

b) Calculate the net present value for each project using a discount factor of 10%

Project Supernatant

Year	CASH FLOW	Discount factor	Present value
0	(£200,000)	1.000	(£200,000)
1	£20,000	0.9091	£18,182
2	£40,000	0.8264	£33,056
3	£60,000	0.7513	£45,078
4	£60,000	0.6830	£40,980
5	£60,000	0.6210	£37,260

Total cash flow = £174,556

NET PRESENT VALUE = TOTAL CASH FLOW - INVESTMENT

NPV = £174,556 - £200,000

NPV = -£25,444

Project Fudge 41

Year	CASH FLOW	Discount factor	Present value
0	(£200,000)	1.000	(£200,000)
1	£80,000	0.9091	£72,728
2	£60,000	0.8264	£49,584
3	£60,000	0.7513	£45,078
4	£40,000	0.6830	£27,320
5	£40,000	0.6210	£24,840

TOTAL CASH FLOW = £219,550

NPV = £219,550 - £200,000 = £19,550