

ACME Manufacturing  
THIS IS A DEMO!  
Present Value Explanation

Present Value Analysis is the most accepted method for analyzing economic alternatives that last for more than one year, such as leasing or purchasing. The Present Value of a future cashflow is the amount of money which would have to be invested NOW at the cost of capital to pay off a future cashflow.

Many financial experts would prefer to look at the Present Value Analysis rather than the Cash Analysis. The Cash Analysis values \$10,000 paid out 10 years from now, at \$10,000. Most people or businesses would rather receive \$10,000 now, not 10 years from now; thus, \$10,000 is worth more now than 10 years from now.

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 Amortization Schedule

Payment	Interest	Principal	Ending Balance
1	292	596	34,404
2	287	601	33,803
3	282	606	33,197
4	277	611	32,586
5	272	616	31,970
6	266	622	31,348
7	261	627	30,721
8	256	632	30,089
9	251	637	29,452
10	245	643	28,809
11	240	648	28,161
12	235	653	27,508

Year 1                    3,164                    7,492

Deductible Interest: 2,689

13	229	659	26,849
14	224	664	26,185
15	218	670	25,515
16	213	675	24,840
17	207	681	24,159
18	201	687	23,472
19	196	692	22,780
20	190	698	22,082
21	184	704	21,378
22	178	710	20,668
23	172	716	19,952
24	166	722	19,230

Year 2                    2,378                    8,278

Deductible Interest: 2,021

25	160	728	18,502
26	154	734	17,768
27	148	740	17,028
28	142	746	16,282
29	136	752	15,530
30	129	759	14,771
31	123	765	14,006
32	117	771	13,235
33	110	778	12,457
34	104	784	11,673
35	97	791	10,882
36	91	797	10,085

Year 3                    1,511                    9,145

Deductible Interest: 1,284

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 Amortization Schedule

Payment	Interest	Principal	Ending Balance
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37	84	804	9,281
38	77	811	8,470
39	71	817	7,653
40	64	824	6,829
41	57	831	5,998
42	50	838	5,160
43	43	845	4,315
44	36	852	3,463
45	29	859	2,604
46	22	866	1,738
	-----	-----	
Year 4	533	8,347	
	=====	=====	

Deductible Interest: 453

NOTES: In order to make the purchase analysis consistent with the lease scenario, loan payments stop on or before the month that the last lease payment is made.

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 Depreciation Schedule

Initial Cost: 40,000  
 Sales Tax: 3,000  
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 Cost with Tax: 43,000  
 Business Use Percent: 85.00  
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 Business Cost Basis: 36,550  
 Section 179 Deduction: 0  
 -----  
 Depreciable Basis: 36,550  
 =====

Year	Accelerated Depreciation	Auto Limit	Depreciation Deduction	Ending Business Adj. Basis
1	7,310	2,601	2,601	33,949
2	11,696	4,165	4,165	29,784
3	7,018	2,508	2,508	27,276
4	4,210	1,509	1,509	25,767
5	4,211	1,509	1,509	24,258
6	2,105	1,509	1,509	22,749
7	0	1,509	1,509	21,240
8	0	1,509	1,509	19,731
9	0	1,509	1,509	18,222
10	0	1,509	1,509	16,713
11	0	1,509	1,509	15,204
12	0	1,509	1,509	13,695
13	0	1,509	1,509	12,186
14	0	1,509	1,509	10,677
15	0	1,509	1,509	9,168
16	0	1,509	1,509	7,659
17	0	1,509	1,509	6,150
18	0	1,509	1,509	4,641
19	0	1,509	1,509	3,132
20	0	1,509	1,509	1,623
21	0	1,509	1,509	114
22	114	1,509	114	0

NOTES:

- Unless the asset is a car, MACRS depreciation was used.
- The 1/2 year convention was used in accordance with MACRS.
- Auto depreciation limits are CURRENT as of 2010
- Some columns in this report may not apply and will contain zeros. The 'Depreciation Deduction' column should always have an amount listed, except in some year 1 situations with cars and Section 179.

