

Extract A

Sunderland Furniture Centre

Sunderland Furniture Centre is a family run furniture store located in Fulwell, Sunderland. The business sells leather and fabric upholstery, dining and bedroom furniture including beds. The directors of the business are considering expanding and moving to bigger premises. This will allow them to stock a much wider range of furniture. The cost of the expansion is estimated to be £800,000.

Extract B

Predicted net-cash flows for the proposed expansion

Year	Net Cash Flows
0	(£800,000)
1	£380,000
2	£580,000
3	£780,000
4	£980,000

Discount Rates Table for 5% Interest Rate

Year 0	1
Year 1	0.952
Year 2	0.907
Year 3	0.864
Year 4	0.823

- 1** Using the data from Extract B, calculate the average (accounting) rate of return of the proposed investment.

(4 marks)

- 2** Using the data from Extract B, calculate net present value of the proposed investment.

(4 marks)