

Chapter 13

Level II

E13.11 *Time allowed – 30 minutes*

A company has two investment opportunities, each with an initial cost of £100,000 and each having the expected net cash inflows shown below. The company's cost of capital is 10% and the projected cash flows are fairly certain for project A but less certain for project B. To allow for this uncertainty it has been suggested that a discount rate of 15% may be more suitable.

Expected cash inflows

Year	Project A	Project B
	£	£
1	50,000	20,000
2	40,000	40,000
3	30,000	50,000
4	10,000	60,000

- (i) Calculate the net present value for each project.**
- (ii) On the basis of NPV advise the company on whether either or both projects should be undertaken.**
- (iii) Comment on the method of appraisal you have used, and its advantages and disadvantages.**

E13.12 *Time allowed – 45 minutes*

Using the information from Exercise E13.11

- (i) Calculate the internal rate of return for each project.**
- (ii) On the basis of IRR advise the company on whether either or both projects should be undertaken.**
- (iii) Comment on the method of appraisal you have used, and its advantages and disadvantages.**