

**(10-15 min.) EB-1A**

|    |   |   |       |   |                  |
|----|---|---|-------|---|------------------|
| a. | Future Value of \$1<br>at 7% for 6 years<br>(Exhibit B-1)                 |   |       |   | Future<br>value  |
|    | \$8,000   | × | 1.501 | = | \$12,008         |
| b. | Present Value of<br>Annuity of \$1 at 12%<br>for 4 years<br>(Exhibit B-4) |   |       |   | Present<br>value |
|    | \$3,000   | × | 3.037 | = | \$9,111          |
| c. | Future Value of<br>Annuity of \$1 at 10%<br>for 3 years<br>(Exhibit B-2)  |   |       |   | Future<br>Value  |
|    | \$4,500   | × | 3.310 | = | \$14,895         |
| d. | Present Value of \$1 at 6%<br>for 10 years<br>(Exhibit B-3)               |   |       |   | Present<br>Value |
|    | \$29,000  | × | .558  | = | \$16,182         |

**(10-15 min.) EB-2A**

Some students may predict that Plan A will provide the larger future value because the amount invested, \$30,000 ( $\$3,000 \times 10$ ), is greater than the \$25,000 invested with plan B.

|         |          |  |        |                 |          |
|---------|----------|--|--------|-----------------|----------|
|         |          | Future Value of<br>Annuity of \$1 at 8%<br>for 10 years<br>(Exhibit B-2) |        | Future<br>Value |          |
| Plan A: | \$ 3,000 | ×  | 14.487 | =               | \$43,461 |
|         |          | Future Value of \$1<br>at 6% for 10 years<br>(Exhibit B-1)               |        | Future<br>value |          |
| Plan B: | \$25,000 | ×  | 1.791  | =               | \$44,775 |

Plan B provides the larger future. .

***Req 1***

|                    |           |   |  |  |  |   |                  |
|--------------------|-----------|---|--|--|--|---|------------------|
|                    |           |   |  |  | Present Value of<br>Annuity of \$1 at 8%<br>for 4 years<br>(Exhibit B-4) |   | Present<br>value |
| <b>a. Tanner:</b>  | \$55,000  | × |  |  | 3.312  | = | \$182,160        |
|                    |           |   |  |  | Present Value of \$1 at 8%<br>for 4 years<br>(Exhibit B-3)               |   | Present<br>Value |
| <b>b. Phoenix:</b> | \$250,000 | × |  |  | .735   | = | \$183,750        |

### *Req 2*

Student answers may vary. However, in addition to the present value cost of the equipment, Hobart Parts, Inc. should consider the following when determining which company to purchase the equipment from:

- The warranties offered by the two companies.
- The reputation of the two companies.
- The stability/financial strength of the two companies.