True
- False

Capital investment decisions involve investments in current assets.

- True
- False

If a company has to pay a given amount of income taxes over the life of a capital investment, managers of the company should seek to pay the taxes as early as possible in the investment's life.

- True

- False

Investment projects A and B offer equal cash inflows over their lives, but the cash inflows for project A occur sooner than those for project B. The two projects are otherwise identical (the cost is the same, for example) Based on this information, the internal rate of return for A is lower than for B.

- True
- False

The cost of capital is sometimes referred to as the hurdle or discount rate.

- True
- False

A capital investment with an internal rate of return equal to or greater than the required rate of return is considered to be an acceptable investment.

- True
- False

The future value of $1 table should be used to discount lump sum cash flows expected to occur in the future.

- True
- False

Sources of cash inflows from capital investments include incremental expenses and installation costs.

- True
- False

The time value of money concept recognizes the fact that the present value of a dollar to be received in the future is worth more than a dollar.

- True
- False

Generally, the unadjusted rate of return should be calculated based on the average investment rather than the amount of the original investment in a depreciable asset such as equipment.

- True
- False

Depreciation on a capital investment (such as equipment) has the effect of decreasing the amount of income taxes that the company owning the asset must pay.

- True
- False

Matt needs to compute the present value of $5,000 to be received four years from now. He should multiple $5,000 by the appropriate present value interest factor obtained from the present value of $1 table.

- True
- False

The compensation a company receives for investing in capital assets is referred to as a return on investment.

- True
- False

The unadjusted rate of return is found by dividing the average incremental increase in annual operating income by the cost of the investment.

- True
- False

The amount of the depreciation tax shield can be calculated by multiplying the amount of depreciation expense by the tax rate.

- True
- False

In performing capital budgeting analysis that takes time value of money into account, cash flows generated by a capital project are assumed to be reinvested at the project's rate of return.

- True
- False

The payback method of evaluating capital investments measures the recovery of the investment, but it does not measure profitability.

- True
- False

Because of the expense of applying multiple techniques, managers should use a single capital budgeting technique to analyze potential capital investments.

- True
- False

The assumption regarding ordinary annuities is that cash flows occur at the end of each period.

- True
- False

Generally, a company should use the MACRS method to calculate depreciation on its income tax return, due to the effects of the time value of money.

- True
- False

Cash inflows from a capital investment may include the terminal value of capital assets and increases in revenues.

- True
- False

If the net present value for a capital investment is equal to zero, the internal rate of return for the investment is equal to the required rate of return.

- True
- False

If a project has a positive net present value, its internal rate of return will exceed the firm's hurdle rate.

- True
- False

ServicePro provides two kinds of services. During the most recent accounting period, the two service lines produced the following operating results:

	Service 1		Service 2	
Service revenue	$	130,000	$	54,000
Unit-level materials	$	(30,000)	$	(12,000)
Unit-level labor	$	(40,000)	$	(24,000)
Product-level selling & administrative costs	$	(20,000)	$	(13,500)
Company wide facility-level costs	$	(8,000)	$	(8,000)
Net income	$	32,000	$	(3,500)

If the company stops providing Service 2:

- The company's income will decrease by $5,500 per year.
- The company's income will increase by $5,500 per year.
- The company's income will decrease by $4,500 per year.
- The company's income will increase by $4,500 per year.

Breezy Company is disposing of equipment that was originally purchased for $440,000 and has $134,000 of accumulated depreciation to date. The same equipment would cost $560,000 to replace. What is the total amount of sunk cost?

- $306,000
- $134,000
- $560,000
- $440,000

Sea Island Company is trying to decide which one of two alternatives it will accept. The costs and revenues associated with each alternative are listed below:

	Alternative A	Alternative B
Projected revenue	$160,000	$200,000

Unit-level costs	30,000	41,000
Batch-level costs	17,500	29,000
Product-level costs	20,000	22,000
Facility-level costs	15,000	17,500

What is the differential revenue for this decision?

- $160,000
- $40,000
- $200,000
- $65,000

The Clear Music Company produces and sells a desktop speaker for $200. The company has the capacity to produce 60,000 speakers each period. At capacity, the costs assigned to each unit are as follows:

Unit level costs	$	95
Product level costs	$	25
Facility level costs	$	15

The company has received a special order for 11,000 speakers. If this order is accepted, the company will have to spend $20,000 on additional costs. Assuming that no sales to regular customers will be lost if the order is accepted, at what selling price will the company be indifferent between accepting and rejecting the special order? **(Do not round intermediate calculations. Round your final answer to 2 decimal places.)**

- $104.32
- $146.82
- $96.82
- $107.32

Max bought a ticket to the championship baseball game for $150. Someone approaches him outside the stadium and offers him $325 for his ticket. If Max decides to go to the game, instead of selling his ticket, how much does it cost Max to go to the game?

