

## Module 6 – Part 2 – HOMEWORK – The Basics of Capital Budgeting

### Directions – Module 6 – Part 2 – HOMEWORK – The Basics of Capital Budgeting

Please try your best on these answers. The more you work on these the better off you will be for the test!

I have created a PowerPoint as *guides* to try to get you through these questions. The numbers will be different but the processes the same.

The answers and solutions will be shared on, **October 14th**.

1. Winston Clinic is evaluating a project that costs \$52,125 and has expected net cash inflows of \$12,000 per year for eight years. The first inflow occurs one year after the cost outflow, and the project has a cost of capital of 12%. *What year does the project have payback?*

Choice: Year 3  
Choice: Year 4.34  
Choice: Year 8  
Choice: Cannot tell with this information

2. Winston Clinic is evaluating a project that costs \$52,125 and has expected net cash inflows of \$12,000 per year for eight years. The first inflow occurs one year after the cost outflow, and the project has a cost of capital of 12%. *What is the project's NPV?*

Choice: \$3,400  
Choice: \$8,500  
Choice: \$6,654  
Choice: \$7,487

3. Winston Clinic is evaluating a project that costs \$52,125 and has expected net cash inflows of \$12,000 per year for eight years. The first inflow occurs one year after the cost outflow, and the project has a cost of capital of 12%. *What is the project's IRR? (hint: remember to put the answer as a percentage)*

Choice: 16.0%  
Choice: 13.0%  
Choice: 7.5%  
Choice: 5.5%

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4. Winston Clinic is evaluating a project that costs \$52,125 and has expected net cash inflows of \$12,000 per year for eight years. The first inflow occurs one year after the cost outflow, and the project has a cost of capital of 12%. *What is the project's MIRR?* (hint: remember to put the answer as a percentage).

Choice: 13.9%  
Choice: 14.5%  
Choice: 5.80%  
Choice: 22.1%

5. The director of capital budgeting for Big Sky Health System, Inc. has estimated the following cash flows for a new service and has a cost of capital of 10%. *What is the project's payback period?*

Choice: 4 years  
Choice: Not enough information to tell  
Choice: 1.6 years  
Choice: 2.4 years

| Year | Expected Net Cash Flow |
|------|------------------------|
| 0    | \$ (100,000)           |
| 1    | \$ 70,000              |
| 2    | \$ 50,000              |
| 3    | \$ 20,000              |

6. The director of capital budgeting for Big Sky Health System, Inc. has estimated the following cash flows for a new service and has a cost of capital of 10%. *What is the project's NPV?*

Choice: \$13,981  
Choice: \$16,458  
Choice: \$22,385  
Choice: \$19,985

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| Year | Expected Net Cash Flow |
|------|------------------------|
| 0    | \$ (100,000)           |
| 1    | \$ 70,000              |
| 2    | \$ 50,000              |
| 3    | \$ 20,000              |

7. The director of capital budgeting for Big Sky Health System, Inc. has estimated the following cash flows for a new service and has a cost of capital of 10%. *What is the project's IRR?*

Choice: 14.6%

Choice: 23.6%

Choice: 18.7%

Choice: 8.9%

| Year | Expected Net Cash Flow |
|------|------------------------|
| 0    | \$ (100,000)           |
| 1    | \$ 70,000              |
| 2    | \$ 50,000              |
| 3    | \$ 20,000              |

8. The director of capital budgeting for Big Sky Health System, Inc. has estimated the following cash flows for a new service and has a cost of capital of 10%. *What is the project's MIRR?*

Choice: 12.0%

Choice: 16.9%

Choice: 13.3%

Choice: 9.5%

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| <u>Year</u> | <u>Expected Net Cash Flow</u> |
|-------------|-------------------------------|
| 0           | \$ (100,000)                  |
| 1           | \$ 70,000                     |
| 2           | \$ 50,000                     |
| 3           | \$ 20,000                     |