

PRI-AIN791

by Plagi Check

Submission date: 27-Apr-2023 06:53AM (UTC-0700)

Submission ID: 2077172184

File name: PRI-AIN791.docx (25.96K)

Word count: 2178

Character count: 11074

ACCOUNTING AND FINANCE FOR DECISION MAKING

Executive Summary

Hyundai is an automotive manufacturing company whose headquarters is in Seoul, South Korea. The company was founded in 1967 in South Korea by Chung Ju-Yung. National Pension Service, Hyundai Mobis and Chung Mong-koo are a few of the equity holders of the company. Hyundai is currently operating in many countries across the world selling and manufacturing automobiles. The main purpose of the report is to know about the potential investment opportunity in the new machinery to make the process more effective after Covid-19. The potential opportunity for business risk and growth can be acquired by this report. This report is conducted in order to know about the investment risks while expanding the types of machinery. From the evaluation, analysis and discussion it can be concluded that the company is in not a state to invest in the new machinery. The financial performance of the company does not approve of the idea of investing at this point. In case the company wants to invest in the machinery, it should make clear data on how to invest as the rate of return or the payback period should be shorter in calculation. The company should expand its business more in the target countries so that it can invest in more machinery.

Table of contents

Introduction	4
Motivation of the proposed investment	4
Purpose.....	4
Process	4
Proposition	5
Calculation of Payback period, Net Present Value and Accounting rate of return.....	5
Critical discussion of the risk and return and potential impact on the financial performance...	9
Conclusion	10
Reference List	11

Introduction

In this project the financial performance of the company is stated below to understand the metrics and make a decision of investing. The investment depends on the financial performance of the company. Evaluation of the qualitative and quantitative information is later on discussed in the project. The purpose of the investment is stated with the purpose, process and proposition factors of the company for this investment.

Motivation of the proposed investment

The purpose of the investment is to make the company less human-dependent as the companies have suffered significantly in terms of the availability of human labour in the Covid-19 period.

Purpose

During Covid-19 a huge rate of labour loss was experienced by the organisations. As mentioned by Bushe, (2019), the loss of lives and movement of the people because of no jobs at that point in time led to business losses. In order to not face the issues again the company thinks of investing in human-less machinery to make the efficiency more. As per Lyytinen *et al.*, (2021), automobile companies face challenges in the setting up of machinery without humans. Transfer of parts or heavy machinery needs a human to take this responsibility out and perform it. It is important for the company to resolve these issues in order to carry out the projects effectively.

Process

Covid-19 has been tough for businesses like automobiles to function properly because most of the things are controlled by manpower. As opined by Menz *et al.*, (2021), the company is now creating an idea about the possible factors that can enable the scope of effective management and production by automating the unit. As suggested by Brynjolfsson, (2023), automation of the machinery can lead the company to grow and earn more profits in terms of money and can save time also. Machines have fewer chances of making errors than humans. In order to make an effective change in the unit the machines should take control to help in the efficient workflow of the company.

Proposition

During the Covid time, the losses incurred by the company had an impact on the mind of the management. As per Kabeyi, (2019), to do a productive outcome in the organisation the company is evaluating the factors so that it can make a decision of investing. The capability of the company to invest in new machinery can lessen the manpower in the company. As mentioned by Baker *et al.*, (2020), the amount of money and scope of fewer errors is profitable for the company. The change in driver positions leads to the scope of productivity, effectiveness and an efficient workplace.

5

Calculation of Payback period, Net Present Value and Accounting rate of return

Payback Period:

Calculation of Payback Period		
Annual period	Net Cash flow (£)	Cash Flow (£, Cumulative)
0	-725000	-725000
1	291700	-433300
2	105200	-328100
3	74500	-253600
4	174600	-79000
5	174600	95600
Payback Period (yrs)		4.55

Table 1: Calculation for payback period

(Source: Created by the author)

Net Present Value:

Net Present Value			
Annual period	Net Cash flow (£)	Disc. Factor @ 5%	Present Values (£)
0	-725000	1	-725000
1	291700	0.95	277809.52
2	105200	0.91	95419.50
3	74500	0.86	64355.90
4	174600	0.82	143643.85
5	174600	0.78	136803.67
2 Net Present Value (£)			-6,967.55

