

Section - 5

Q.2 → Explain the NPV and IRR, what is corporate financial management, what is time value of money?

Ans: NPV :- Net present value (NPV) is the difference between the present value of cash inflows and the present value of cash outflow over a period of time.

NPV = Present value of cash inflows - Present value of cash outflow

$$NPV = \sum_{t=1}^n \frac{CF_t}{(1+k)^t} - CF_0$$

IRR :- Internal rate of return (IRR) is a calculation used to estimate the profitability of potential investments.

$$IRR = x + \frac{P_x - 1}{P_x} (y - x)$$

y = Higher discount rate

x = Lower discount rate

P_x = Present value of cash inflows at x