

Seasoning #3**Cash Flow:**

	<u>Year 0</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>
Net Inflow (Outflow)	-\$8,000,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000

Accrual Accounting:

	<u>Year 0</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>
Sales	0	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000
Depreciation	0	-\$1,142,857	-\$1,142,857	-\$1,142,857	-\$1,142,857	-\$1,142,857	-\$1,142,857	-\$1,142,857
Net Income	\$0	\$1,157,143	\$1,157,143	\$1,157,143	\$1,157,143	\$1,157,143	\$1,157,143	\$1,157,143
Net Book Value (NBV)	\$8,000,000	\$6,857,143	\$5,714,286	\$4,571,429	\$3,428,571	\$2,285,714	\$1,142,857	\$0

Analyzing Potential Capital Investments**1) Payback Period:**

Initial Investment	÷	Annual Cash Inflow	=	Payback in Years
\$8,000,000	÷	\$2,300,000	=	3.47826087 years

2) AARR:

Avg. Op. Income	÷	Initial Investment	=	Accrual Accounting Rate of Return
\$1,157,143	÷	\$8,000,000	=	14% Accrual Accounting Rate of Return

3) NPV:

Discount Rate:	10%								
	0	1	2	3	4	5	6	7	
	<u>Year 0</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>TOTAL</u>
Net Inflow (Outflow)	-\$8,000,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	
Present Value Factor	1.00000	0.90909	0.82645	0.75131	0.68301	0.62092	0.56447	0.51316	
Net Present Value	-\$8,000,000	\$2,090,909	\$1,900,826	\$1,728,024	\$1,570,931	\$1,428,119	\$1,298,290	\$1,180,264	\$3,197,363 NPV

4) IRR:

Discount Rate:	21% Internal Rate of Return								
	0	1	2	3	4	5	6	7	
	<u>Year 0</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>	<u>Year 6</u>	<u>Year 7</u>	<u>TOTAL</u>
Net Inflow (Outflow)	-\$8,000,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	\$2,300,000	
Present Value Factor	1.00000	0.82429	0.67946	0.56007	0.46166	0.38054	0.31368	0.25856	
Net Present Value	-\$8,000,000	\$1,895,870	\$1,562,749	\$1,288,160	\$1,061,819	\$875,248	\$721,460	\$594,693	\$0 NPV