

Victoria is a small firm that makes physical fitness products. The company is considering whether to add a new line of running shoes to be sold over the web. To produce these shoes, special machines have to be purchased. Details of the machines are as follows

Cost of the new machines	\$109,200
Useful life of the machines in years	4
Combined terminal disposal price	\$ 18,000

The new line of shoes will be dropped at the end of the life of the machines. The estimates for the new product line are as follows:

Year	1	2	3	4
Units Produced	7,000	6,500	6,500	3,000
Units Sold	6,000	6,200	7,700	3,100
Selling price	\$ 25	\$ 25	\$ 24	\$ 22
Variable manufacturing cost per unit	\$ 12	\$ 13	\$ 14	\$ 15

Accounts receivable and current liabilities are expected to be minimal.

Variable marketing, distribution, and customer-service costs every year \$ 3.00

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For tax purposes, Victoria will use straight-line cost recovery (depreciation) on the machines, with a zero terminal disposal price. The company uses the first-in, first-out inventory method for its tax return. Assume that all operating cash flows and tax payments occur at the end of the year. Absorption costing must be used for tax purposes.

Tax Rate 40%
 After tax required rate of return 16%



Required

Compute the net present value of adding the new line of running shoes

