



1 Anticipate value of annual sales & manufacturing costs

- Units x Price = Turnover
- Units x Costs = Full costs
- Turnover - Variable costs = Contribution - Fixed costs = Profit

2 Profit & Loss account

- Prepare P&L (Revenue - Costs)
- Don't forget depreciation

3 Annual cash flows

Depreciation will be added back to cash flows !!!!!

5 IRR and payback

At IRR NPV = 0
 Take Net cash flow and try and error to achieve NPV = 0
 Payback

4 NPV

Net Cash Flow of each year discounted = Present Value - Initial Investment (Layout) = NPV

Payback Year	0	1	2	3	4	5
Net Cash Flow	-2000	365	740	732	645	625
Cumulative Cash Flow	-2000	-1635	-895	-163	482	1107
Payback in years	3.25					

NPV £000 Year	1	2	3	4	5	
Net Cash Flow	365	740	732	645	625	
Discount factor	0.9009	0.8116	0.7312	0.6587	0.5935	
Present value of annual cash flows	329	601	535	425	371	2260
Initial Investment						-2000
Net Present Value						260

Annual Operating Profit	284	318	260	185	60
Non-cash costs	400	400	400	400	400
Operating Cash Flow	684	718	660	585	460
Annual Change in working capital	-319	22	72	60	165
Net Cash Flow	365	740	732	645	625