

HW - Chapter 7 - Capital Budgeting- Q9

Calculation of Net Cash flow

$$\text{Contribution} = (3.00 - 1.75) \times 50,000 = \text{Rs. } 62,500$$

$$\text{Fixed costs} = 40,000 - [(1,25,000 - 30,000) / 5] = \text{Rs. } 21,000$$

Year	Capital (Rs.)	Contribution (Rs.)	Fixed costs (Rs.)	Adverts (Rs.)	Net cash flow (Rs.)	10% discount factor	Present value (Rs.)
1	(25,000)	62,500	(21,000)	(10,000)	6,500	0.909	5,909
2	-	62,500	(21,000)	(15,000)	26,500	0.826	21,889
3	-	62,500	(21,000)	-	41,500	0.751	31,167
4	-	62,500	(21,000)	-	41,500	0.683	28,345
5	30,000	62,500	(21,000)	-	71,500	0.621	44,402
PV of Inflows							1,31,712
(-) PV of outflows							(1,00,000)
Net Present Value							31,712