Questions:

Not sure how to explain the net present value (NPV) method for determining a capital budgeting project's desirability. What is the acceptance benchmark when using NPV?

How am I supposed to explain the payback period statistic, what is the acceptance benchmark when using the payback period statistic?

How to describe the internal rate of return (IRR) as a method for deciding the desirability of a capital budgeting project and what is the acceptance benchmark when using IRR?

Also how am I to describe the modified internal rate of return (MIRR) as a method for deciding the desirability of a capital budgeting project as well as what are MIRR's strengths and weaknesses?

Problem:

* 1. Based on the cash flows shown in the chart below, compute the NPV for Project Huron. Suppose that the appropriate cost of capital is 12 percent. Advise the organization about whether it should accept or reject the project.

| Project Huron  |
| --- |
| **Time** | **0** | **1** | **2** | **3** | **4** |
| Cash Flow | $12,000 | $2,360 | $4,390 | $1,520 | $3,300 |

* 1. Based on the cash flows shown in the chart below, compute the IRR and MIRR for Project Erie. Suppose that the appropriate cost of capital is 12 percent. Advise the organization about whether it should accept or reject the project.

| Project Erie  |
| --- |
| **Time** | **0** | **1** | **2** | **3** | **4** | **5** |
| Cash Flow | $12,000 | $2,360 | $4,390 | $1,520 | $980 | $1,250 |