Assignment 5

The data below for submitting this assignment has passed. As per our policy, the teacher will not accept this assignment.

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1. If total investment is Rs. 50 million and IRR is 6%, the NPV is
   - Rs. 20 million
   - Rs. 10 million
   - Rs. 50 million
   - None of the above

   No, the answer is incorrect.
   **Accrued Answer:** Rs. 10 million

2. IRR is unavailable for ongoing projects when
   - Life of the project is long
   - Projects have developed cash flows
   - Projects have different patterns of cash flow
   - Both A and C

   No, the answer is incorrect.
   **Accrued Answer:** Both A and C

3. Projects have different patterns of cash flow
   - True
   - False

   No, the answer is incorrect.
   **Accrued Answer:** True

4. The IRR of an acquisition investment:
   - Changes with the cost of capital changes
   - Equal to annual cash flows divided by the project cash when the cash flows are on an annuity
   - Must exceed the cost of capital required for the firm to accept the investment
   - All of the above

   No, the answer is incorrect.
   **Accrued Answer:** All of the above

5. With a project life of 10 years, if the IRR is 15%, what is the total investment?
   - Rs. 50 million
   - Rs. 20 million
   - Rs. 10 million
   - Rs. 5 million

   No, the answer is incorrect.
   **Accrued Answer:** Rs. 50 million

6. Decision Criteria for IRR (Internal Rate of Return):
   - Accept: IRR > Cost of capital
   - Accept: IRR > Capital of capital
   - Accept: IRR > capital
   - All of the above

   No, the answer is incorrect.
   **Accrued Answer:** Accept: IRR > Cost of capital

7. What Corporation is considering an investment that will cost Rs. 90,000 and have a useful life of 5 years. During the first 3 years; the net cash flows are Rs. 25,000 per year and for the last two years, they are Rs. 10,000 per year. What is the payback period for this investment?
   - 2 years
   - 3 years
   - 4 years
   - 5 years

   No, the answer is incorrect. Payback period is 3 years
   **Accrued Answer:** 3 years

8. The modified internal rate of return (MIRR) is superior to the regular IRR because:
   - It assumes that project cash flows are reinvested at the cost of capital
   - Measurement of capital is easier
   - It is a subjective measure
   - Both A and B

   No, the answer is incorrect.
   **Accrued Answer:** Both A and B

9. Which of the following statements is incorrect regarding a normal project?
   - If the IRR of a project is greater than the cost of capital, the IRR will be accepted
   - If the IRR of a project is less than the cost of capital, the project will be rejected
   - If the IRR of a project is greater than the discount rate, the IRR will be greater than 1
   - If the IRR of a project is less than the discount rate, the IRR will be less than 1

   No, the answer is incorrect.
   **Accrued Answer:** If the IRR of a project is less than the discount rate, the IRR will be greater than 1

10. A project which pays out Rs. 500 per year, then the project’s initial cash outflow equates the PV of its cash flows
   - True
   - False

   No, the answer is incorrect. Present value of annuity of Rs. 500 for 50 years is huge
   **Accrued Answer:** False

11. The accounting rate of return is measured as:
    - Average annual profit expressed as a percentage of the total funds invested in the project
    - Average annual profit expressed as a percentage of the average funds invested in the project
    - Total profit expressed as a percentage of the average funds invested in the project
    - Total profit expressed as a percentage of the total funds invested in the project

   No, the answer is incorrect.
   **Accrued Answer:** Average annual profit expressed as a percentage of the average funds invested in the project

12. ABC (Inc.) is considering undertaking a project that would add annual profit of Rs. 68,000 for 5 years. The initial outlay of the project would be Rs. 80,000. The firm’s accounting rate of return would a calculated value of Rs. 10,000 at the end of the project. What would be the accounting rate of return for this project?
   - 11%
   - 8%
   - 9.5%
   - 6%

   No, the answer is incorrect. Rate of return is 11%
   **Accrued Answer:** 11%