

QUESTION

1. A company is considering a new investment project. The project has an initial investment of \$100,000 and is expected to generate cash flows of \$30,000 per year for 5 years. The company's cost of capital is 10%.

Year	0	1	2	3	4	5
Initial Investment	-100,000					
Annual Cash Flow		30,000	30,000	30,000	30,000	30,000
NPV						



ANSWER

The NPV of the investment project is \$10,000. Since the NPV is positive, the project is profitable and should be accepted.