

Solution:

(1)

The two factors that account for acceleration of depreciation for tax purposes are as follows:

- (a) Saving of taxes by this method, without really doing any transaction. Accelerated depreciation does not affect pre-tax cash flow, but due to lower income (and thus lower taxes), the net cash flow is much higher for accelerated depreciation.
- (b) This additional investment could be used to do more investment and protect the cash reserves of a company.

(2)

(a) \$520,000

(b) \$1.73 *million*