**QUESTION 1**

The management of G plc is considering investing in three projects. The finance director has prepared the following estimates for the three projects A, B and C are as follows:

|  |  |  |  |
| --- | --- | --- | --- |
| Project | A | B | C |
| Cash flows in: |  |  |  |
| Year 0 | (60,000) | (120,000) | (180,000) |
| Year 1 | 25,000 | 50,000 | 95,000 |
| Year 2 | 30,000 | 70,000 | 80,000 |
| Year 3 | 32,000 | 80,000 | 58,000 |

The company’s cost of capital is 10 %. and company’s required payback is 2 years

Present value factors @ 10 % is:

|  |  |  |  |
| --- | --- | --- | --- |
| Year | 1 | 2 | 3 |
| Present value factors | 0.909 | 0.826 | 0.751 |

**Required:**

**a) Calculate the following for the 3 projects A, B and C:**

* **payback**
* **net present value**

**b) Rank the three projects in order of investment potential using the**

**above 2 methods:**

**c) Which project may be recommended if the projects are mutually exclusive. Explain your selection**

**d) Critically evaluate the above methods.**

**e) State five other factors that require consideration before a final decision is made.**

**f) Calculate the payback and NPV for project D (details are below) and advice on its feasibility.**

**Initial investment is £100,000 with an annuity of £35,000 p.a. for 5 years. The residual value of**

**assets is expected to be £14,000.**

**Payback required is 3 years and the cost of capital for similar projects are 10%.**

g) Rank projects D and ???????