

ACCT 102
 Group Project
 on
 Capital Budgeting
 Writing
 Assignment)

Madison Capital Group is considering allocating a limited amount of capital investment funds among four proposals. The amount of proposed investment, estimated income from operations, and net cash flow for each proposal are as follows:

	Investment	Year	Income from Operations	Net Cash Flow
Proposal A:	\$540,000	1	\$ 42,000	\$150,000
		2	42,000	150,000
		3	42,000	150,000
		4	(18,000)	90,000
		5	(18,000)	90,000
			<u>\$ 90,000</u>	<u>\$630,000</u>
Proposal B:	\$250,000	1	\$ 50,000	\$100,000
		2	40,000	90,000
		3	30,000	80,000
		4	15,000	65,000
		5	15,000	65,000
			<u>\$150,000</u>	<u>\$400,000</u>
Proposal C:	\$640,000	1	\$ 92,000	\$220,000
		2	82,000	210,000
		3	82,000	210,000
		4	62,000	190,000
		5	32,000	160,000
			<u>\$350,000</u>	<u>\$990,000</u>
Proposal D:	\$310,000	1	\$ 68,000	\$130,000
		2	38,000	100,000
		3	(2,000)	60,000
		4	(2,000)	60,000
		5	(2,000)	60,000
			<u>\$100,000</u>	<u>\$410,000</u>

The company's capital rationing policy requires a maximum cash payback period of three years. In addition, a minimum average rate of return of 12% is required on all projects. If the preceding standards are met, the net present value method and present value indexes are used to rank the remaining proposals.

Instructions

1. Compute the cash payback period for each of the four proposals.
2. Giving effect to straight-line depreciation on the investments and assuming no estimated residual value, compute the average rate of return for each of the four proposals. Round to one decimal place.
3. Using the following format, summarize the results of your computations in parts (1) and (2). By placing a check mark in the appropriate column at the right, indicate which proposals should be accepted for further analysis and which should be rejected.

Proposal	Cash Payback Period	Average Rate of Return	Accept for Further Analysis	Reject
A				
B				
C				
D				

4. For the proposals accepted for further analysis in part (3), compute the net present value. Use a rate of 12% and the present value of \$1 table appearing in this chapter. Round to the nearest dollar.
5. Compute the present value index for each of the proposals in part (4). Round to two decimal places.
6. Rank the proposals from most attractive to least attractive, based on the present values of net cash flows computed in part (4).
7. Rank the proposals from most attractive to least attractive, based on the present value indexes computed in part (5).
8. Based upon the analyses, comment on the relative attractiveness of the proposals ranked in parts (6) and (7).

9. What other non-financial factors should be considered?