# Week 3: Week 3 - W3 Assignment 2

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DROPBOX DELIVERY REQUIRED

**Please use the appropriate basket in the Dropbox area to deliver materials required for this assignment.**



## Assignment 2: Mid-Term Assignment: Accept or Reject the Project?

In this assignment, you will undertake calculations in order to evaluate a project, and decide if it should be accepted or rejected.

Texas Roks, Inc. is considering a new quarry machine. The costs and revenues associated with the machine have been provided to you for analysis:

| | |
|---|---|
| **Cost of the new project** | **$4,000,000** |
| **Installation costs** | **$100,000** |
| **Estimated unit sales in year 1** | **50,000** |
| **Estimated unit sales in year 2** | **75,000** |
| **Estimated unit sales in year 3** | **40,000** |
| **Estimated sales price in year 1** | **$150** |
| **Estimated sales price in year 2** | **$175** |
| **Estimated sales price in year 3** | **$160** |
| **Variable cost per unit** | **$120** |
| **Annual fixed cost** | **$50,000** |
| **Additional working capital needed** | **$435,000** |
| **Depreciation method** | **3 years straight-line method, no salvage value** |
| **Texas Rok's tax rate** | **40%** |
| **Texas Rok's cost of capital** | **13%** |

**Required:**

1. Calculate operating cash flow and the change in net working capital.
2. Determine the NPV and IRR of the project.
3. Should the company accept or reject the project based on the NPV? Why?
4. Should the company accept or reject the project based on the IRR? Why?

5. What is your final accept or reject decision? Why?
6. What is the payback period for this project? Would this influence your decision to accept or reject?

**Deliverables:**

- Submit your findings to the above questions in a Microsoft Word or Excel document to the **W3: Assignment 2 Dropbox** by **Tuesday, May 31, 2016**. Use an Excel document to illustrate your calculations.

Name your document(s) SU_FIN3030_W3_A2 _LastName_FirstInitial.

| **Assignment 2 Grading Criteria** | **Maximum Points** |
|---|---|
| Correctly calculated the operating cash flow and the change in net working capital. | 50 |
| Correctly calculated the NPV | 50 |
| Correctly calculated the IRR. | 50 |
| Correctly calculated the payback period. | 20 |
| Made the correct accept/reject decision and explained why. | 20 |
| Wrote in a clear, concise, and organized manner; demonstrated ethical scholarship in accurate representation and attribution of sources; displayed accurate spelling, grammar, and punctuation. | 10 |
| **Total:** | **200** |