Broken Corporation sells a piece of equipment it owns today for $65,000. This equipment has been fully depreciated, using MACRS rules and had an original cost of $78,000. The company’s tax rate is 38%. What is the after-tax cash inflow to the firm from the disposal of this asset?

Answer

|  |  |  |
| --- | --- | --- |
|  | a. | $78,000 |
|  | b. | $29,640 |
|  | c. | $40,300 |
|  | d. | $24,700 |

2.

Ben Baja has just bought a boat by taking an unconventional 12 year, $225,750 mortgage from the bank. The interest rate is 7.6%. The mortgage is to be paid off by payments made every year starting one year from today. How much does Ben have to pay every year to repay the mortgage?

Answer

|  |  |  |
| --- | --- | --- |
|  | a. | $29,338 |
|  | b. | $24,544 |
|  | c. | $22,120 |
|  | d. | $20,242 |

3.

Quincy Corporation has the opportunity to invest in a project that will pay back $2.375 million at the end of each year for the next 9 years, beginning one year from now. The initial investment required today is $10.2 million. If the project's required rate of return is 12.4%, what is the net present value?

Answer

|  |  |  |
| --- | --- | --- |
|  | a. | $15.030 million |
|  | b. | $4.34 million |
|  | c. | $30.606 million |
|  | d. | $2.264 million |

4.

Your boss at Ram Teck wants you to estimate the IRR for a proposed project. The project requires an initial investment of $6.375 million and has expected cash inflows of $2.450 million at the end of each year for 6 years. What is the IRR?

Answer

|  |  |  |
| --- | --- | --- |
|  | a. | 28.01% |
|  | b. | 36.41% |
|  | c. | 30.73% |
|  | d. | 25.21% |

5.

What is the unit breakeven point for a business selling Blue Ray players at $75 per unit, with a variable cost of $35 and total fixed costs of $6 million if current sales are 250,000 units.

Answer

|  |  |  |
| --- | --- | --- |
|  | a. | 200,000 players |
|  | b. | 50,000 players |
|  | c. | 150,000 players |
|  | d. | 250,000 players |