Puzzles on Capital Budgeting and Depreciation

1. A project requires an initial investment of Rs. 2,00,000 and generates cash inflows of Rs. 60,000 annually for 5 years. If the discount rate is 10%, calculate the Net Present Value (NPV).

2. An investment of Rs. 1,50,000 yields annual returns of Rs. 40,000 for 6 years. Determine whether the project is acceptable if the cost of capital is 12%.

3. A machine costs Rs. 3,00,000 and generates cash inflows of Rs. 90,000 per year for 5 years. Find the Internal Rate of Return (IRR).

4. Compare two projects: Project A requires Rs. 1,00,000 and gives Rs. 30,000 annually for 5 years. Project B requires Rs. 1,20,000 and gives Rs. 35,000 annually for 5 years. Using NPV method at 10%, which is better?

5. Define capital cost and explain how it affects capital budgeting decisions with a numerical example.

6. A firm has cost of capital 15%. Evaluate a project with initial outlay Rs. 5,00,000 and annual inflows Rs. 1,20,000 for 6 years using NPV method.

7. A machine costing Rs. 1,00,000 has a scrap value of Rs. 10,000 after 5 years. Calculate annual depreciation using straight-line method.

8. An asset costing Rs. 2,00,000 is depreciated at 20% per annum using constant percentage (diminishing balance) method. Find its book value after 3 years.

9. Compare straight-line and constant percentage methods of depreciation with numerical illustrations.

10. A project has cash flows: -2,50,000 (initial), followed by 80,000, 90,000, 1,00,000, 1,10,000 for four years. Calculate NPV at 10%.

11. Determine IRR for a project requiring Rs. 4,00,000 with annual returns Rs. 1,20,000 for 5 years.

12. An equipment costs Rs. 3,50,000 and is depreciated using straight-line method over 7 years with no scrap value. Find annual depreciation.

13. A firm depreciates an asset costing Rs. 5,00,000 at 25% per annum under diminishing balance method. Find value after 2 years.

14. Explain the concept of capital budgeting and its importance in financial management with example problems.

15. A project with initial investment Rs. 6,00,000 generates Rs. 1,80,000 annually for 5 years. Calculate IRR approximately.