Your firm has the opportunity to choose between the following two mutually exclusive projects:

|  |  |  |
| --- | --- | --- |
|  | Expected Net Cash Flows | |
| **Year** | Project S | Project L |
| 0 | -500,000 | -575,000 |
| 1 | 295,000 | 183,500 |
| 2 | 295,000 | 183,500 |
| 3 |  | 183,500 |
| 4 |  | 183,500 |

The projects provide a necessary service, so whichever project is selected that project is expected to be repeated into the foreseeable future. Both projects have a 10 percent cost of capital. Calculate the EAA for both projects and your rationale in selecting the best project.