

Present Value = PV

@wikipedia

Popular mechanism of assessing the present value of the future cash flows $CF = \{CF_t\}_{t=0..T} = \{CF_0, CF_1, CF_3 \dots, CF_N\}$ with account of discount rate.

(1)
$$PV_r[CF] = \sum_{t=0}^T \frac{CF_t}{(1+r)^t}$$

where

T	total number of accounting periods (usually years)
r	discount rate

It also works as a popular mechanism of quantifying the [discounted](#) value of the future [Asset Market Value](#):

(2)
$$PV = \frac{AMV_n}{(1+r)^T}$$

where

T	total number of accounting periods (usually years)
r	discount rate
AMV_n	Asset Market Value at the end of the n -th accounting period
PV	discounted value of the potential Cash proceedings from selling the Asset at the end of the n -th accounting period

The main idea of [Present Value](#) is that value of [cash](#) today is deemed by the majority of [cash](#) owners as higher than value of future [cash](#) because it is already in hand and it can be spent by owner or can be invested in readily available low-risk investment market opportunities and assure a certain profit. While future [cash](#) may not happen at all or may be lower than returns from readily available low-risk investment.

The corresponding [discount](#) of the [cash](#) value over time is controlled by [Discount Rate](#) (usually denoted as r) which is normally set along with [Weighted Average Cost of Capital \(WACC\)](#).

Investor normally would like to compare different investment opportunities and give early returns more weight and as such comparing [Present Value](#) of the future [cash](#) proceedings rather than actual [cash](#) proceedings.

The [Present Value](#) of the [Cash Flow](#) if also called [Discounted Cash Flow \(DCF\)](#).

The [Present Value](#) of all future [Cash Flows](#) is used to calculate [Net Present Value \(NPV\)](#) to prioritise investment projects.

See also

[Economics](#) / [Investment](#) / [Financial Investment](#) / [Cash Discount](#)

[[Discounted Cash Flow \(DCF\)](#)][[Profitability Index \(PI\)](#)][[Net Present Value \(NPV\)](#)][[Internal Rate of Return \(IRR\)](#)]