



# SNS College of Technology

Coimbatore - 35



23BAT611 – Financial Management

Capital Budgeting



Presented by

**Ms.S.Swarnam**  
*Design Thinker*

**1<sup>st</sup> Indian Institution to Implement Design Thinking Curriculum**  
Redesigning Common Mind and Business  
Towards Excellence



## RECAP PROCEDURE FOR PREPARING PAYBACK



## PROBLEM 1

A project requires an initial investment of \$225,000 and is expected to generate the following net cash inflows:

**Year 1:** \$95,000

**Year 2:** \$80,000

**Year 3:** \$60,000

**Year 4:** \$55,000

**Required:** Compute net present value of the project if the minimum desired rate of return is 12%.



# Formula

$NPV = PV \text{ OF CASH INFLOWS} - PV \text{ OF CASH OUTFLOWS}$





## ASSESSMENT



- Spell out the Accept/Reject Criteria of NPV



# Solution

Year	Present value of \$1 at 12%	Cash flow	Present value of cash flow
1	0.893*	\$95,000	\$ 84,835
2	0.797	80,000	63,760
3	0.712	60,000	42,720
4	0.636	55,000	34,980
Total			\$ 226,295
Initial investment			(225,000)
Net present value			\$ 1,295



The project seems attractive because its net present value is positive.



# SUMMARIZE



# Reach Us



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