

The Golf Range is considering adding an additional driving range to its facility. The range would cost \$76,000, would be depreciated on a straight line basis over its 7-year life, and would have a zero salvage value. The anticipated income from the project is \$34,000 a year with \$14,400 of that amount being variable cost. The fixed cost would be \$16,200. The firm believes that it will earn an additional \$13,000 a year from its current operations should the driving range be added. The project will require \$2,000 of net working capital, which is recoverable at the end of the project. What is the internal rate of return on this project at a tax rate of 34 percent?

- A. 7.53 percent
- B. 9.29 percent
- C. 11.47 percent
- D. 12.68 percent
- E. 14.04 percent

	0	1	2	3	4	5	6	7	
Investment	-76 000								
Depr		10 857	10 857	10 857	10 857	10 857	10 857	10 857	
Incom		34 000	34 000	34 000	34 000	34 000	34 000	34 000	
Var		14 400	14 400	14 400	14 400	14 400	14 400	14 400	
Fixed costs		16 200	16 200	16 200	16 200	16 200	16 200	16 200	
Current Income		13 000	13 000	13 000	13 000	13 000	13 000	13 000	19%
Net Work Capital		2 000	2 000	2 000	2 000	2 000	2 000	2 000	
Net income after Tax		9504	9504	9504	9504	9504	9504	9504	
CF	-76 000	20 361	20 361	20 361	20 361	20 361	20 361	20 361	
kd	14%	0,876885	0,768928	0,674262	0,59125	0,51846	0,45463	0,3987	
CF d		17854,39	15656,25	13728,74	12038,5	10556,4	9256,76	8117,1	87208

**Answer:**

**e) 14.04%**