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 Analysis of Disposition Report

TAX ON DISPOSITION OF LEASED ASSET:

Value at end of lease:	18,000
Lease Option Price:	-15,000
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Gain on Disposition:	3,000
	=====
Tax on Disposition:	960
	=====

TAX ON DISPOSITION OF PURCHASED ASSET:

Total Proceeds:	18,000	
	=====	
Proceeds allocated to business:	15,300	
Adjusted Basis before last year's depreciation:	27,276	
Last year's depreciation:	-754	
	-----	
Adjusted Basis:	26,522	
	-----	
Business Gain (-loss):		-11,222
Non-business Gain (losses not allowed):	2,700	
Non-business Cost Allocation:	6,450	
	-----	
Non-business Gain:		0
		-----
Taxable Gain (-loss) on Disposition:		-11,222
		=====
Tax (-refund) on Disposition:		-3,591
		=====

\* In accordance with MACRS depreciation, if the asset is disposed of before the end of its depreciable life, the depreciation in the year of disposition will be 1/2 of the year's normal depreciation. Therefore the Adjusted Basis is the Adjusted Basis at the end of the year prior to disposition minus 1/2 of what would have been the depreciation in the year of disposition.

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 Analysis Summary - Lease Cashflows and Net Present Value

Year -->	0	1	2	3	4
Lease Inclusion Amount:		48	105	155	186
Taxable Income Adjustments:					
Lease Deposit Deduction:					1,020
Lease Payments Deduction:		6,630	6,630	6,630	5,525
Sales Tax Deduction:		638	638	638	638
Lease Inclusion Income:		-41	-89	-132	-158
Misc. Annual Exp. Deduction:		425	425	425	425
End of Lease Exp. Deduction:					340
Total change to Ord. Inc.:		7,652	7,604	7,561	7,790

Cash Flows:					
Tax savings (cost) from above:		2,449	2,433	2,420	2,493
Lease Payments:		-7,800	-7,800	-7,800	-6,500
Refundable Deposit:					
Non-Refundable Deposit:	-1,200				
Sales Tax On Lease:	-3,000				
Misc. Annual Lease Expense:		-500	-500	-500	-500
End of Lease Expense:					-400
Proceeds from sale of Lease:					18,000
Lease Option Price:					-15,000
Tax savings (cost) from sale:					-960
Total Cashflows:	-4,200	-5,851	-5,867	-5,880	-2,867

Over the life of the lease period, the asset's lease cost is estimated to be \$24,665.  
 The Present Value of those cash flows, discounted at 10%, is estimated to be \$20,744.

NOTES: Positive cash flows represent cash coming into the prospective lessee.  
 Negative cash flows represent cash paid out by the prospective lessee.

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 Analysis Summary - Purchase Cashflows and Net Present Value

Year -->	0	1	2	3	4
Taxable Income Adjustments:					
Depreciation Deduction :		2,601	4,165	2,508	754
Interest Deduction:		2,689	2,021	1,284	453
Misc. Annual Deduction:		510	510	510	510
Section 179 Deduction:					
Total change to Ord. Inc.:		5,800	6,696	4,302	1,717
Cash Flows:					
Tax savings (cost) from above:		1,856	2,143	1,377	549
Down Payment:	-8,000				
Loan Payment:		-10,656	-10,656	-10,656	-8,880
Misc. Annual Expense:		-600	-600	-600	-600
Sales Proceeds:					18,000
Loan Payoff:					-1,738
Tax savings (cost) from sale:					3,591
Total Cashflows:	-8,000	-9,400	-9,113	-9,879	10,922

Over the life of the purchase period, the asset's purchase cost is estimated to be \$25,470. The Present Value of those cash flows, discounted at 10%, is estimated to be \$24,039.

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 Negative cash flows represent cash paid out by the prospective lessee.

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Lease vs. Buy Analysis Summary

CASH ANALYSIS:

Net Cash Paid Out for Purchase:	25,470
Net Cash Paid Out for Lease:	24,665
	-----
Savings (-cost) of Leasing vs. Purchasing:	805
	=====

PRESENT VALUE ANALYSIS:

Net Present Value Cost of Purchase:	24,039
Net Present Value Cost of Lease:	20,744
	-----
Savings (-cost) of Leasing vs. Purchasing:	3,295
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