1. K Inc is looking at setting up a new manufacturing plant in Chicago. The company bought land 6 years ago for $7million in anticipation of using it as a warehouse and distribution site, but the company has decided to rent facilities elsewhere. The land would net $9.8 million if It were sold today. The company now wants to build its new manufacturing plant on this land; the plan will cost $21million to build and the site requires $850,000 worth of grading before it is suitable for construction. What is the proper cash flow amount to use as the initial investment in fixed assets when evaluating this project? Why?
2. A proposed new investment has projected sales of $825,000. Variable costs are 55% of sales, and fixed costs are $187,150; depreciation is $91,000. Prepare a pro forma income statement assuming a tax rate of 35%. What is the projected net income?
3. Consider the following income statement: Fill in the missing numbers and then calculate the OFC. What is the depreciation tax shield?

|  |  |
| --- | --- |
| Sales | $643,800  |
| Costs | 345,300 |
| Depriciation | 96,000 |
| EBIT | ? |
| Taxes (35%) | ? |
| Net Income | ? |

1. Consider an asset that costs $780,000 and is depreciated straight line to zero over its 8year tax life. The asset is to be used in a 5 year project; at the end of the project ; at the end of the project, the asset can be sold for $135,000. If the relevant tax rate is 35%, what is the after-tax cash flow from the sale of this asset?
2. C co. is considering a new 3 year expansion project that requires an initial fixed asset investment of $2.1 Million. The fixed asset will be depreciated straight line zero over its 3 year tax life, after which time it will be worthless. The project is estimated to generate $2,150,000 in annual sales, with costs of $1,140,000. If the tax rate is 35%, what is the OCF for this project?
3. In the previous problem, suppose the required return on the project is 14%. What’s the project’s NPV?
4. Auto Trans. Has the following estimates for its new gear assembly project: Price=$1070 per unit, variable cost=$290 per unit, fixed cost=4.8Million, quantity=70,000 units. Suppose the company believes all of its estimates are accurate only to within +- 15%. What values should the co. use for the 4 variables given here when it performs its best case scenario analysis? What about the worst case scenario?
5. For the company in the previous problem, suppose the management is most concerned about the impact of its price estimate on the projects profitability. How could you address this concern for Auto Trans.? Describe how you would calculate your answer. What values would you use for the other forecast variables?