



Department of Education, Sabaragamuwa/weekly school

week- April 3

Subject-Accounting

Grade-13

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Competency 16.0 – Supports the capital investment decision making.

Competency Level 16.1 – Plans the process of long term decision making.

- Given below are the details of a machine which a company expects to purchase.
  - Purchasing price Rs. 750 000
  - Installation cost Rs. 50 000
  - Initial working capital requirement Rs. 50 000  
This could be recovered at the end of the period
  - It is estimated that the existing machine could be sold for Rs. 20 000
  - Information regarding the machine are as follows.
  - First year is Rs. 150 000 and it will be increased by 10% each year. Increasing of expenses in the first year is Rs. 50 000, In the second and third years it is increased by 10% each and fourth and fifth years it is decreased by 10%
  - Annual machine depreciation Rs. 140 000
  - Taxation on profit 40%
  - Useful life time of the asset is 5 years and residual value is Rs. 50 000

#### Requirements :

1. Calculate the value of initial investment?
2. Calculate annual operating net cash flow?
3. Calculate terminal cash flow?
4. Show the table of calculating cash flows in 5 years.





