## Review Classmates: Module 2 Mini-Project

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| **Reviews** | 9 complete |

**Well done!**

You've sent 9 classmates valuable feedback that will help them improve. You can review another submission below or you can continue the course.

Cut Here Inc.



by Parum Jutlla

Submitted on July 7, 2016

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### Part 1

Cut Here, Inc. is considering a new video rendering system for their in-house studio. Currently, there are two options. Each option involves a significant investment in an asset that has a multi-year useful life. The key benefits of each option are cash savings, which Cut Here equates to cash inflows (i.e., compared to the status quo scenario, in which it incurs significant costs in terms of labor, time, etc.).

Use the cash flow information provided in the Assignment Details section of the **Instructions** tab.

Then, use the following measures to assess the two options from a financial perspective. That is, compute the following measures for each option.

* Payback
* Accounting rate of return
* Net present value
* Internal rate of return

**Payback:**  
**- Option A:** Within the first 4 years, the new system would have broken even and Cut Here Inc would have started to make a profit on the system. They would have had a $50,000 profit within the fourth year.

**- Option B**: If Cut Here Inc decided to go ahead with option B they would have had to wait until Year 6 to make a profit with that system as the price was higher and their savings each year were below $10,000 up until the fifth year of having the system.   
  
**Accounting Rate of Return:**  
**- Option A**: The rate of return in the fourth year would be $100,000/$50,000= 2% as the business would have only started making a profit during and after the fourth year of purchase. - Fifth-year $100,000/$80,000=1.25%- Sixth-year $100,000/$10,000=10%  
  
**- Option B**: The rate of return would only be in the sixth-year as option B only starts to make a profit within the sixth year as their cash savings are lower than option A.   
 - In the sixth-year $250,000/$167,000=1.497%  
 - $167,000= $250,000+years 1-5=$223,000. $390,000-$223,000  
  
**Net Present Value:**  
**- Option A:** Option A's net present value is $100,000 but as the years go on the value for the product increase however in the sixth year the value for the product decreases back down to $10,000 which mean the system loses $70,000 of their value.

- **Option B**: Option B's net present value is $250,000 but as the years go on the value for the product is rising and in the final year the value of the product is higher than the investment price which means Cut Here Inc would make a higher profit on the system after they purchase it.   
  
**Internal Rate of Return:**  
**- Option A:** The rate of return for this system would be the percentage rate that has been earned on each dollar that has been invested into the new system over a period of time. If the return on the system was 2% in the fourth year then it would be timesed by the total amount of savings in six years.  
- $10,000+$50,000+$20,000+$70,000+$80,000+$10,000 x 2%= $230,200, this would be the rate of return of this system   
  
**Option B:** The return of the system was 1.497% in the sixth year then it would be timesed by the total amount of savings in six years.   
- $1,000+$2,000+$3,000+$1,000+$20,000+$390,000x1.497%=$32,838.30, this would be the rate of return of this system if the company was going to opt for this investment.

Read the response to Part 1 and assign points below. Be sure to see the detailed rubric on the Instructions tab before assigning points.

* **0 pts - 0 points: No answer, completely irrelevant answer.**
* 5 pts - 5 points: Insufficient, incomplete, lacks supporting evidence.
* 7 pts - 7 points: Passing, meets expectations.
* 9 pts - 9 points: Well above average, exceeds expectations.
* 10 pts - 10 points: Superior performance, excellent.

### Part 2

Based on what you calculated in Part 1, which option would you recommend to Cut Here management?

The internal rate of return difference between option A and option B is $197,361.70  
  
With Option A Cut Here Inc would be making a profit quicker than Option B but, the savings after year 5 seem to decrease so they would not be making as much profit after the sixth year.

With Option B Cut Here Inc would be making a profit after six years of having the system but the profit after six years would be higher than Option A. This would mean that the savings are higher but the initial investment would me $150,000 more than Option A.

In my opinion, I would opt for Option A as Cut Here Inc would make a higher profit over a longer period of time and they would have a better internal rate of return than if they were go with Option B.

Read the response to Part 2 and assign points below. Be sure to see the detailed rubric on the Instructions tab before assigning points.

* 0 pts - 0 points: No answer, completely irrelevant answer.
* 5 pts - 5 points: Insufficient answer, incomplete, lacks supporting evidence.
* 7 pts - 7 points: Passing, meets expectations.
* **9 pts - 9 points: Well above average, exceeds expectations.**
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### Part 3

Describe some of the strengths and weaknesses of your analysis (i.e., specific measures, etc.). Also, what other considerations might influence your recommendation?

Within my analysis, I felt that it was harder to find out what information was correct when you had to find out the payback period as there was no timescale to say how long the system would last or when you had to work out the accounting rate of return you may not have known how to work it out.

I found that it was easier for me to write my net present value as it was a percentage and it was easier to work out, and the structure was easier to conduct as I knew what I need to find out.   
  
I think that if there was a higher profit and rate of return for Option A I would have opted for that one but because the profits and the rate of return was lower than Option B, I thought that Option B was going to be better in the long term.

Read the response to Part 3 and assign points below. Be sure to see the detailed rubric on the Instructions tab before assigning points.

* 0 pts - 0 points: No answer, completely irrelevant answer.
* 5 pts - 5 points: Insufficient answer, incomplete, lacks supporting evidence.
* **7 pts - 7 points: Passing, meets expectations.**
* 9 pts - 9 points: Well above average, exceeds expectations.
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Please provide any overall feedback that you have for the author of this assignment. What is one strength of the submission? What is one area of improvement that you would like to suggest?

Submit Review

The answer in Part A is wrong... but keep up learning. ^\_^

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