Financial Criteria in Selecting a Project

1. A five-year project has a projected net cash flow of $15,000, $25,000, $30,000, $20,000, and $15,000 in the next five years. It will cost $50,000 to implement the project. If the required rate of return is 20 percent, conduct a discounted cash flow calculation to determine the NPV.

2. You work for the 3T company, which expects to earn at least 18 percent on its investments. You have to choose between two similar projects. The following chart shows the cash information for each project. Which of the two projects would you fund if the decision is based only on financial information? Why?

Omega				Alpha			
Year	Inflow	Outflow	Netflow	Year	Inflow	Outflow	Netflow
Y0	0	$225,000	−225,000	Y0	0	$300,000	−300,000
Y1	0	190,000	−190,000	Y1	$ 50,000	100,000	−50,000
Y2	$ 150,000	0	150,000	Y2	150,000	0	150,000
Y3	220,000	30,000	190,000	Y3	250,000	50,000	200,000
Y4	215,000	0	215,000	Y4	250,000	0	250,000
Y5	205,000	30,000	175,000	Y5	200,000	50,000	150,000
Y6	197,000	0	197,000	Y6	180,000	0	180,000
Y7	100,000	30,000	70,000	Y7	120,000	30,000	90,000
Total	1,087,000	505,000	582,000	Total	1,200,000	530,000	670,000

3. You are the head of the project selection team at Broken Arrow records. Your team is considering three different recording projects. Based on past history, Broken Arrow expects at least a rate of return of 20 percent.
Given the following information for each project, which one should be Broken Arrow's first priority? Should Broken Arrow fund any of the other projects? If so, what should be the order of priority based on return on investment?

Recording Project: **Time Fades Away**

Year	Investment	Revenue Stream
0	$600,000	0
1		600,000
2		75,000
3		20,000
4		15,000
5		10,000

Recording Project: **On the Beach**

Year	Investment	Revenue Stream
0	$400,000	0
1		400,000
2		100,000
3		25,000
4		20,000
5		10,000

Recording Project: **Tonight's the Night**

Year	Investment	Revenue Stream
0	$200,000	0
1		200,000
2		125,000
3		75,000
4		20,000
5		10,000