UNIVERSITY OF THE PEOPLE

BUS 4404-01 PRINCIPLES OF FINANCE 2 - AY2024-T3

WRITTEN ASSIGNMENT UNIT 3

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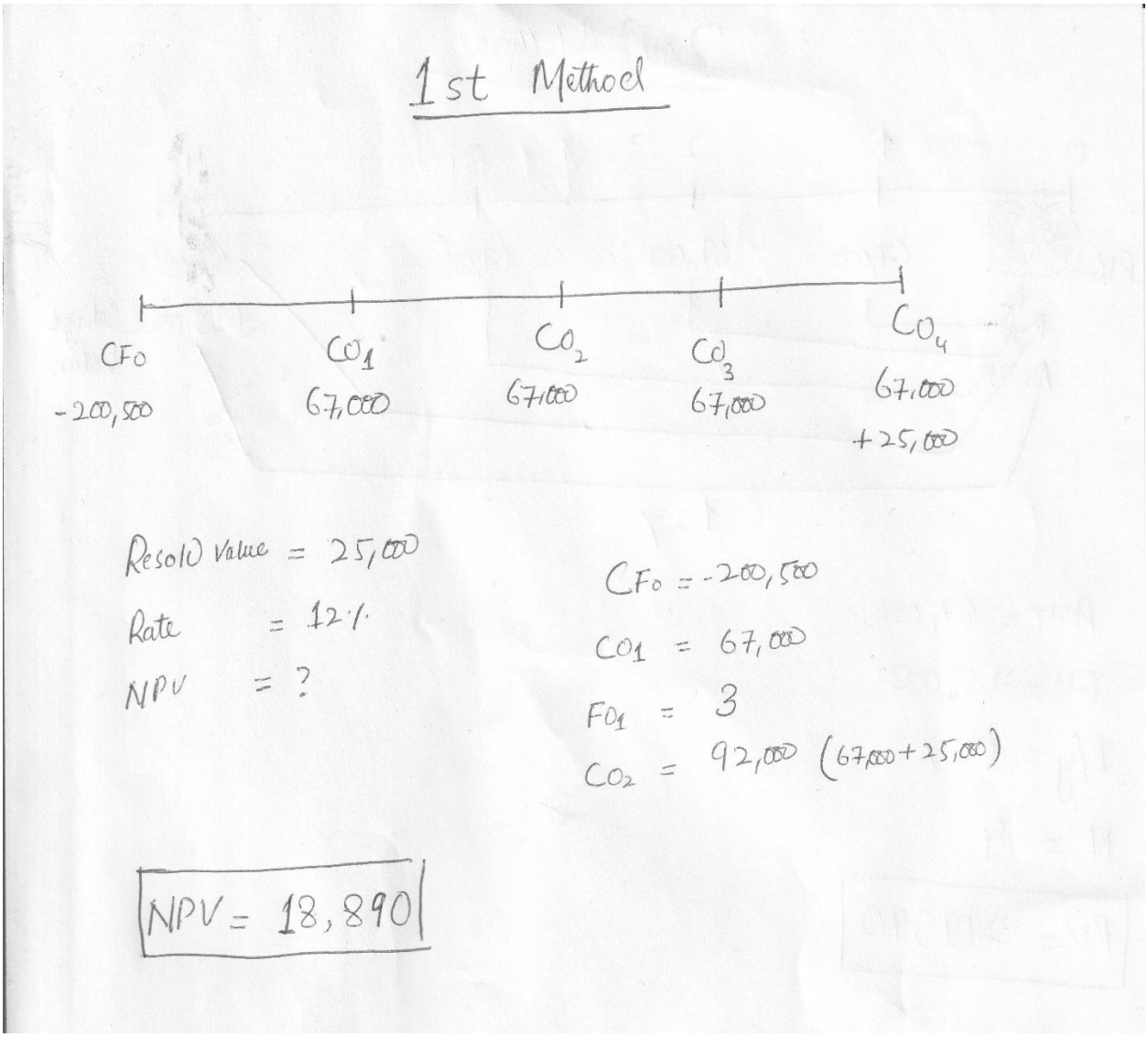
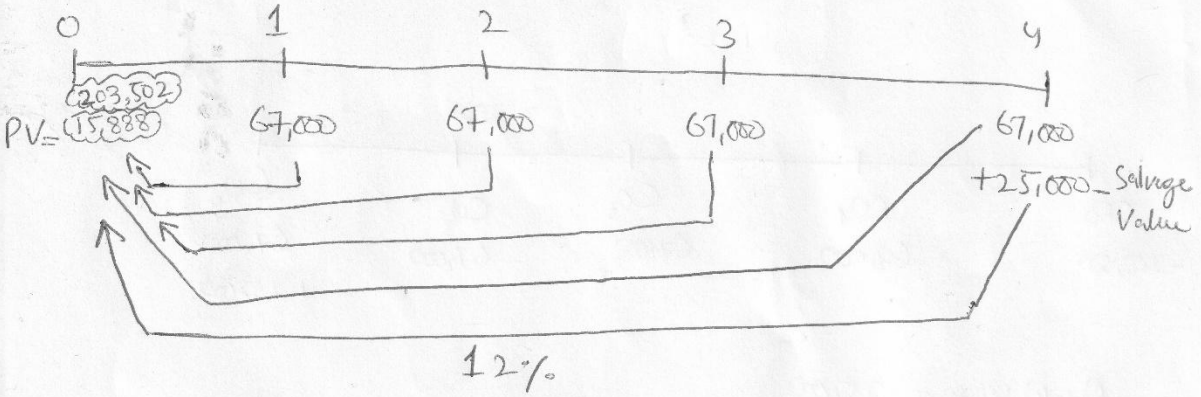
In order to expand its bottled water business, a local company is considering the acquisition of additional equipment. It plans to buy the equipment. The total cost of the equipment (as one initial payment at the beginning of the project) is $200,500. During the time span of its use, the equipment is expected to produce net cash inflows of $67,000 each year. The equipment is expected to be used for 4 years, then re-sold in the used-equipment market for $25,000. The discount rate (the rate of return assumption for the project) is 12%. What is the net present value (NPV) of this project?



2nd Method



PMT = 67,000

FV = 25,000

I/y = 12 %

N = 4

PV = 219390

Now compute NPV

$$NPV = \text{PV of initial investment} - \left(\sum \text{PV of Cash inflows} + \text{PV of Salvage Value}\right)$$

$$200,500 - (203,502 + 15,888)$$

$$200,500 - 219390$$

NPV = 18,890