

# Warf computer essay sample

[Business](#)



**ASSIGN  
BUSTER**

Warf Computers has decided to proceed with the manufacture and distribution of the virtual keyboard (VK) the company has developed. To undertake this venture, the company needs to obtain equipment for the production of the microphone for the keyboard. Because of the required sensitivity of the microphone and its small size, the company needs specialized equipment for production. Nick Warf, the company president, has found a vendor for the equipment. Clapton Acoustical Equipment has offered to sell Warf Computers the necessary equipment at a price of \$2.5 million. Because of the rapid development of new technology, the equipment falls in the three-year MACRS depreciation class. At the end of four years, the market value of the equipment is expected to be \$300,000.

Alternatively, the company can lease the equipment from Hendrix Leasing. The lease contract calls for four annual payments of \$650,000, due at the beginning of the year. Additionally, Warf Computers must make a security deposit of \$150,000 that will be returned when the lease expires. Warf Computers can issue bonds with a yield of 11 percent, and the company has a marginal tax rate of 35 percent.

1. Should Warf buy or lease the equipment?
2. Nick mentions to James Hendrix, the president of Hendrix Leasing, that although the company will need the equipment for four years, he would like a lease contract for two years instead. At the end of the two years, the lease could be renewed. Nick would also like to eliminate the security deposit, but he would be willing to increase the lease payments to \$1,150,000 for each of the two years. When the lease is renewed in two years, Hendrix would

consider the increased lease payments in the first two years when calculating the terms of the renewal. The equipment is expected to have a market value of \$1 million in two years. What is the NAL of the lease contract under these terms? Why might Nick prefer this lease? What are the potential ethical issues concerning the new lease terms?

3. In the leasing discussion, James informs Nick that the contract could include a purchase option for the equipment at the end of the lease. Hendrix Leasing offers three purchase options: 1. An option to purchase the equipment at the fair market value. 2. An option to purchase the equipment at a fixed price. The price will be negotiated before the lease is signed.

3. An option to purchase the equipment at a price of \$125, 000. How would the inclusion of a purchase option affect the value of the lease? 4. James also informs Nick that the lease contract can include a cancellation option. The cancellation option would allow Warf Computers to cancel the lease on any anniversary date of the contract. In order to cancel the lease, Warf Computers would be required to give 30 days' notice prior to the anniversary date. How would the inclusion of a cancellation option affect the value of the lease?