- $325
- $175
- $150
- None of these

Coronet Company provided the following information related to its inventory sales and purchases for December 2013 and the first quarter of 2014:

	Dec. 2013	Jan. 2014	Feb. 2014	Mar. 2014
	(Actual)	(Budgeted)	(Budgeted)	(Budgeted)
Cost of goods sold	$34,000	$64,000	$84,000	$54,000

Desired ending inventory levels are 30% of the following month's projected cost of goods sold. Budgeted purchases of inventory in February 2014 would be:

- $96,600.
- $82,500.
- $63,000.
- $75,000.

Homer Company expects credit sales for January to be $43,000. Cash sales are expected to be $23,000. The company expects credit and cash sales to increase 15% for the month of February. Credit sales are collected in the month following the month in which sales are made. Based on this information the amount of cash collections in February would be:

- $66,000.
- $75,900.
- $72,450.
- $69,450.

Oak Furniture provided the following information relevant to its sales for December 2013 and the first quarter of 2014:

	Dec. 2013	Jan. 2014	Feb. 2014
	(Actual)	(Budgeted)	(Budgeted)
Credit sales	$ 54,000	$ 134,000	$ 149,000
Cash sales	$ 15,000	$ 19,000	$ 24,000

Based on the company's collection history, 3% of credit sales are uncollectible, 45% are collected in month of sale and the remainder collected in the following month.
Cash collections in January from December 2013 credit sales would be:

- $29,700.
- $30,000.
- $28,080.
- $27,930.

Meredith Company has completed its sales budget for the first quarter of 2014. Projected credit sales for the first four months of the year are shown below:

January	$26,000
February	$32,000
March	$41,000
April	$44,000

The company's past records show collection of credit sales as follows: 26% in the month of sale and the balance in the following month. The total cash collection from receivables in March is expected to be:

- $41,000.

- $34,340.
- $27,560.
- $38,660.

Skyland Company wants an ending inventory each month equal to 22% of that month's cost of goods sold. Cost of goods sold for February is projected at $91,000. Ending inventory at the end of January was $28,000. Based on this information, purchases for February would be:

- $98,980.
- $63,000.
- $83,020.
- $70,980.

Hansen Company provided the following selected information about its consumer products division for 2012:

Desired ROI	7%
Net Income	$263,400
Residual Income	$220,000

Based on this information, the division's investment amount (amount of operating assets) was

- $620,000.
- $6,905,714.
- $3,762,857.
- $3,142,857.

Johansson Company developed the following static budget at the beginning of the company's accounting period:

Revenue (8,100 units)	$16,200
Variable costs	4,050
Contribution margin	$12,150
Fixed costs	4,050
Net income	$ 8,100

If the actual volume of sales was 8,500 units, the flexible budget would show variable costs of **(Do not round intermediate calculations.)**:

- $8,100.
- $17,000
- $4,050.

- $4,250.

Jamison Company has an investment in assets of $901,000, income that is 10% of sales, and an ROI of 17%. From this information the amount of income would be:

- $153,170.
- $63,070.
- $90,100.
- $243,270

Johanssen Company reported the following information for 2012:

Sales	$790,000
Average Operating Assets	$378,000
Desired ROI	15%
Residual Income	$ 11,400

The company's operating income for 2012 was:

- $68,100.
- $56,700.
- $118,500.
- $45,300.

Home Town Grocery has invested in yogurt stands for its stores. The investment cost the company $100,000. Variable materials, preparation, and marketing costs are expected to be $1.60 a unit and fixed costs are estimated at $8,000 a year. If actual sales were 22,000 servings, what would the ROI be at a sales price of $2.70? **(Round your final answer to 2 decimal places.)**

- 51.40%
- 16.20%
- 24.20%
- 44.90%

What amount of cash would result at the end of one year, if $18,000 is invested today and the rate of return is 10%? **(Do not round your PV factors.)**

- $18,000
- $19,620
- $19,800
- $16,200

Lane Company is considering purchasing a capital investment that is expected to provide annual cash inflows of $10,400 per year for 3 years. Assuming that the required rate of return is 6%, what is the present value of these cash inflows? **(Do not round your PV factors and intermediate calculations. Round your final answer to the nearest dollar.)**

- $29,434
- $26,196
- $27,768
- $27,799

Henrico Company has two investment opportunities. Both investments cost $6,900 and will provide the same total future cash inflows. The cash receipt schedule for each investment is given below:

