Fin 622 Assignment Solved by Mohammad Bilal Azeem
Semester "Fall 2011"
"Corporate Finance (FIN622)"

Assignment No. 01
Solution:

Payback Period of each Project

Project X
Payback = Year before full recovery + Unrecovered cost at start of year / Cash flow during year
Payback = 2 + 20 / 85
Payback **= 2.235 Years**

Project A:

Net Cash Flow	=	(0 / -100)	(1 / 152)	(2 / 65)	(3 / 85)
Cumulative NCF	=	-100	15	80	165

Project Y
Payback = Year before full recovery + Unrecovered cost at start of year / Cash flow
Payback = 1 + 20 / 55
Payback **= 1.3636 Years**

Project A:

Net Cash Flow	=	(0 / -100)	(1 / 80)	(2 / 55)	(3 / 35)
Cumulative NCF	=	-100	80	135	170

Net Present Value of each Project

Net Present Value of Project:

NPV $= CF0 + CF_1 / (1+r)^1 + CF_2 (1+r)^2 + CF_3 / (1+r)^3$
NPV $= -100 + 15 / (1.1)^1 + 65 / (1.1)^2 + 85 / (1.1)^3$
NPV = -100+ 13.636 + 53.719 + 63.862
NPV = Rs: **31.217**

Net Present Value of Project

NPV $= CF0 + CF_1 / (1+r)^1 + CF_2 (1+r)^2 + CF_3 / (1+r)^3$
NPV $= -100 + 80 / (1.1)^1 + 55 / (1.1)^2 + 35 / (1.1)^3$
NPV = -100+ 72.727+ 45.455+ 26.296
NPV = Rs: **44.478**

Suggestion of Project on the basis of Payback Period & Net Present Value

I will recommend and suggest the Project "B" because shorter period is in this project, which is better for project and also NPV value is higher of project B, which is favorable for project.