Exercise 12-11 Net Present Value Analysis of Competing Projects

Wriston Legacies, a retailer of fine estate jewelry, has $300,000 to invest. The company is trying to decide between two alternative uses of the funds. The alternatives are:

|  |  |  |
| --- | --- | --- |
|  | Project A | Project B |
| Cost of equipment required | $300,000 | $0 |
| Working capital investment required | $0 | $300,000 |
| Annual Cash inflows | $80,000 | $60,000 |
| Salvage value of equipment in seven years | $20,000 | 0 |
| Life of the project | 7 years | 7 years |

The working capital needed for project B will be released for investment elsewhere at the end of seven years. Wriston Legacies uses a 20% discount rate

Required

Which investment alternative (if either) would you recommend that the company accept? Show all computations using the net present value method. Prepare separate computations for each year.

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