**Activity: Time Value of Money and Discounted Cash Flow Analysis Practice**

Complete the following and submit in a Word document. Be sure to show your process and calculations:

As a financial analyst, you have been brought in to help various organizations or individuals to make decisions on possible financial investments that have been presented to them. Solve each of these problems using standard discounted cash flow analysis techniques.

1. Living Color Co. is facing a decision on a pending project with the following cash flows. If the required return for the project is 9.9 percent, what is the project's NPV? Should Living Color move forward with the project? Show all calculations to arrive at the NPV.

| Living Color Cash Flow |
| --- |
| **Year** | **Cash Flow** |
| 0 | -$31,870 |
| 1 | 8,570 |
| 2 | 10,370 |
| 3 | 14,960 |
| 4 | 16,410 |
| 5 | 11,540 |

1. Kathy Flemings is planning on buying a new car in seven years. She thinks that she will need about $25,000. She has decided to invest $2,500 today and will do so at the beginning of each of the next six years for a total of seven payments. If her investment can earn 12 percent annually, how much will she have at the end of seven years? Will this be enough for her new car? Show all calculations to arrive at this answer.
2. Foodelicious Corp. is evaluating whether it should purchase an ethnic restaurant in Manhattan. The current owner had originally signed a 25-year lease, of which 16 years still remain. Foodelicious Corp. expects the restaurant to continue to have sales (and net cash flows) of about the same for the remainder of the lease. Last year, the restaurant brought in net cash flows of $310,000.  The current owner is asking $1,950,000 for the business. If Foodelicious evaluates similar investments using a 15 percent discount rate, what is the present value of this investment?  Should it take over the investment?  Show all calculations to help Foodelicious make a decision.
3. Mary Lynn Sirianni believes that she will need $750,000 in an IRA investment to live a comfortable life when she retires in 30 years. She is offered an IRA investment that will require her to invest $3,000 a year for the next 30 years, starting at the end of this year. The investment will earn 13 percent annually. How much will she have at the end of 30 years? Should she make this investment? Show all calculations to help her make a decision.
4. Gretchen Williams won a lottery. She will have a choice of receiving either $25,000 at the end of each year for the next 30 years or take a lump sum payment today of $215,000. If she can earn a return of 10 percent on any investment she makes, which option should she take? Show all calculations to help her make a decision.