Watson Leisure Time Sporting Goods has improved operations over time and the company needs to make a decision related to an equipment decision .

The company plans to purchase a new piece of equipment (to be used over a six year period) for $320,000.

Assume the cash flows and depreciation (based upon the use of the 5-year MACRS Schedule and Table 12-9) for the new equipment is as follows:

|  |  |  |
| --- | --- | --- |
|  | **Cash Flow** | **Depreciation** |
| 1 | $120,000 | $64,000 |
| 2 | 105,000 | 102,400 |
| 3 | 80,000 | 61,440 |
| 4 | 65,000 | 36,800 |
| 5 | 53,000 | 36,800 |
| 6 | 45,000 | 18,560 |

The firm has a 36 percent tax rate. Assuming depreciation is the only expense and based upon the cost of capital of 10%, calculate the net present value (NPV). Should the new equipment be purchased?

**Adapted From: *Foundations of Financial Management*, 13th Edition, Block, Hirt, and Danielsen, 2009 McGraw-Hill Irwin**