



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.

	(Rs.)
Cost of existing machine	250 000
Purchasing price of new machine	500 000
Installment cost of the new machine	50 000
Expected sales price of existing machine	100 000
Payable tax on the selling price of the existing machine	20 000
New working capital requirements	75 000

**Requirements :**

1. Calculate the cash inflows and cash outflows of initial investment
2. Calculate the net cash flow of initial investment

**Example 02**

Following are the cash flows of an asset of its useful lifetime of 5 years.

(1) Increments of sales income

Year	(1)	(2)	(3)	(4)	(5)
(Rs.)	500 000	500 000	600 000	700 000	800 000

(2) Estimation of annual purchasing expenses

	(1)	(2)	(3)	(4)	(5)
(Rs.)	180 000	180 000	190 000	200 000	240 000

(3) During the first year, electricity expenses increased by 3000 and in the subsequent years increased by Rs. 1 000 each period.

(4) During the first year, operating expenses increased by Rs. 4 000 and in the subsequent years by Rs. 1 000 each period.

- (5) Annual depreciation Rs. 5 000
  - (6) It is expected to incur a repair expense of Rs. 15 000 in the third year.
  - (7) 10% tax payable on profit.
- Calculate annual net cash flow of operations.



