25. Division A's sales are:
   A. $400,000
   B. $625,000
   C. $125,000
   D. $200,000

26. Division A's residual income is:
   A. $20,000
   B. $30,000
   C. $35,000
   D. $45,000

27. Division B's average operating assets equal:
   A. $81,200
   B. $2,080,000
   C. $1,333,333
   D. $130,000

28. Soderquist Corporation uses residual income to evaluate the performance of its divisions. The company's minimum required rate of return is 11%. In April, the Commercial Products Division had average operating assets of $100,000 and net operating income of $9,400. What was the Commercial Products Division's residual income in April?
   A. -$1,600
   B. $1,600
   C. $1,034
   D. -$1,034

29. The following data pertain to an investment:

<table>
<thead>
<tr>
<th>Description</th>
<th>Amount</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cost of the investment</td>
<td>$18,955</td>
</tr>
<tr>
<td>Life of the project</td>
<td>5 years</td>
</tr>
<tr>
<td>Annual cost savings</td>
<td>$5,000</td>
</tr>
<tr>
<td>Estimated salvage value</td>
<td>$1,000</td>
</tr>
<tr>
<td>Discount rate</td>
<td>10%</td>
</tr>
</tbody>
</table>

The net present value of the proposed investment is:
   A. $3,355
   B. $(3,430)
   C. $0
   D. $621
30. Mcclam, Inc., is considering the purchase of a machine that would cost $100,000 and would last for 9 years. At the end of 9 years, the machine would have a salvage value of $23,000. The machine would reduce labor and other costs by $19,000 per year. Additional working capital of $2,000 would be needed immediately. All of this working capital would be recovered at the end of the life of the machine. The company requires a minimum pretax return of 13% on all investment projects. The net present value of the proposed project is closest to:
   A. $3,833
   B. $5,167
   C. -$2,492
   D. $11,514

31. A company with $800,000 in operating assets is considering the purchase of a machine that costs $75,000 and which is expected to reduce operating costs by $20,000 each year. The payback period for this machine in years is closest to:
   A. 0.27 years
   B. 10.7 years
   C. 3.75 years
   D. 40 years

32. The Keego Company is planning a $200,000 equipment investment which has an estimated five-year life with no estimated salvage value. The company has projected the following annual cash flows for the investment.

<table>
<thead>
<tr>
<th>Year</th>
<th>Cash Inflows</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>$120,000</td>
</tr>
<tr>
<td>2</td>
<td>60,000</td>
</tr>
<tr>
<td>3</td>
<td>40,000</td>
</tr>
<tr>
<td>4</td>
<td>40,000</td>
</tr>
<tr>
<td>5</td>
<td>40,000</td>
</tr>
<tr>
<td>Total</td>
<td>$300,000</td>
</tr>
</tbody>
</table>

Assuming that the cash inflows occur evenly over the year, the payback period for the investment is:
   A. 0.75 years
   B. 1.67 years
   C. 4.91 years
   D. 2.50 years

33. The management of Wiersema Corporation is investigating purchasing equipment that would increase sales revenues by $257,000 per year and cash operating expenses by $103,000 per year. The equipment would cost $430,000 and have a 5 year life with no salvage value. The simple rate of return on the investment is closest to:
   A. 15.8%
   B. 20.0%
   C. 26.5%
   D. 35.8%
34. White Company's required rate of return on capital budgeting projects is 12%. The company is considering an investment opportunity which would yield a cash flow of $10,000 in five years. What is the most that the company should be willing to invest in this project?
   A. $36,050  
   B. $2,774  
   C. $17,637  
   D. $5,670

35. Charley has a typing service. He estimates that a new computer will result in increased cash inflow $1,600 in Year 1, $2,000 in Year 2 and $3,000 in Year 3. If Charley's required rate of return is 12%, the most that Charley would be willing to pay for the new computer would be:
   A. $4,623  
   B. $5,159  
   C. $3,294  
   D. $4,804

36. How much would you have to invest today in the bank at an interest rate of 13% to have an annuity of $3,900 per year for 5 years, with nothing left in the bank at the end of the 5 years? Select the amount below that is closest to your answer.
   A. $19,500  
   B. $17,257  
   C. $2,118  
   D. $13,716

37. If a company has computed the project profitability index of an investment project as 0.15, then:
   A. the project's internal rate of return is less than the discount rate.  
   B. the project's internal rate of return is greater than the discount rate.  
   C. the project's internal rate of return is equal to the discount rate.  
   D. the relation between the rate of return and the discount rate is impossible to determine from the given data.

38. Logan Company is considering two projects, A and B. The following information has been gathered on these projects:

<table>
<thead>
<tr>
<th>Initial investment needed</th>
<th>Project A</th>
<th>Project B</th>
</tr>
</thead>
<tbody>
<tr>
<td>Present value of future cash flows</td>
<td>$60,000</td>
<td>$85,000</td>
</tr>
<tr>
<td>Useful life</td>
<td>4 years</td>
<td>4 years</td>
</tr>
</tbody>
</table>

Based on this information, which of the following statements is (are) true?
   I. Project A has the highest ranking according to the project profitability index criterion.  
   II. Project B has the highest ranking according to the net present value criterion.
   A. Only I  
   B. Only II  
   C. Both I and II  
   D. Neither I nor II