Print Shop NPV - Part 2

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After further investigation, our intrepid cooperators at NOVA Web Development are ready to make the final determination as to whether or not to proceed with the proposed print shop expansion of their business. They have settled on the following projections:

- The cost of the equipment will be $70,000 and this cost will be incurred prior to any cash being received by the project.
- The expected annual cash revenue of the project will be $30,000.
- The expected annual cash outflows (expenses/costs) will be estimated at $11,000, excluding depreciation.
- The tax rate will be 30% and equipment will be depreciated on a straight-line basis for its full life at a 6% discount rate.
- After 5 years the equipment will stop working and there will be no salvage value.

With these projections, the cash in for each of the five years of the life span of the equipment equals the gross revenue of $30,000.00 minus expenses of $11,000.00 for a net revenue of $19,000.00, from which $5700.00 in taxes needs to be paid, leaving and after tax revenue of $13,300.00 per year. Depreciation tax savings equals the straight line depreciation expense of $14,000.00 per year times the tax rate of 30%, or $4,200.00. Adding after tax revenue and the depreciation tax savings yields a total cash flow of $17,500.00. Applying the discount factor of 6% gives a present value for each year shown in the following table, and a net present value of $3,716.37 (Managerial Accounting, 2012).

Print Shop NPV with Taxes						
Discount rate (r):	6%		**Tax rate (tr):**		30%	
NPV Table						
TIME (Years)	**0**	**1**	**2**	**3**	**4**	**5**
Purchase price	$ (70,000.00)					
Revenue		$ 30,000.00	$ 30,000.00	$ 30,000.00	$ 30,000.00	$ 30,000.00
Expenses		$ 11,000.00	$ 11,000.00	$ 11,000.00	$ 11,000.00	$ 11,000.00
Net revenue		$ 19,000.00	$ 19,000.00	$ 19,000.00	$ 19,000.00	$ 19,000.00
After tax revenue		$ 13,300.00	$ 13,300.00	$ 13,300.00	$ 13,300.00	$ 13,300.00
Depreciation tax savings		$ 4,200.00	$ 4,200.00	$ 4,200.00	$ 4,200.00	$ 4,200.00
Total cash (in/out)	$ (70,000.00)	$ 17,500.00	$ 17,500.00	$ 17,500.00	$ 17,500.00	$ 17,500.00
DF	1.0000	0.9434	0.8900	0.8396	0.7921	0.7473
PV	$ (70,000.00)	$ 16,509.43	$ 15,574.94	$ 14,693.34	$ 13,861.64	$ 13,077.02
NPV	**$ 3,716.37**					

The NPV is positive, and would actually remain positive if the rate of return was 7%, only becoming negative when it reaches 8%. By that measure the capital project should proceed using standard capital budgeting analysis.

Since NOVA Web Development is a worker owned cooperative, however, the analysis needs to be looked at differently. The main objective of the worker cooperative is to provide sustainable, meaningful employment for its members while contributing something needed by the community that it serves. Looking at the data in this way, the analysis would need to consider how much of the $11,000.00 expenses represents wages for the worker owners.

The primary relationship in capitalism that revenue - expenses = profit hides the bias of the system. “The wondrous word profit speaks reverently to the aim beyond all aims, the “bottom line”: maximizing income to capital. On the other hand, income to labor—expense—is very, very bad; expenses by their nature are to be driven down.” (Kelly, 2023, p. 87).

In a worker cooperative, by contrast, providing a livelihood for workers is the raison d'être of the business. That means that even very low rates of return could be justified if they provide just wages.

References

Kelly, M. (2023). *Wealth Supremacy: How the Extractive Economy and the Biased Rules of Capitalism Drive Today's Crises*. Berrett-Koehler Publishers.

Managerial Accounting v. 1.0 (2012). Saylor Academy. GitHub, https://saylordotorg.github.io/text_managerial-accounting/index.html Creative Commons Attribution-NonCommercial-ShareAlike 3.0 License