Capital Budgeting

Mason Co. is evaluating two alternative investment proposals. Below are data for each proposal:
 

The following information was taken from present value tables:
 

All revenue and expenses other than depreciation will be received and paid in cash. The company uses a discount rate of 12% in evaluating all capital investments.

Compute the following for each proposal (round payback period to the nearest tenth of a year and round return on average investment to the nearest tenth of a percent):

|  |  |  |
| --- | --- | --- |
|  | **Proposal A** | **Proposal B** |
| (a) Annual net cash flow: | $  | $ |
| (b) Payback period (in years): |   |  |
| (c) Average investment: | $  | $ |
| (d) Return on average investment: |  % | % |
| (e) Net present value: | $  | $ |
|  |  |  |

 (f) Based on your analysis, which proposal appears to be the best investment?