**Capital Budgeting Decision**

**Here is Project 2:**

Hampton Company: The production department has been investigating possible ways to trim total production costs. One possibility currently being examined is to make the cans instead of purchasing them. The equipment needed would cost $1,000,000, with a disposal value of $200,000, and would be able to produce 27,500,000 cans over the life of the machinery. The production department estimates that approximately 5,500,000 cans would be needed for each of the next 5 years.

The company would hire six new employees. These six individuals would be full-time employees working 2,000 hours per year and earning $15.00 per hour. They would also receive the same benefits as other production employees, 15% of wages in addition to $2,000 of health benefits.

It is estimated that the raw materials will cost 30¢ per can and that other variable costs would be 10¢ per can. Because there is currently unused space in the factory, no additional fixed costs would be incurred if this proposal is accepted.

It is expected that cans would cost 50¢ each if purchased from the current supplier. The company's minimum rate of return (hurdle rate) has been determined to be 11% for all new projects, and the current tax rate of 35% is anticipated to remain unchanged. The pricing for the company’s products as well as number of units sold will not be affected by this decision. The unit-of-production depreciation method would be used if the new equipment is purchased.

**Required:**

1. Based on the above information and using Excel, calculate the following items for this proposed equipment purchase.

* + Annual cash flows over the expected life of the equipment
	+ Payback period
	+ Simple rate of return
	+ Net present value
	+ Internal rate of return

The check figure for the total annual after-tax cash flows is $271,150.

2. Would you recommend the acceptance of this proposal? Why or why not? Prepare a short, double-spaced paper in MS Word elaborating on and supporting your answer.