

## QUESTION 25 (10%)

Consider the following information for a company:

Item	Value
Current assets	100
Current liabilities	40
Fixed assets	100
Equity	160

The company is considering a new investment project that will require an initial investment of 50. The project is expected to generate a cash flow of 20 in year 1, 30 in year 2, and 40 in year 3. The company's cost of capital is 10%.

Assuming the company uses the payback rule to evaluate the investment, the payback period is:

1. 1.5 years  
2. 2.0 years  
3. 2.5 years  
4. 3.0 years