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Part 3 Long-Term Investment Decisions

## INTEGRATIVE CASE 3 LASTING IMPRESSIONS COMPANY

Integrative Case III involves a complex long-term investment decision. The Lasting Impressions Company is a commercial printer faced with a replacement decision in which two mutually exclusive projects have been proposed. The data for each press have been designed to result in conflicting rankings when considering the NPV and IRR decision techniques. The case tests the students' understanding of the techniques as well as the qualitative aspects of risk and return decision-making.

a. (d) Calculation of initial investment for Lasting Impressions Company:

	Press A	Press B
Installed cost of new press =		
Cost of new press	\$830,000	\$640,000
+ Installation costs	40,000	20,000
Total cost new press	\$870,000	\$660,000
- After-tax proceeds-sale of old asset =		
Proceeds from sale of old press*	420,000	420,000
+ Tax on sale of old press**	121,600	121,600
Total proceeds-sale of old press	(298,400)	(298,400)
+ Change in net working capital†	90,000	0
Initial investment	\$661,600	\$381,600
+ Sale price	\$420,000	
- Book value	116,000	
Gain	\$304,000	
x Tax rate (40%)	121,600	
Book value = \$ 400,000 = [(20 x 32 + 19) x \$400,000] = \$116,000		
** Cash	\$ 25,400	
Accounts receivable	120,000	
Inventory	(20,000)	
Increase in current assets	\$125,400	
Increase in current liabilities	(35,000)	
Increase in net working capital	\$ 90,400	

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