**Quiz: 2/13/12 Makeup for 2:30 Class** Name ___________________________

**Quiz**: Your firm is considering whether to build a factory to produce MiniTablet3s. The factory will be built on land that your firm purchased a year ago for $800,000 that can be sold today for $1,200,000. The factory itself will cost $10,000,000 (payable in advance today) and will fall into the 10-year MACRS class. Your firm has already spent $1,000,000 developing the MiniTablet3. Sales of the MiniTablet3 are expected to equal $50,000,000 one year from today and sales are expected to grow at an annual rate of 5% per year over the life of the factory. The cost of goods sold associated with the factory is expected to be 60% of sales and salaries of the people who will work at the factory are expected to equal $2,500,000 per year. Your firm will not need to hold any additional cash, but will have to hold an additional $1,000,000 of inventory starting today. Because of expected gains in efficiency, this level of inventory will not change over the life of the factory. You expect 80% of sales to be on credit and the rest to be cash sales. Accounts payable will equal 70% of inventory. If your firm's marginal tax rate is 35%, set up to calculate (equations and all relevant numbers) your firm's free cash flow today and one year from today.

Note: You don't have to solve anything, just set everything up.

**Note: Bonus WSJ Questions on back of page**