25. (Ignore income taxes in this problem.) Dokes, Inc. is considering the purchase of a machine that would cost $440,000 and would last for 9 years. At the end of 9 years, the machine would have a salvage value of $62,000. The machine would reduce labor and other costs by $81,000 per year. Additional working capital of $8,000 would be needed immediately. All of this working capital would be recovered at the end of the life of the machine. The company requires a minimum pretax return of 13% on all investment projects. The net present value of the proposed project is closest to:
A. -$24,308
B. -$8,998
C. -$27,030
D. -$3,662

26. (Ignore income taxes in this problem) The management of Boie Corporation is considering the purchase of a machine that would cost $330,980 and would have a useful life of 6 years. The machine would have no salvage value. The machine would reduce labor and other operating costs by $76,000 per year. The internal rate of return on the investment in the new machine is closest to:
A. 11%
B. 10%
C. 12%
D. 7%

27. (Ignore income taxes in this problem.) Pare Long-Haul, Inc. is considering the purchase of a tractor-trailer that would cost $104,520, would have a useful life of 6 years, and would have no salvage value. The tractor-trailer would be used in the company's hauling business, resulting in additional net cash inflows of $24,000 per year. The internal rate of return on the investment in the tractor-trailer is closest to:
A. 10%
B. 8%
C. 13%
D. 11%

28. (Ignore income taxes in this problem.) Valdivieso Roofing is considering the purchase of a crane that would cost $137,885, would have a useful life of 9 years, and would have no salvage value. The use of the crane would result in labor savings of $23,000 per year. The internal rate of return on the investment in the crane is closest to:
A. 6%
B. 8%
C. 11%
D. 9%

29. (Ignore income taxes in this problem) Digrande Corporation is investigating buying a small used aircraft for the use of its executives. The aircraft would have a useful life of 6 years. The company uses a discount rate of 12% in its capital budgeting. The net present value of the investment, excluding the salvage value of the aircraft, is -$250,113. Management is having difficulty estimating the salvage value of the aircraft. To the nearest whole dollar how large would the salvage value of the aircraft have to be to make the investment in the aircraft financially attractive?
A. $30,014
B. $2,084,275
C. $250,113
D. $493,320

 30. For which of the following decisions are opportunity costs relevant?

 
A. Choice A
B. Choice B
C. Choice C
D. Choice D

31. Which of the following costs are always irrelevant in decision making?
A. avoidable costs
B. sunk costs
C. opportunity costs
D. fixed costs

32. A year ago, Crunchy Cola Corporation bought a stamping machine to make the cans for its cola. The cost of the machine was $60,000. The machine has a useful life of 5 years and a salvage value of zero at the end of those five years. Annual depreciation on the machine is $12,000. One year of depreciation has been recorded. The variable manufacturing cost of producing the cans is $0.05 per can. The only fixed manufacturing cost is the annual depreciation of $12,000 on the stamping machine. Crunchy needs 200,000 cans annually. Dagmar Stamping Company recently gave Crunchy an offer to supply all of its can needs for the next four years at $0.07 per can. If Crunchy buys from Dagmar, the stamping machine would not be needed and would be sold for $35,000. If Crunchy buys from Dagmar, what will be the total dollar increase or decrease in income for the next four years?
A. $16,000 decrease
B. $19,000 increase
C. $29,000 decrease
D. $32,000 increase

33. Curly Inc. is considering whether to continue to make a component or to buy it from an outside supplier. The company uses 16,000 of the components each year. The unit product cost of the component according to the company's cost accounting system is given as follows:

 

Assume that direct labor is a variable cost. Of the fixed manufacturing overhead, 30% is avoidable if the component were bought from the outside supplier. In addition, making the component uses 1 minutes on the machine that is the company's current constraint. If the component were bought, this machine time would be freed up for use on another product that requires 2 minutes on the constraining machine and that has a contribution margin of $8.10 per unit.
When deciding whether to make or buy the component, what cost of making the component should be compared to the price of buying the component?
A. $20.60
B. $17.52
C. $24.65
D. $21.57

34. Two products, TD and IB, emerge from a joint process. Product TD has been allocated $31,200 of the total joint costs of $48,000. A total of 5,000 units of product TD are produced from the joint process. Product TD can be sold at the split-off point for $24 per unit, or it can be processed further for an additional total cost of $15,000 and then sold for $26 per unit. If product TD is processed further and sold, what would be the effect on the overall profit of the company compared with sale in its unprocessed form directly after the split-off point?
A. $5,000 less profit
B. $115,000 more profit
C. $36,200 less profit
D. $26,200 more profit

 35. Arline Cane Products, Inc., processes sugar cane in batches. The company buys a batch of sugar cane from farmers for $56 which is then crushed in the company's plant at a cost of $14. Two intermediate products, cane fiber and cane juice, emerge from the crushing process. The cane fiber can be sold as is for $24 or processed further for $14 to make the end product industrial fiber that is sold for $34. The cane juice can be sold as is for $40 or processed further for $23 to make the end product molasses that is sold for $80. How much profit (loss) does the company make by processing one batch of sugar cane into the end products industrial fiber and molasses?
A. $13
B. ($6)
C. ($107)
D. $7

 The Clemson Company reported the following results last year for the manufacture and sale of one of its products known as a Tam.

 

Clemson Company is trying to determine whether or not to discontinue the manufacture and sale of Tams. The operating results reported above for last year are expected to continue in the foreseeable future if the product is not dropped. The fixed manufacturing overhead represents the costs of production facilities and equipment that the Tam product shares with other products produced by Clemson. If the Tax product were dropped, there would be no change in the fixed manufacturing costs of the company.