Table 2: Calculation for Net Present Value

(Source: Created by the author)

8

Accounting Rate of Return:

Calculation of ARR	
Average Annual Profit	48260
Average Investment	435000
Accounting Rate of Return	11.09%

Table 3: Calculation for the Accounting Rate of Return

(Source: Created by the author)

Calculation of the payback period shows that the estimated time to return the invested money will be 4 years and 5 months. As per the views Ainia *et al.*, (2019), the risk is higher in terms of investing as the time estimated is higher which can make losses for the company. The return time of investment does not seem suitable for the company to back the investment procedure. It can face losses as the calculation has shown the future possibility. In reference to the words of Brodziński *et al.*, (2021), the payback period indicates the risk is very high to be investing at this point in time. The management should consider this calculation while making the decision.

The calculation shows that the net present value of the company is negative. The negative NPV is the indication of not accepting the project as it will result in net losses. As suggested by D'Auria and De Smet (2020), the company should not accept the project further as it would raise losses for the company in the future. When the NPV is negative then the investment is not feasible in the sense. NPV should be positive to be a good idea for investing in the company to gain profits after a certain period of time. The future of the company does not show a short payback period and a positive NPV hence it should not be accepting the project of investing.

ARR is calculated to know about the return that is calculated from the net income of the suggested capital investment. The accounting rate of return that is calculated is 11.09% which is the average annual profit divided by the average investment done. The accounting rate of return is an idea about how the investment looks in the eyes of the investor. There it can be stated that the higher the rate of return percentage the higher the interest of the investors. In this case, the ARR is low so it is not investable at this point in time.

8 non-financial factors that should be taken into consideration while investing in the new machinery:

- One of the most important factors is having the requirements fulfilled for the current and future laws considered.
- The company should be able to easily hire and retain workers or employees when required for the organisation.
- Meeting the industry requirements and practices that help the company to grow in future projects.

- Improvement in the relationship with suppliers and customers helps the company to grow in the future.
- Focusing on the increase of the strength of the company to know about the capability of business can lead the company to be more effective in nature.
- In the local communities, the business should aim to have a good reputation which gives a sense of goodwill to the company.
- The threats that come over a period of time should be handled carefully and backed with good business decisions.
- The company should protect the intellectual property of the company as it can hamper the reputation of the organisation in case it falls into the wrong hands.

SWOT Analysis

Strength	Weakness
<ul style="list-style-type: none"> • Hyundai is an expert in marketing paying celebrities for the ads so that the customers can feel the user-friendly experience. • Hyundai is the world's 6th largest car maker and makes a huge number of sales throughout the year across the world. 	<ul style="list-style-type: none"> • The advertisements for fuel-engine cars cannot be shot anywhere, the place has to be set. • The market share of Hyundai has dropped due to competitors rising all over the world.
Opportunity	Threat

<ul style="list-style-type: none"> • The economies of the countries have been growing and this seems to be a great potential for sales in these countries for Hyundai. • Electric cars are one of the best-selling cars of Hyundai and are the future causing less harm to the environment. 	<ul style="list-style-type: none"> • The competitors are selling the cars sometimes at lower cost and Hyundai does not do this. • Being present in many countries Hyundai has to deal with different government policies and have to follow each one of them.
---	---

Table 4: SWOT analysis of Hyundai

(Source: Created by author)

1 Critical discussion of the risk and return and potential impact on the financial performance

The calculation and mentioned evaluation in this project shows that the investment is not feasible hence this project should be accepted. As per Kusuma *et al.* (2021), the risk is too high for the company to invest as the payback period shows 4 years and 5 months for the return on investment. The NPV is in the negative figure showing the possible losses that the company can incur in case it invests in the new machinery. ARR is seen to be 11.09% which makes it difficult for the company to invest. Investing in new machinery at this point in time can affect the financial performance of the company. The company will face net losses in case it invests in new machinery. In the long run, the machinery can be installed after a few years, also when the company's financial performance would be better. The financial performance of the company is not projected in the payback period where the investment seems riskier for the company. According to Sattar *et al.* (2020), with the ongoing opportunity in the continents of Asia, Europe and Latin America in developing countries the company should focus on this. New machinery will be able to be set up once the expansion in these countries is achieved. In the achievement of expanding in these countries, the company will need a good financial performance to support its expenses. On the other hand, the company can invest in the machinery but have to take debt from other investors or banks. Debt in this condition can also be risky as the financial performance is not up to the mark.

