Otthar’s Amusement center contains a number of electronic games as well as a miniature golf course and various rides located outside the building. Otthar Luvinson, the owner, would like to construct a water slide on one portion of his property. Otthar has gathered the following information about the slide:

1. Water slide equipment could be purchased and installed at a cost of $500,000. The slide would be usable for 10 years, after which it would have no salvage value.
2. Otthar would use straight-line depreciation on the slide equipment.
3. To make room for the water slide, several rides would be dismantled and sold. These rides are fully depreciated, but they could be sold for $40,000 to an amusement park in a nearby city.
4. Otthar has concluded that water slides would increase ticket sales by $320,000 per year.
5. On the basis of experience at other water slides, Otthar estimates that annual incremental operating expenses for the slide would be: salaries, $115,000; insurance, $28,200; utilities, $12,000; and maintenance, $32,000.

Required:

1. Prepare an income statement showing the expected net operating income each year from the water slide.
2. Compute the simple rate of return expected from the water slide. On the basis of this computation, would the water slide be constructed if Otthar requires a simple rate of return of at least 15% on all investments?
3. Compute the payback period for the water slide. If Otthar accepts any project with a payback period of 5 years or less, would the water slide be constructed?