



**SOLUTION OF FINANCIAL MANAGEMENT MGT201 BY**  
**MOHAMMAD BILAL AZEEM**  
**[bilalazeem341@yahoo.com](mailto:bilalazeem341@yahoo.com)**

**Question No. 1**

**Analyze the feasibility of *project 1* by using 'Net Present Value'**

**method.**

**Answer:**

$$NPV = -IO + \sum \text{of } CF_t / (1+i)^t$$

HO page # 41

**Following**

$$-IO = 700000$$

$$CF = 162000 \text{ n } 173600 \text{ n } 185550 \text{ n } 189850 \text{ n } 192980$$

$$I = 8\% = 0.08$$

$$T = 1, 2, 3, 4, 5$$

$$NPV = -700000 + 162000/(1+0.08)^1 + 173600/(1+0.08)^2 + 185550/(1+0.08)^3 + 189850/(1+0.08)^4 + 192980/(1+0.08)^5$$

**NPV =** Now calculate

**Question No. 2**

**Analyze the feasibility of *project 2* with the help of 'Profitability Index'.**

**Answer:**

$$PI = \{ \sum CF_t / (1+i)^t \} / IO$$

HO page #42

$$PI = \{ \sum 163000/(1+0.09) + 167456/(1+0.09)^2 + 172850/(1+0.09)^3 + 177940/(1+0.09)^4 + 181550/(1+0.09)^5 \} / 830000$$

$$PI =$$

**Question No. 3**

HO page # 40

**Calculate 'Payback Period' of each project and analyze which project will recover the invested money in less time.**

**Answer:**

Payback period for 1<sup>st</sup> project

$$\text{Investment} = 700,000$$

So 700,000-(cash inflows)

$$162000 + 173600 + 185550 + 189850 = 711000$$

So payback period is about 5 years

Payback period for 2<sup>nd</sup> project

$$\text{Investment} = 830000$$

So 830000-(cash inflows)

$$163000 + 167456 + 172850 + 177940 + 181550 = 862807$$

So payback period is about 5 years

www.vchowk.com

www.vchowk.com