**Cash Flow Analysis**

Dunder-Mifflin, Inc. is analyzing the potential profitability of three printing jobs put up for bid by the State Dept. of Revenue:

|  |  |  |  |
| --- | --- | --- | --- |
|  | **Job A** | **Job B** | **Job C** |
| Projected winning bid (per unit) ($) | 5.00 | 8.00 | 7.50 |
| Direct costs per unit ($) | 2.00 | 4.30 | 3.00 |
| Annual unit sales volume | 800,000 | 650,000 | 450,000 |
| Annual distribution costs ($) | 90,000 | 75,000 | 55,000 |
| Investment required to produce annual volume | 5,000,000 | 5,200,000 | 4,000,000 |

Assume that (1) the company’s marginal city-plus-state-plus-federal tax rate is 50%; (2) each job is expected to have a six year life; (3) the firm uses straight-line depreciation; (4) the average cost of capital is 14%; (5) the jobs have the same risk as the firm’s other businesses; and (6) the company has already spent $60,000 developing the preceeding data. This $60,000 has been capitalized and will be amortized over the life of the project.

A. What is the expected net cash flow for each year?

B. What is the NPV of each project?

C. Suppose that Dunder-Mifflin’s primary business is quite cyclical, improving and declining with the economy, but that job A is expected to be countercyclical. Might this have any bearing on your decision?