

Name: _____ Date: _____

Chapter 19: Base knowledge worksheet

Full sentence answers are **not** required: SL 21 marks, 37 minutes

HL 21 + 12 marks, 52 minutes

1 Machine A costs \$700,000 and has forecast net cash flows of:

\$50,000 in year 1

\$100,000 in year 2

\$350,000 in year 3

\$500,000 in year 4

The machine is high quality and has excellent user reports of good levels of customer service and high reliability.

Machine B costs \$800,000 and has annual forecast net cash flows of:

\$600,000 in year 1

\$350,000 in year 2

\$50,000 in year 3

\$50,000 in year 4

\$50,000 in year 5

The machine is produced by a new company and takes advantage of exciting new technological developments.

Calculate cumulative cash flows (2×2 marks), the average rate of return (ARR) (2×3 marks) and payback period in months (PP) (2×3 marks) for each project.

(16)

Machine A

Machine B

- 2 Using PP, ARR and information given, state **two** quantitative and **two** qualitative considerations which should be taken into account before making a choice of machine. (4)

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- 3 State **one** weakness of investment appraisal. (1)

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- 4 **(HL)** Calculate the NPV for both projects at 6% discount, using the discount factors below.

(4 × 2)

Year	Discount factor
1	0.94
2	0.89
3	0.84
4	0.79
5	0.75

Machine A

Machine B

5 **(HL)** You have just applied discount factors to your calculations.

a What is a discount factor? **(2)**

b What **two** things does the discount factor depend on? **(2)**

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