

Quiz 5

Jacob Howard



Net cash flow = Net income + Depreciation - Investment + Salvage
 for each year (year 0 is zero) only @ year 0 only in last yr

gains tax + borrowed funds - Principal paid
 only @ end if loan only @ yr 0 if loan

Depreciation Rate = MACRS Rate = 20% @ year 1

Truck = \$40,000

Dep = 8000 yr 1

with mistake fixed
 company should accept investment

Dep Truck 1 = 32000 * 32% = 10240 year 2 dep

Dep Truck 2 = 21760 * 19.2% = 4177.92 year 3 dep

Gains Tax = [Salvage - (Investment - (Σ depreciation))] * tax rate
 ↓
 = [15,000 - (40,000 - (8000 + 10240 + 4177.92))] * 0.25 = -645.52

Principal paid → loan schedule = 30,000 - (9516.26 + 9992.07) =
 Interest was = 10491.67 gr 3 or 13540.45 if we
 Not added in calc consider interest added
 Mistake this changes PP, and NPV answ

Net cash flow per year formula is shown above
 Calc done in Calculator

$$NPV = A_0 + \sum \frac{A_n}{(1+i)^n} = -10,000 + \frac{18,483.74}{(1.15)^1} + \frac{20247.93}{(1.15)^2} + \frac{28040.73}{(1.15)^3}$$