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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% |

|  |  |  |  |  |
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|  |  |  |  |
| --- | --- | --- | --- |
|  | a. | $10,039  |  |

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|  |  |  |  |
| --- | --- | --- | --- |
|  | b. | $9,463  |  |

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|  |  |  |  |
| --- | --- | --- | --- |
|  | c. | $9,179  |  |

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|  |  |  |  |
| --- | --- | --- | --- |
|  | d. | $9,746  |  |

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|  |  |  |  |
| --- | --- | --- | --- |
|  | 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% |

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| --- | --- | --- | --- |
|  | a. | $3,828  |  |

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|  | b. | $4,019  |  |

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| --- | --- | --- | --- |
|  | c. | $4,220  |  |

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| --- | --- | --- | --- |
|  | d. | $3,636  |  |

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|  |  |  |  |
| --- | --- | --- | --- |
|  | 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% |

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|  | a. | $16,569  |  |

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|  | b. | $19,325  |  |

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|  | c. | $15,740  |  |

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| --- | --- | --- | --- |
|  | d. | $17,441  |  |

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|  |  |  |  |
| --- | --- | --- | --- |
|  | 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% |

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| --- | --- | --- | --- |
|  | a. | $28,836  |  |

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|  | b. | $31,092  |  |

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|  | c. | $28,115  |  |

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|  | d. | $30,333  |  |

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|  | e. | $29,575  |  |

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