



Competency 16.0 – Supports the capital investment decision making.

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

1. A company expects to invest on an investment which has a value of Rs. 250 000 and expected annual cash flows are Rs. 50 000 every year. Calculate the pay back period
2. A company expects to purchase two machines. The net cash flows related to these two machines are as follows. Purchasing price of both the machines is Rs. 50 000.

Years	Net cash flows (Rs.)	
	Machinery A (Rs.)	Machinery A (Rs.)
1	80 000	80 000
2	80 000	70 000
3	70 000	90 000
4	90 000	50 000
5	60 000	40 000

Decide on which machine to be purchased by calculating pay back period.

- (i) Calculate the present values of following cash flows based on 10% discounting factors.

Year	Net cash flow (Rs.)
1	10 000
2	25000
3	15000
4	10000

10% discounting factor

Year	0	01	02	03	04
Discounting Factor	1.000	0.909	0.826	0.751	0.683