	Investment I	Investment II
Period 1	$ 1,950	$ 1,950
Period 2	1,950	3,140
Period 3	2,950	4,330
Period 4	5,520	2,950
Total	$ 12,370	$ 12,370

The net present value of Investment II assuming an 12% minimum rate of return would be which of the following amounts? **(Do not round your PV factors and intermediate calculations. Round your answer to the nearest whole dollar.)**

- $12,370
- $2,301
- $9,201
- $8,903

Mountain Brook Company is considering two investment opportunities whose cash flows are provided below:

Year	Investment A	Investment B
0	($16,250)	($10,500)
1	5,450	5,450
2	5,450	4,400
3	5,450	3,550
4	4,400	1,600

The company's hurdle rate is 12%. What is the present value index of Investment B? **(Do not round your PV factors and intermediate calculations. Round your answer to 2 decimal places.)**

- 0.88
- 1.43
- 1.13
- None of these answers are correct.

An investment that costs $36,000 will produce annual cash flows of $12,040 for a period of 4 years. Given a desired rate of return of 10%, the investment will generate a **(Do not round your PV factors and intermediate calculations. Round your answer to the nearest whole dollar.)**:

- negative net present value of $38,165.
- positive net present value of $38,165.
- positive net present value of $2,165.
- negative net present value of $2,165.

ServicePro provides two kinds of services. During the most recent accounting period, the two service lines produced the following operating results:

	Service 1			Service 2		
Service revenue	$	170,000		$	77,000	
Unit-level materials	$	(38,000)		$	(20,000)	
Unit-level labor	$	(48,000)		$	(32,000)	
Product-level selling & administrative costs	$	(28,000)		$	(21,500)	
Company wide facility-level costs	$	(7,000)		$	(7,000)	
Net income	$	49,000		$	(3,500)	

If the company stops providing Service 2:

- The company's income will increase by $3,500 per year.
- The company's income will decrease by $4,500 per year.
- The company's income will decrease by $3,500 per year.
- The company's income will increase by $4,500 per year.

Breezy Company is disposing of equipment that was originally purchased for $410,000 and has $131,000 of accumulated depreciation to date. The same equipment would cost $530,000 to replace. What is the total amount of sunk cost?

- $131,000
- $410,000
- $279,000
- $530,000

Sea Island Company is trying to decide which one of two alternatives it will accept. The costs and revenues associated with each alternative are listed below:

	Alternative A	Alternative B
Projected revenue	$235,000	$350,000
Unit-level costs	45,000	56,000
Batch-level costs	32,500	44,000
Product-level costs	35,000	37,000
Facility-level costs	30,000	32,500

What is the differential revenue for this decision?

- $350,000
- $140,000
- $115,000
- $235,000

The Clear Music Company produces and sells a desktop speaker for $160. The company has the capacity to produce 56,000 speakers each period. At capacity, the costs assigned to each unit are as follows:

Unit level costs	$	75
Product level costs	$	21
Facility level costs	$	11

The company has received a special order for 7,000 speakers. If this order is accepted, the company will have to spend $16,000 on additional costs. Assuming that no sales to regular customers will be lost if the order is accepted, at what selling price will the company be indifferent between accepting and rejecting the special order? **(Do not round intermediate calculations. Round your final answer to 2 decimal places.)**

- $87.79
- $127.29
- $77.29
- $84.79

Max bought a ticket to the championship baseball game for $180. Someone approaches him outside the stadium and offers him $385 for his ticket. If Max decides to go to the game, instead of selling his ticket, how much does it cost Max to go to the game?

- $385
- $205
- $180

- None of these.

Coronet Company provided the following information related to its inventory sales and purchases for December 2013 and the first quarter of 2014:

	Dec. 2013	Jan. 2014	Feb. 2014	Mar. 2014
	(Actual)	(Budgeted)	(Budgeted)	(Budgeted)
Cost of goods sold	$36,000	$66,000	$86,000	$56,000

Desired ending inventory levels are 28% of the following month's projected cost of goods sold. Budgeted purchases of inventory in February 2014 would be:

- $102,240.
- $85,100.
- $77,600.
- $64,400.

Homer Company expects credit sales for January to be $56,000. Cash sales are expected to be $36,000. The company expects credit and cash sales to increase 10% for the month of February. Credit sales are collected in the month following the month in which sales are made. Based on this information the amount of cash collections in February would be:

- $95,600.
- $97,600.
- $101,200.
- $92,000.

