A company is considering which of two mutually exclusive projects it should undertake. The Finance Director thinks that the project with the higher NPV should be chosen whereas the Managing Director thinks that the one with the higher IRR should be undertaken especially as both projects have the same initial outlay and length of life. The company anticipates a cost of capital of 10% and the net after tax cash flow of the projects are as follow:

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Year (Cash Flow 000's ) | | 0 | 1 | 2 | 3 | 4 | 5 |
| Project X |  | (200) | 35 | 80 | 90 | 75 | 20 |
| Project Y |  | (200) | 218 | 10 | 10 | 4 | 3 |

Required:

1. Calculate the NPV and IRR of each project.
2. State with reasons, which project you would recommend.
3. Explain the inconsistency in the ranking of the two projects.