



ICAEW Excel 08 NPV

In this video, I'm going to talk to you about the NPV function in Excel, which will calculate the net present value of a series of cash flows given a particular discount rate.

Here we've got 10 years worth of cash flows. We've got initial investment of 10,000, followed by some positive cash flows, and we're going to calculate the net present value. So, imagine calculating the present value of each of these future cash flows and then adding them all together. It's the sum of the present values of the cash flows. It's called net present value because we've got some positives and some negatives, so we're netting off the positives and negatives and it requires a discount rate, we can see here the four percent.

We look bottom right and you can see how it works equals, NPV, rate, comma values. So the rate is the discount rate is the four percent and the value is simply the cash flows. And this is how it works. Equals, NPV, open brackets, point to the rate, comma, point to the cash flows, close brackets, enter. And so the sum of the present values of those future cash flows at a discount rate of four percent is one three five nine, and importantly, it's a positive number. So we can see that this investment would represent a positive net present value for us at a discount rate of four percent.