

Question 1 (50 Points)

Sweetie Icy Company is considering including two pieces of equipment, a machine and an overhead pulley system, in this year's capital budget. The projects are independent. The cash outlay for the machine is \$18,288 and that for the pulley system is \$22,935. The firm's cost of capital is 15%. After-tax cash flows, including depreciation, are as follows:

<u>Year</u>	<u>Machine</u>	<u>Pulley</u>
1	\$5,200	\$7,500
2	5,200	7,500
3	5,200	7,500
4	5,200	7,500
5	5,200	7,500

1.1 Calculate the Net Present Value (NPV), the Internal Rate of Return (IRR), and Profitability Index (PI) for each project. Decide whether to accept or reject these projects. And why?
(30 Points)

1.2 Calculate Regular and Discounted Payback Period for each project. Explain the meaning and decide which project is more attractive.
(20 Points)