Course Title: **Analysis and Evaluation of Projects**
Date: 19/3/2014
No. of Questions: (3)
Time: 1 hours
Using Calculator (Yes)

University of Palestine

Midterm Exam
2nd Semester 2014
Total Grade:20

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Student Name: _______________
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Dep. / Specialist: ______________
Using Dictionary (No)

Answer the following four questions:

Q.1: True or False — 6 marks

1. Forecasting quantitative techniques can be used without need for past information about the variable being forecast is available ( )
2. The flows of incremental working capital must be treated as operational flows ( )
3. A cost that spent in the past in relation to the project, but which cannot now be recovered or offset by the current decision should be included in the project's cash flows ( )
4. Capital budgeting requires the commitment of significant funds today in the hope of long term benefits ( ).
5. The flows of working capital must be treated as capital flows and not operational flows ( ).
6. Depreciation should be included in the cash flows as operational outflows ( )

Q.2: Choose the correct Answer — 6 marks

1. Al Aqsa company for internet service considering capital budgeting process, finding that its sales is a function of the income of the users, the company decide to use the simple regression analyses and the data from excel sheet was: $\alpha = 50,000$, $\beta = 1.2$.
   The rang of the income for next year expected to be $10,000, using simple regression analysis the company sales next year will be :-
   a. $62,000
   b. $70,000
   c. 60,000
   d. Can't be find
2. When Capital outlay in the first year is $1 million. We put this expenditure at:
   a. The end of year 0
   b. The beginning of year 1
   c. At the end of project time
   d. At the date which we expenditure paid.
3. Company A is considering a proposal project, the company estimates that the working capital for the first three years will be 12,000; 15,000; 18,000 respectively As a result, the amounts that will included in the net cash flow are:
   a. 12,000; 15,000; 18,000 respectively at the ending of each year.
   b. 12,000; 15,000; 18,000 respectively at the beginning of each year.
   c. 12,000; 3,000; 3,000 respectively at the ending of each year.
   d. 12,000; 3,000; 3,000 respectively at the beginning of each year

Q.3: Problem: Answer the following Problem — 8 marks

Gaza Corporation is considering the purchase of a new item of equipment to replace the current one. The new equipment will cost $80,000 and requires $10,000 in installation costs. It will be depreciated using the straight line method over a five-year period. The old equipment was purchased for $50,000 five years ago.

It was being depreciated using the straight line method over a five-year economic life. The old machine's market value today is $15,000. As a result of the proposed replacement the corporation's investment in working capital is expected to increase by $12,000. Gaza Corp. forecasts that revenues will increase by $30,000 for each of the next 5 years. Operating costs will rise by $10,000 for each of the next 5 years. The tax rate is 20%.

a. Calculate the book-value of the old machine and calculate the taxes, if any, attributable to the sale of the old machine.
b. Determine the initial investment associated with the proposed equipment replacement.
c. Determine the Incremental Operating Cash Flows and determine the terminal-Year incremental Cash Flows.

Good Luck