Conclusion

From the study it can be concluded that financial performance of a company like Hyundai helps in emphasising the future opportunities along with current financial status of the company so as to make strategic decisions. The discussion regarding the financial performance of the company has been mentioned in the project. Calculations of the payback period, NPV and ARR have been shown in the project. A critical discussion has been done regarding the risk of return and its potential risk of impacting the financial performance of the company.

Reference List

- Ainia, N.S.N. and Lutfi, L., (2019). The influence of risk perception, risk tolerance, overconfidence, and loss aversion towards investment decision making. *Journal of Economics, Business, & Accountancy Ventura*, 21(3), pp.401-413.
- Baker, S.R., Farrokhnia, R.A., Meyer, S., Pagel, M. and Yannelis, C., (2020). Income, liquidity, and the consumption response to the 2020 economic stimulus payments (No. w27097). *National Bureau of Economic Research*.
- Brynjolfsson, E., (2023). The turing trap: The promise & peril of human-like artificial intelligence. *In Augmented Education in the Global Age* (pp. 103-116). Routledge.
- Bushe, B., (2019). The causes and impact of business failure among small to micro and medium enterprises in South Africa. *Africa's Public Service Delivery and Performance Review*, 7(1), pp.1-26.
- D'Auria, G. and De Smet, A., (2020). Leadership in a crisis: Responding to the coronavirus outbreak and future challenges. *Psychology*, 22(2), pp.273-287.
- Kabeyi, M., (2019). Organizational strategic planning, implementation and evaluation with analysis of challenges and benefits. *International Journal of Applied Research and Studies*, 5(6), pp.27-32.
- Kusuma, A., Syah, T.Y.R., Indradewa, R. and Fajarwati, D., 2021. Implementation of Financial Strategy Business Plan Arena Corner. *American International Journal of Business Management (AIJBM)*, 4(07), pp.86-89.
- Lyytinen, K., Nickerson, J.V. and King, J.L., (2021). Metahuman systems= humans+ machines that learn. *Journal of Information Technology*, 36(4), pp.427-445.
- Menz, M., Kunisch, S., Birkinshaw, J., Collis, D.J., Foss, N.J., Hoskisson, R.E. and Prescott, J.E., (2021). Corporate Strategy and the Theory of the Firm in the Digital Age. *Journal of Management Studies*, 58(7), pp.1695-1720.
- Sattar, M.A., Toseef, M. and Sattar, M.F., 2020. Behavioral finance biases in investment decision making. *International Journal of Accounting, Finance and Risk Management*, 5(2), p.69.

ORIGINALITY REPORT

10%

SIMILARITY INDEX

6%

INTERNET SOURCES

0%

PUBLICATIONS

6%

STUDENT PAPERS

PRIMARY SOURCES

1	Submitted to York St John University Student Paper	2%
2	Submitted to Napier University Student Paper	1%
3	uniquesubmission.com Internet Source	1%
4	Submitted to Regis University Student Paper	1%
5	pdfcoffee.com Internet Source	1%
6	Submitted to The Open College Student Paper	1%
7	www.bombessays.com Internet Source	1%
8	Submitted to University of Sunderland Student Paper	1%
9	bircu-journal.com Internet Source	1%

Exclude quotes On

Exclude matches Off

Exclude bibliography On

FINAL GRADE

/0

GENERAL COMMENTS

Instructor

PAGE 1

PAGE 2

PAGE 3

PAGE 4

PAGE 5

PAGE 6

PAGE 7

PAGE 8

PAGE 9

PAGE 10

PAGE 11