Short Answer Problem

Show your work for partial credit

1. If a project is expected to have annual sales of $1000, variable costs of $225, fixed costs of $150, and an annual depreciation expense of $350, what is the project's net present value assuming depreciation was straight-line to zero over seven years, the appropriate discount rate is 8%, and the tax rate is 21%? Assume that the project ends when the initial investment has a book value of zero.

2. In problem 1 above, what would the project be worth if the initial investment was depreciated to half its original value and then sold at book value after seven years?