14. When evaluating the cash flows associated with a capital budgeting project, shipping and installation costs associated with the purchase of an asset, such as a lathe, are considered part of the
   a. **initial investment outlay; these expenses effectively are part of the asset’s purchase price.**
   b. incremental operating cash flows because shipping and installation costs represent expenses that have to be written off over the life of the asset.
   c. terminal cash flows, because these expenses aren’t paid until the end of the asset’s life.
   d. sunk costs because these expenses do not affect any current or future cash flows associated with investing in the asset.
   e. None of the above is a correct answer.

   The initial investment outlay includes cash flows that occur only once, which is at the beginning of the life of the project. In other words, these cash flows occur at the time the project is purchased—that is the initiation of the project. Based on this definition, only answer a can be correct.

**RETURN TO THE SAMPLE QUESTIONS**