## Review Classmates: Module 2 Mini-Project

|  |  |
| --- | --- |
| **Reviews** | 14 complete |

**Well done!**

You've sent 14 classmates valuable feedback that will help them improve. You can review another submission below or you can continue the course.

Cut Here Inc resolutions



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Submitted on May 5, 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 B**: 250000-1000-2000-3000-1000-20000=223000-390000  
223000/390000 = 0.57 + 5 Y = 5.57 years of payback period to recover $250000  
  
**Option A**: 100000-10000-50000=40000-20000=20000-70000  
20000/70000 = 0.29 + 3 Y = 3.29 years of period to recover $100000

* **Accounting rate of return :**

**Option B** : 417000 (total of 6 years outflows in option A) / 6 = 69500  
250000(inflow in option A) / 6 = 41667  
(69500-41667) / 250000 = 11.13 %   
  
**Option A** : 240000 (total of 6 years outflows in option B) / 6 = 40000  
100000(inflow in option B) / 6 = 16667  
(40000-16667) / 100000 = 23.33 %

* **Net present value** : (calculated by excel sheet, npv(rate,value)+outflow)

|  |  |  |
| --- | --- | --- |
|  |  | **Rate** **assumed**: **10%** |
| **option B** | **option A** |  |
| (250,000) | (100,000) |  |
| 1,000 | 10,000 |  |
| 2,000 | 50,000 |  |
| 3,000 | 20,000 |  |
| 1,000 | 70,000 |  |
| 20,000 | 80,000 |  |
| 390,000 | 10,000 |  |
|  |  |  |
|  |  | Net Present Value Option B $(11938) |
|  |  |  |
|  |  |  |
|  |  | Net Present Value Option A $68569 |

* Internal rate of return(**by excel sheet**)

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  | Rate assumed:option B 10,8,5%   |  | | --- | | option B | | (250,000) | | 1,000 | | 2,000 | | 3,000 | | 1,000 | | 20,000 390000 |  |  |  |  |  |  |  |  | | --- | --- | --- | --- | --- | --- | --- | | |  |  | | --- | --- | | ($11,938) | NPV 10% | | $15,135 | NPV 8% | | $62,875 | NPV 5% | | |  |
|  | 8%+[15135/(11938+15135)]\*2%=8%+(.599)(2%)=9.11% |  |
|  |  | **IRR for B option = 9% (by excel sheet irr(value(outflow+inflow),rate(10%))** |
|  |  |  |
|  | Rate assumed:option A   |  |  | | --- | --- | | |  | | --- | | 10% | | |  |
| option A |  |  |
| (100,000) |  |  |
| 10,000 |  |  |
| 50,000 |  |  |
| 20,000 |  |  |
| 70,000 |  |  |
| 80,000 |  |  |
| 10,000 |  | **IRR for A option = 28%(irr(inflow+outflow,rate). by excel** |

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?

* **Payback**

Option **A** recommended

* **Accounting rate of return**  
  Option A recommended
* **Net present value**

Option **A** recommended

* **Internal rate of return**

Option **A** recommended 28%  
Option B recommended 9%  
  
I would recommend to **option A** with both NPV adn IRR method, despite all method can approximate reach to option A however i preferred **net present value** method the reason is Net present value accounts for time value of money which makes it a sounder approach than other investment appraisal techniques which do not discount future cash flows such payback period and accounting rate of return.Net present value is even better than some other discounted cash flows techniques such as IRR. In situations where IRR and NPV give conflicting decisions, NPV decision should be preferred.

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?

* **Net present value**
* Description :Option **A** recommended
* **strengths**: Net present value accounts for time value of money which makes it a sounder approach than other investment appraisal techniques which do not discount future cash flows such payback period and accounting rate of return.Net present value is even better than some other discounted cash flows techniques such as IRR. In situations where IRR and NPV give conflicting decisions, NPV decision should be preferred.
* **weaknesses** :NPV is after all an estimation. It is sensitive to changes in estimates for future cash flows, salvage value and the cost of capital, and it does not take into account the size of the project.  
  considerations :We should accept the project with higher NPV. In case of standalone projects, accept a project only if its NPV is positive, reject it if its NPV is negative and stay indifferent between accepting or rejecting if NPV is zero.
* **Internal rate of return**
* Description :  
  Option A recommended 28%
* Strengths:IRR is best-suited for analyzing venture capital and private equity investments and allows managers to rank projects by their overall rates of return rather than their net present values and based on time money.
* **weaknesses** :IRR can't be used for exclusive projects or those of different durations; IRR may overstate the rate of return.
* **considerations** :NO recommended than other here, because each option has its proper IRR:  
  1- Since NPV of option B is fairly close to zero at 9% value of r, therefore IRR = 9%.  
  2- Since NPV of option A is fairly close to zero at 28% value of r, therefore  
  IRR = 28%(closer to 0 than 27% & 25%).
* (Additional):Comparison (IRR & NPV):   
  The best is NPV, and if we make the comparison between NPV and IRR we find IRR assumes that the cash flows are reinvested in the projected at the same discount rate. This is a major limitation for the use of IRR. NPV makes no such assumption.

NPV is measured in terms of currency whereas IRR is measured in terms of expected percentage return.

If NPV calculation uses different discount rates, then it produces different results for the same project. But, IRR always gives the same result. For the same reason, given a choice between NPV vs IRR, managers generally prefer IRR because it is easier and less confusing.

From a comparison of NPV and IRR, it can be seen that NPV is actually a better measure than IRR, especially, in long term projects, not only because NPV considers different discount rates but also takes into account the cost of capital.

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

Well done !!!

Module 2 Mini-Project (peer 15)

Kindly evaate mine, I had marked more than 20 peers solely due to no body marking mine (system randomly marking system should work, unless the admin turned off the users from the list of evaluation)... I do appreciate in advance upon your assist.

<https://www.coursera.org/learn/managerial-accounting-tools/peer/crAeu/module-2-mini-project/discussions/threads/jBqzpFyDEeaCxw4CtnLVoQ>

Visible to classmates



**®γσ, Eng Lian Hu**a few seconds ago

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