**UNIVERSITY OF THE PHILIPPINES MANILA**

**COLLEGE OF PHARMACY**

**PHAR 125: Pharmaceutical Accounting**

**1st Semester AY 2020-2021**

**Capital Investment Analysis**

**Worksheet (Individual)**

1. **Average Rate of Return Method**

Watertown Paper Corporation is considering adding another machine for the manufacture of corrugated cardboard. The machine would cost $900,000. It would have an estimated life of 6 years and no salvage value. The company estimates that annual revenue would increase by $400,000 and that annual expenses excluding depreciation would increase by $190,000. Management has a required rate of return of 9%.

1. Compute the annual rate of return.

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1. Should Watertown Paper Corporation add another machine? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. **Cash Payback Method**

Watertown Paper Corporation is considering adding another machine for the manufacture of corrugated cardboard. The machine would cost $900,000. It would have an estimated life of 6 years and no salvage value. The company estimates that annual cash inflows would increase by $400,000 and that annual cash outflows would increase by $190,000.

1. Compute the cash payback period.

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1. The company considers a project unacceptable if the payback period is longer than 50% of the asset’s expected useful life. Should Watertown Paper Corporation add another machine? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. **Net Present Value Method**
3. Present Value of an Amount

Determine the amount you must deposit today in your super savings account, paying 9% interest, in order to accumulate $5,000 for a down payment 4 years from now on a new car.

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1. Present Value of an Annuity

Kildare Company has just signed a capitalizable lease contract for equipment that requires rental payments of $6,000 each, to be paid at the end of each of the next 5 years. The appropriate discount rate is 12%. What is the present value of the rental payments—that is, the amount used to capitalize the leased equipment?

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1. Net Present Value

The company is considering an investment of $130,000 in a new equipment. It is expected to last 5 years with no salvage value at the end of its useful life. Its net annual cash flows are $39,000 that is uniform over the equipment’s useful life.

1. What is the net present value at a rate of return of 12%?

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1. Should the company invest in the new equipment? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. **Internal Rate of Return Method**

The management is considering a proposal to acquire equipment costing $97,360. The equipment is expected to provide equal annual net cash flows of $20,000 for seven years.

1. What is the internal rate of return factor?

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1. What is the internal rate of return? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_
2. Assume that the company’s required rate of return is 15%. Should the company accept the proposal? \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_