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| 1)Your company, RMU Inc., is considering a new project whose data are shown below. What is the project's Year 1 cash flow?   |  |  | | --- | --- | | Sales revenues | $22,250 | | Depreciation | $ 8,000 | | Other operating costs | $12,000 | | Tax rate | 35.0% |      |  |  |  |  |  | | --- | --- | --- | --- | --- | | |  |  |  |  | | --- | --- | --- | --- | |  | a. | $10,039 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | b. | $9,463 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | c. | $9,179 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | d. | $9,746 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | e. | $8,903 |  | |  |  |  |  | | |

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| 2)TexMex Food Company is considering a new salsa whose data are shown below. The equipment to be used would be depreciated by the straight-line method over its 3-year life and would have a zero salvage value, and no new working capital would be required. Revenues and other operating costs are expected to be constant over the project's 3-year life. However, this project would compete with other TexMex products and would reduce their pre-tax annual cash flows. What is the project's NPV? (Hint: Cash flows are constant in Years 13.)   |  |  | | --- | --- | | WACC | 10.0% | | Pre-tax cash flow reduction for other products (cannibalization) | $ 5,000 | | Investment cost (depreciable basis) | $80,000 | | Straight-line deprec. rate | 33.333% | | Sales revenues, each year for 3 years | $67,500 | | Annual operating costs (excl. deprec.) | $25,000 | | Tax rate | 35.0% |      |  |  |  |  |  | | --- | --- | --- | --- | --- | | |  |  |  |  | | --- | --- | --- | --- | |  | a. | $3,828 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | b. | $4,019 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | c. | $4,220 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | d. | $3,636 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | e. | $4,431 |  | | |
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| 3)Temple Corp. is considering a new project whose data are shown below. The equipment that would be used has a 3-year tax life, would be depreciated by the straight-line method over its 3-year life, and would have a zero salvage value. No new working capital would be required. Revenues and other operating costs are expected to be constant over the project's 3-year life. What is the project's NPV?   |  |  | | --- | --- | | Risk-adjusted WACC | 10.0% | | Net investment cost (depreciable basis) | $65,000 | | Straight-line deprec. rate | 33.3333% | | Sales revenues, each year | $65,500 | | Operating costs (excl. deprec.), each year | $25,000 | | Tax rate | 35.0% |      |  |  |  |  |  | | --- | --- | --- | --- | --- | | |  |  |  |  | | --- | --- | --- | --- | |  | a. | $16,569 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | b. | $19,325 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | c. | $15,740 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | d. | $17,441 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | e. | $18,359 |  | | |
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| 4)Clemson Software is considering a new project whose data are shown below. The required equipment has a 3-year tax life, after which it will be worthless, and it will be depreciated by the straight-line method over 3 years. Revenues and other operating costs are expected to be constant over the project's 3-year life. What is the project's Year 1 cash flow?   |  |  | | --- | --- | | Equipment cost (depreciable basis) | $65,000 | | Straight-line depreciation rate | 33.333% | | Sales revenues, each year | $60,000 | | Operating costs (excl. deprec.) | $25,000 | | Tax rate | 35.0% |      |  |  |  |  |  | | --- | --- | --- | --- | --- | | |  |  |  |  | | --- | --- | --- | --- | |  | a. | $28,836 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | b. | $31,092 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | c. | $28,115 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | d. | $30,333 |  | | | |  |  |  |  | | --- | --- | --- | --- | |  | e. | $29,575 |  | | |