Oak Furniture provided the following information relevant to its sales for December 2013 and the first quarter of 2014:

	Dec. 2013	Jan. 2014	Feb. 2014
	(Actual)	(Budgeted)	(Budgeted)
Credit sales	$ 66,000	$ 146,000	$ 161,000
Cash sales	$ 16,000	$ 31,000	$ 36,000

Based on the company's collection history, 3% of credit sales are uncollectible, 39% are collected in month of sale and the remainder collected in the following month.
Cash collections in January from December 2013 credit sales would be:

- $38,280.
- $40,260.
- $54,000.
- $51,540.

Meredith Company has completed its sales budget for the first quarter of 2014. Projected credit sales for the first four months of the year are shown below:

January	$26,000
February	$32,000
March	$41,000
April	$44,000

The company's past records show collection of credit sales as follows: 26% in the month of sale and the balance in the following month. The total cash collection from receivables in March is expected to be:

- $41,000.
- $34,340.
- $27,560.
- $38,660

Skyland Company wants an ending inventory each month equal to 25% of that month's cost of goods sold. Cost of goods sold for February is projected at $90,000. Ending inventory at the end of January was $18,000. Based on this information, purchases for February would be:

- $94,500.
- $67,500.
- $85,500.
- $72,000.

Hansen Company provided the following selected information about its consumer products division for 2012:

Desired ROI	6%
Net Income	$342,000
Residual Income	$300,000

Based on this information, the division's investment amount (amount of operating assets) was

- $5,700,000.
- $700,000.
- $5,000,000.
- $10,700,000.

Johansson Company developed the following static budget at the beginning of the company's accounting period:

Revenue (9,400 units)	$18,800
Variable costs	4,700
Contribution margin	$14,100
Fixed costs	4,700
Net income	$ 9,400

If the actual volume of sales was 9,800 units, the flexible budget would show variable costs of **(Do not round intermediate calculations.)**:

- $19,600
- $4,700.
- $4,900.
- $9,400.

Jamison Company has an investment in assets of $1,008,000, income that is 10% of sales, and an ROI of 18%. From this information the amount of income would be:

- $181,440.
- $80,640.
- $100,800.
- $282,240

Johanssen Company reported the following information for 2012:

Sales	$793,000
Average Operating Assets	$381,000
Desired ROI	12%
Residual Income	$ 11,550

The company's operating income for 2012 was:

- $95,160.
- $57,270.
- $45,720.
- $34,170

Home Town Grocery has invested in yogurt stands for its stores. The investment cost the company $100,000. Variable materials, preparation, and marketing costs are expected to be $1.60 a unit and fixed costs are estimated at $8,000 a year. If actual sales were 22,000 servings, what would the ROI be at a sales price of $2.70? **(Round your final answer to 2 decimal places.)**

- 16.20%
- 51.40%
- 44.90%
- 24.20%

What amount of cash would result at the end of one year, if $15,000 is invested today and the rate of return is 8%? **(Do not round your PV factors.)**

- $15,000

- $16,050
- $16,200
- $13,800

Lane Company is considering purchasing a capital investment that is expected to provide annual cash inflows of $10,200 per year for 3 years. Assuming that the required rate of return is 7%, what is the present value of these cash inflows? **(Do not round your PV factors and intermediate calculations. Round your final answer to the nearest dollar.)**

- $26,768
- $26,727
- $24,979
- $28,598

Henrico Company has two investment opportunities. Both investments cost $5,000 and will provide the same total future cash inflows. The cash receipt schedule for each investment is given below:

	Investment I	Investment II
Period 1	$ 1,000	$ 1,000
Period 2	1,000	2,000
Period 3	2,000	3,000
Period 4	4,000	2,000
Total	$ 8,000	$ 8,000

The net present value of Investment II assuming an 10% minimum rate of return would be which of the following amounts? **(Do not round your PV factors and intermediate calculations. Round your answer to the nearest whole dollar.)**

- $3,415
- $1,182
- $4,425
- $6,182

Mountain Brook Company is considering two investment opportunities whose cash flows are provided below:

Year	Investment A	Investment B
0	($17,250)	($11,700)
1	5,810	5,810
2	5,810	4,720
3	5,810	3,990
4	4,720	2,080

The company's hurdle rate is 8%. What is the present value index of Investment B? **(Do not round your PV factors and intermediate calculations. Round your answer to 2 decimal places.)**

- 0.83
- 1.42
- 1.21
- None of these answers are correct.

An investment that costs $39,500 will produce annual cash flows of $13,230 for a period of 4 years. Given a desired rate of return of 7%, the investment will generate a **(Do not round your PV factors and intermediate calculations. Round your answer to the nearest whole dollar.)**:

- negative net present value of $44,813.
- positive net present value of $5,313.
- negative net present value of $5,313.
- positive net present value of $44,813.