Countywide Financing is fed up with collections. They are considering
the establishment of a new division to handle all collections for the
firm. Compensation to the new division will be based on the successful
collection(s) of outstanding delinquent debt(s).

The following table reflects the new divisions expected revenue:

|  |  |  |
| --- | --- | --- |
| **Average Amount Collected** | **Expected Number of Annual Collections** | **Fee(s) Paid to the New Division** |
| $100 | 6,200 | 60% of gross amount collected |
| $500 | 2,400 | 40% of gross amount collected |
| $2,000 | 550 | 30% of gross amount collected |
| $10,000 | 25 | 15% of gross amount collected |

The projected life expectancy of this venture is seven (7) years.
Revenue receipts are expected to shrink at the rate of 8% per year
across the board.

Countywide will utilize existing space
available in their current headquarters. This space costs them $3.00 per
square foot per month and consists of 1800 square feet. Rent is
expected to increase at the rate of 2% per year for as long as
Countywide remains at this location. Other operating expenses (excluding
depreciation) add up to $300,000 for the first year with an expected
annual growth rate of 9% per year. Countywide will invest $825,000 in
net working capital for the new division and spend $425,000 on new
computers and office equipment. The new equipment will cost $15,000 to
install. The equipment will be depreciated over five (5) years using the
MACRS table (see [irs.gov](http://irs.gov/%22%20%5Ct%20%22_blank)). At the end of the seven(7) year life
expectancy of the division, the salvage value of the equipment will be
$10,000. The marginal tax rate is expected to be 37% over the life of
the project and the average tax rate is expected to be 35% over the life
of the project. Countywide expects a minimum return of 12% from this
division.

Determine the following and show your work where appropriate:

a. Net investment required to establish Countywide's new division.

b. Calculate the annual net cash flows over the life of the project.

c. Calculate the NPV of this project and determine if it is a viable venture.

d. Calculate the payback period and justify whether it is acceptable and why.

**All
submissions are to be in MS Word format.**