## Review Classmates: Module 2 Mini-Project

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| --- | --- |
| **Reviews** | 16 complete |

**Well done!**

You've sent 16 classmates valuable feedback that will help them improve. You can review another submission below or you can continue the course.

how to make a decision in long term investments



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Submitted on August 2, 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 method**:  
 Option A Option B  
  
Initial investment ( 100.000) ( 250.000)  
  
- cash saving  
 year 1 10.000 1000  
= still required (90.000) (249.000)  
  
- year 2 50.000 2.000  
= (40.000) (247.000)  
  
-year 3 20.000 3.000  
= (20.000) (244.000)  
  
-year 4 70.000 1.000  
= 50.000 (243.000)  
  
-year5 20.000  
= (223.000)  
  
- year 6 390.000  
= 167.000  
  
So If we receive funds at the end of the year the:  
option one payback period = 4 years  
and option 2 payback period is 6 years  
  
but if we receive them during the year the   
option 1 requires 3. 285 years to refund its initial investment (3years + 20000/70000),   
while option 2 requires 5. 597 years to refund its initial investment (5 years + 223000/3900000)   
  
**Accounting rate of return:**  
  
 **Option A Option B**  
  
Average Cash saving/ year \* (Revenue) 40.000 69.500  
- average expense/ y (depreciation)\*\* ( 16.667) (41.667)  
  
= income/year 23.333 27.833  
/ initial investment 100.000 250.000  
= Acc rate of return 23.33% 11.13%  
  
Average Cash saving/ year \* (Revenue) = cash savings summed up/ 6 years  
Average expense/ y (depreciation)\*\* = initial investment/ 6 years   
  
**Net present value**  
Before calculating VPV we have to assume that he equired rate of return fot this company is 10% and we receive the cash inflows at the end of the period.   
  
**NPV for Option 1**= 100.000 - ( 10.000\*0.9 + 50.000\* 0.826 + 20.000\* 0.75 + 70.000 \* 0.683 + 80.000 \* 0.62 + 10.000 \* 0.564 )   
= 100.000 - 168350 = (68350)  
  
**NPV for Option 2**= 250.000 - (1000 \* 0.9 + 2000 \* 0.826 + 3000 \* 0.75 + 1000 \* 0.683 + 20000 \* 0.62 + 390000 \* 0.564)  
= 250.000 - 237845= (12155)  
  
**Internal rate of return;**  
**option A:**   
calculate NPV at 30%= (5690)  
NPV @ 28%= (930)  
NPV@ 26% = 3750  
then its between 28 and 26 % = 26% + (3750/ 4680) \* 2% = 27.6%  
  
**option B;**   
NPV @ 10% as calculated above= (12155)  
NPV @ 8% = 15048  
hen its between 8 and 10% = 8% + (15048/ 27203)\*2% = 9.1%

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?

Based on Payback period, i will recommend option A as it has the shortest payback period  
Based on Accounting rate of return i will recommend option A as it has the highest Rate  
Based on NPV i will refuse both options as they both provide a negative net present cash flow.  
  
But if i take in my consideration all of the previous calculations i will only depend on Accounting rate of return and i will chose option A as it has a highest rate and this ate also is greater than the required rate of return which is 10%

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.
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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?

based on my choice of using acc rate of return it has some strengths which are;  
1. easy to use  
2. widely used  
3. can be used to compare different investments with different interest rates and required rate.  
  
Some weaknesses are;  
1. some times it considers as a disincentive For high rate companies to invest in projects which rates higher than the minimum rate of return but lower than the companies' current rate  
2. it ignores the cash flow and time value of money.  
  
there are some factors that will affect my choice which are :  
1. when i receive the funds: at the end of the period or during the year.  
2. required rate of return the company asked for as it will affect the NPV calculated

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.
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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

Excellent !!!

Kindly evaluate mine, thanks in advance.

<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

Kindly evaluate mine, thanks in advance. <https://www.coursera.org/learn/managerial-accounting-tools/peer/crAeu/module-2-mini-project/discussions/threads/jBqzpFyDEeaCxw4CtnLVoQ>