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| |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | | On Your Mark is considering purchasing new manufacturing equipment that costs $1,300,000 and is expected to improve cash flows by $500,000 in year 1, $350,000 in year 2, $475,000 in year 3, $450,000 in year 4, and $300,000 in year 5.  Key financial metrics for this capital budgeting project have been calculated and provided by the Finance department (see below). A 14% rate of return and a payback period of less than five years are required for the project. These key metrics must include (1) payback period, (2) net present value, and (3) internal rate of return. (Use 6% as the weighted average cost of capital).   |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | |  | Year 0 | Year 1 | Year 2 | Year 3 | Year 4 | Year 5 | |  | (1,300,000) | 500,000 | 350,000 | 475,000 | 450,000 | 300,000 | | pv |  | 438,596 | 269,314 | 320,611 | 266,436 | 155,811 | | NPV |  | 150,768 |  |  |  |  | | IRR |  | 19% |  |  |  |  | | payback |  | 800,000 | 450,000 | (25,000) | (475,000) | (775,000) | | MIRR |  | 17% |  |  |  |  | |  |  |  |  |  |  |  |   In a memo to the CFO, discuss the metrics and make a recommendation whether to accept or reject the project. | |
| |  |  | | --- | --- | |  | Instructor Comments:  **You are NOT asked to discuss MIRR for this task.  Please focus on the following:**    **Choose one metric to begin with (payback, for example).  State the pros & cons, the decision (accept/reject) criteria, and whether or not you would accept the project and why (support this with the figures provided).  Then, move on to the next metric (NPV, for example) and do the same thing, for all three metrics.** | |