

# Assignment example

Finance



Finance and Accounting Assignment First project: Oil-drilling project Year

Cashflow ' 000 PVIFA 12% Present value

5-10 100, 000 4. 1114 411, 140

11-20 200, 000 5. 6502 1, 130, 040

Total present value 1, 541, 180

Less: initial cost (500, 000)

Net present value 1, 041, 180

Second project: Expansion of an aluminum smelter in Mapletree, Quebec

Year Cashflow'000 PVIFA 12% Present value

2-20 87, 000 7. 3658 640, 824. 6

Total present value 640, 824. 6

Less: initial cost (500, 000)

Net present value 140, 824. 6

where PVIFA is the present value interest factor of annuities obtained from the tables

Net present value is defined as the present value of cashflows less the initial outlay. It is one of the crucial techniques used in making investment decisions where the investment with a positive net present value is considered the best investment whereas the investment with a negative net present value is rejected. From the two investment projects being considered by Canadian Metal Company, both have a positive net present value therefore in this case the investment that should be made is the one with a higher net present value which is the oil drilling project with a net present value of 1, 041, 180, 000 compared to net present value of 140, 824, 600 for the expansion of an aluminum smelter in Mapletree, Quebec.