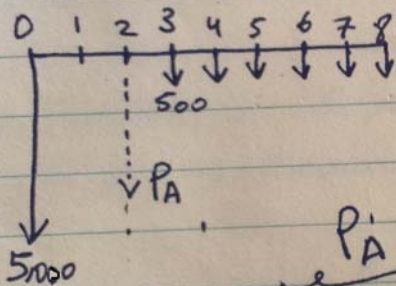


An engg group purchased new CAD software for \$5,000 now, and annual payments of \$500 for 6 years starting 3 years from now for annual upgrades. Interest rate is 8%.

PV of the software purchase & cash flow diagram :



$$PV = 5,000 + 500(P/A, 8\%, 6)(P/F, 8\%, 2)$$

$$= 5,000 + \frac{500}{0.08} \left(1 - \frac{1}{1.08^6}\right) \cdot \frac{1}{1.08^2}$$

$$= 5,000 + 500 * (4.622880) (0.857339)$$

$$= \$6,981.69$$

→ Equivalent Annual Series :

$$A = PV(A/P, 8\%, 8) = \frac{6,981.69 * 0.08}{1 - 1.08^{-8}}$$

$$= 6,981.69 * (0.108759)$$

$$= \$759.32$$