Course No:
Course Title: Feasibility Study
Date: 1/2018
No. of Questions: (6)
Time: 2hours
Using Calculator (Yes)

University of Palestine

Final Exam

2018/2019

Instructor Name: Ms. Maram Ouda
& Mr. Fady Alasttal

Student No.: ________________
Student Name: ______________
College Name: Management & Business
Dep. / Specialist: ______________

Please, answer all the following questions:

Part One

Question One: True/False (10 marks)

1) Annuities due are the cash flows occur at the start of each time period.
2) The flows of working capital must be treated as operational flows.
3) The rate of corporate tax is not a fixed rate for every dollar of taxable income.
4) Capital budgeting involves developing plan for short term.
5) Contingent projects may be complementary or substitute.
6) Profit and loss in financial statements always represent the net increase or decrease in cash flows.
7) A relevant cash flow isn't the difference in the firm's cash flows with the project, and without the project.
8) Depreciation is measured in project analysis because it reduces taxes.
9) Tax payable is a cash inflow.
10) When money moved forward in time, it is compounded.

Question Two: Multiple Choice (10 marks)

1) The acceptance of one prevents the acceptance of an alternative proposal. That is, two or more projects can not be pursued simultaneously.

A) Mutually Exclusive Projects. B) Contingent projects.
C) Complementary projects. D) Substitute projects.

2) We use Cash flows in project analysis because:-

A) CFs measure actual economic wealth. B) CFs occur at identifiable time points.
C.) CFs have identifiable directional flow. D) All true.

3) Relevant cash flows are also known as:-

A) Incremental cash flows. B) Marginal cash flows.
C.) Changing cash flows. D) All True.

4) Types of cash flows:

A) Capital cash flows B) Terminal cash flows.
C.) Operating cash flows D) All True.

5) **An amount of cost spent in the past but it can't be recovered by the current decision:**

A) Overhead cost B) Cash outflow
C.) Sunk cost. D) None above

6) **We accept the project if:**

A) MIRR > discount rate B) MIRR < discount rate
C.) MIRR = NPV D) Non true.

7) **The annuity starts not from the end of the first year (or period) but from a few years (or periods) later :**

A) Ordinary annuities. B) Annuities due.
C.) Deferred annuities. D) Perpetuities.

8) **Strength of Payback:**

A) Take in account the TVM.
B) Provides an indication of a project's risk and liquidity.
C) Consider on cash flow occurring after the payback period.
D) All True.

9) **Profitable index:**

A) NPV/initial cost B) Initial cost/NPV
C.) (C2-C1)/C1 D) C1/(C2-C1)

10) **IRR calculated rate of return (or discount rate) at which the NPV will be equal to:**

A) Positive value B) Zero
C.) Negative (minus) value D) None true

Question Three: Complete with the appropriate Managerial concept (5 marks)

- **(__________)** is the value of the most valuable alternative that is given up if the proposed investment project is undertaken.
- **(__________)** The acceptance or rejection of one does not directly eliminate other projects from consideration or cause the likelihood of their selection.
- **(__________)** the amortization of an initial capital cost and it is journal entries.
- **(__________)** is a special case of an annuity in which the number of equal cash flows is infinite.
- **(__________)**: The number of years required to recover a project's cost,

Part Two

Question Four: (10 marks)

1- **A project has an initial cost of $52,125, expected net cash inflows of $12,000 per year for 8 years, and a cost of capital of 12%. What is the project's payback period?**

2- Assume cash flows at end of years are:

Year:	**1**	**2**	**3**
CF:	100$	200$	300$
Interest Rate:	10%	11%	12%

What is the present value (PV)?

Question Five: (8 marks)

The Palestine Company is evaluating the proposed acquisition of a new machine. The machine's base price is $108,000, and it would cost another $12,500 to modify it for special use. The machine falls into the MACRS 3-year class (33%, 45%, 15%), and it would be sold after 3 years for $65,000. The machine would require an increase in net working capital of $5,500. The machine would have no effect on revenues, but it is expected to save the firm $44,000 per year in before-tax operating costs, mainly labor. Palestine's marginal tax rate is 35%.

What are the cash flows for this new machine for all years?

Year	**MACRS**
1.	33%
2.	45%
3.	15%

Question Six: (7 marks)

There are two mutually exclusive projects, whose expected net cash flows are as follows:

Year	Project A ($)	Project B ($)
0	-300	-405
1	-387	134
2	-193	134
3	-100	134
4	600	134
5	600	134
6	850	134
7	-180	0

a) **What is NPV for each project (cost of capital = 10%)? Which project should be selected?** **(Consider period 7 as the end of project's B)**

b) **What is MIRR for project (A)?**

GOOD LUCK