

## F2 - LECTURE EXAMPLE 8

Pizza Co is a pizza restaurant, in a busy town centre, with sales of \$500,000 in the last year. It is considering replacing its ovens with new modern ones in anticipation of growth in customers.

The expected costs and benefits of the new ovens are as follows:

- (i) The new ovens would cost \$350,000.
- (ii) Depreciation would be provided at \$70,000 per annum.
- (iii) \$7,000 has already been spent on staff training to evaluate the potential of the new ovens. Further training costs of \$10,000 would be required in the first year if the new system is implemented.
- (iv) Sales are expected to rise to \$600,000 in Year 1 if the new ovens are purchased, thereafter increasing by 10% per annum. If the ovens are not purchased sales are expected to rise by \$10,000 per annum.
- (v) Despite increased sales, cleaning costs are expected to fall as a result of the new ovens. These are estimated at 1% of total sales.
- (vi) Three new staff members will be recruited to deal with additional demand at a total cost of \$45,000 per annum. Their training is included in the estimate above.
- (vii) A new maintenance contract would be undertaken at a cost of \$2,000 per annum for five years.
- (viii) Interest of money borrowed to finance the project would cost \$10,000 per annum.
- (ix) Pizza Co's cost of capital is 10% per annum.