

## I-24.04

Chip's Wood Chipping Service has limited cash to invest in new equipment. Chip is considering buying a wood chipper, a new truck, a stump grinder, or a lift rig. Each item has a purchase price of \$50,000. Below is a table of information about the equipment items:

|          | <u>Useful Life</u> | <u>Annual Cash Return<br/>(assume end of year)</u> |
|----------|--------------------|--|
| Chipper  | 3                  | \$18,360   |
| Truck    | 5                  | \$12,195   |
| Grinder  | 7                  | \$9,935  |
| Lift rig | 9                  | \$6,422  |

Chip's uses straight-line depreciation and all equipment is assumed worthless at the end of its useful life. The company uses 8% as its assumed rate of return in calculating the net present value of investments.

Form a four-person team. Each team member should select one of the capital budgeting/evaluation methods (i.e., net present value, internal rate of return, accounting rate of return, or payback), and rank order the four investment alternatives. Compare and contrast each team member's results, and discuss the implications for decision making.