

Exercise (3-1): The following are three projects and their cash flows:

Cash Flow	Project A (BD)	Project B (BD)	Project C (BD)
Cost (Cash Outflow)	20,000	20,000	20,000
Cash inflow year 1	6,000	8,000	3,000
Cash inflow year 2	6,000	7,500	4,000
Cash inflow year 3	6,000	6,000	5,000
Cash inflow year 4	6,000	5,000	6,000

REQUIRED:

1. Write the correct formula for the payback period of Fixed cash inflow project:

$$\text{Annual cash inflow} \quad \text{Cost} \quad \times \quad \div$$

Payback Period =

2. Calculate the payback period of project (A):

$$6,000 \quad 20,000 \quad 26,000 \quad 3.33 \quad + \quad \div$$

Payback Period of Project (A) =

= years.