Solution 1.12

In order to build a new warehouse facility, the regional distributor for Valco Multi-position Valves borrowed $1.6 million at 10% per year interest. If the company repaid the loan in a lump sum amount after 2 years, what was (*a*) the amount of the payment, and (*b*) the amount of interest?

Solution:

(a) Payment = 1,600,000(1.10)(1.10) = $1,936,000

(b) Interest = total amount paid – principal

   = 1,936,000- 1,600,000

   = $336,000