



# NET PRESENT VALUE



# Net Present Value

- The NPV is a discounted cash flow method that considers time value of money in evaluating capital investments.



- It is a method of calculating the present value of cash flows(inflows & outflows) of an investment proposal using the cost of capital as an appropriate discounting rate.



# TIME VALUE OF MONEY

- Rs.500-Now
- Rs.500-1 year Later

**Which is better?**



# DISCOUNTING

PV-PRESENT VALUE ← FV-FUTURE VALUE

Rs.455(PV) ← Rs.500(A Year later)

10%

$$PV = FV * 1 / (1+r)^n$$

r=interest rate

n=no. of years



# DISCOUNTING

$$PV = FV * 1 / (1 + r)^n$$

r = interest rate

n = no. of years

$$= 500 * 1 / 1.10$$

$$= 455$$