

Tutorial #:	3	Student Name:	James La Fontaine	Student ID:	1079860
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Only answers to **Part B questions** are to be submitted by 10:00 am on Monday of the tutorial week. Please note the following:

1. Only **handwritten** work on this hand-in sheet will be marked for reasonable effort. You can either write your answers on this hand-in sheet or write your answers on a piece of paper with your name and student ID written on the top of the page.
2. Only **one** submission per student will be marked. Please make sure that you upload only one file either as a scanned **PDF file** or as a **JPG/PNG picture file**. Other formats will not be accepted by the system.
3. Please fill out all the information before submission.

	$t_0$	$t_1$	$t_2$	$t_3$	$t_4$	$t_5$
Cost	+\$85000					
Lease Payment	-\$16150	-\$16150	-\$16150	-\$16150	-\$16150	
Lease Payment Tax Shield	+\$4845	+\$4845	+\$4845	+\$4845	+\$4845	
Depreciation Tax Shield		-\$5100	-\$5100	-\$5100	-\$5100	-\$5100
Residual Value						-\$12750
Tax on Gain						+\$3825
Total	+\$73695	-\$16405	-\$16405	-\$16405	-\$16405	-\$14025

After-tax cost of borrowing =  $0.15 \times (1 - 0.3) = 0.105$

$$NPV_{\text{lease}} = 73695 - \frac{16405}{1.105} - \frac{16405}{1.105^2} - \frac{16405}{1.105^3} - \frac{16405}{1.105^4} - \frac{14025}{1.105^5}$$

$$= \$13738.10 > 0$$

Therefore I would recommend that Arbed Ltd lease the STV.