

Bobby's Milk Bar

Bobby's Milk Bar, a small cafe in Minneapolis, is considering buying a new coffee machine for \$2000. The extra costs and revenues over its useful life are shown in the table below. Alternatively, the business could deposit the money in the local bank where it would earn a guaranteed 15% interest each year. Mr Angelo, the owner of Bobby's is an extrovert who like to take risks. The business is successful and does not have any major financial problems. Coffee machines are very durable and often last up to 10 years before they need replacing.

Year	Cost of machine	Increased revenues due to machine
0	-2000	0
1		950
2		1950
3		950
4		800
5		600

1. Calculate the payback period and ARR for this investment.
2. Should Mr Angelo invest in a new coffee machine? Justify your recommendation using both quantitative and qualitative data.