## Review Classmates: Module 2 Mini-Project

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| --- | --- |
| **Reviews** | 20 complete |

**Well done!**

You've sent 20 classmates valuable feedback that will help them improve. You can review another submission below or you can continue the course.

Measures



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Submitted on July 24, 2015

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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 A = 4.29 :: Payback B = 6.57  
This tool of analysis is showing that the Option A will take 4.29 periods to return the initial investment. On the other hand, the Option B will take more time to achieve the same target (6.57 periods).  
  
ARR A = 23,3% :: ARR B = 11,1%  
The Accounting Rate of Return of the Option A is higher than the percentage calculated in Option B.  
  
NPV A = ? :: NPV B = ?  
The Net Present Value wasn't calculated because there is A lack of information. Specifically, the most important variable wasn't informed: the discount rate. Thus, it's impossible calculate this measure.  
  
IRR A = 27,8% :: IRR B = 9,1%  
The Internal Rate of Return of the Option A is higher than the percentage calculated in Option B as the ARR.

### Part 2

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

Considering the information released and the calculations of the techniques presented, the best decision would be the Option A.  
  
Option A has better indicators than Option B in all tools of analysis measured.

### 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?

The strenght of my decision is: Option A was better in 3 out of 4 measures. Thus, it doesn't have doubt considering the indicators analyzed.  
  
The weakness is the lack of time value of money. Although the IRR was been calculated, the NPV wasn't. And NPV is better than IRR when we think about the timing of the cash flows.  
  
Below some specifics strenghts and weaknesses:  
 -- Payback indicates a cash availability but ignores profitability.  
 -- ARR is easily comparable because it's accounting-based. However, doesn't focus on cash flows.  
 -- IRR is cash-based and easy to interpret but doesn't consider the timing of cash flows.

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.

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.
* 10 pts - 10 points: Superior performance, excellent.

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.**
* 10 pts - 10 points: Superior performance, excellent.

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

Payback B = 5.57

NPV A = ? :: NPV B = ?

2.1.3 Net present value

Category Option.A Option.B NPV.A.13 NPV.B.09 NPV.A.18 NPV.B.11 NPV.A.25 NPV.B.13 NPV.A.28 NPV.B.15 NPV.A.16 NPV.B.16

Immediate Outflow

1e+05

250000

1e+05 250000 1e+05 250000 1e+05 250000 1e+05 250000 1e+05 250000

Cash Savings

NA NA NA NA NA NA NA NA NA NA

Year 1

10000

1000

8849.56 917.43 8474.58 900.9 8000 884.96 7812.5 869.57 8620.69 862.07

Year 2

50000

2000

39157.33 1683.36 35909.22 1623.24 32000 1566.29 30517.58 1512.29 37158.15 1486.33

Year 3

20000

3000

13861 2316.55 12172.62 2193.57 10240 2079.15 9536.74 1972.55 12813.15 1921.97

Year 4

70000

1000

42932.31 708.43 36105.22 658.73 28672 613.32 26077.03 571.75 38660.38 552.29

Year 5

80000

20000

43420.79 12998.63 34968.74 11869.03 26214.4 10855.2 23283.06 9943.53 38089.04 9522.26

Year 6

10000

390000

4803.19 232544.26 3704.32 208509.93 2621.44 187324.23 2273.74 168607.76 4104.42 160072.48

Total in 6 Years

240000

417000

153024.18 251168.66 131334.7 225755.4 107747.84 203323.15 99500.65 183477.45 139445.83 174417.4

Difference

140000

167000

53024.18 1168.66 31334.7 -24244.6 7747.84 -46676.85 -499.350000000006 -66522.55 39445.83 -75582.6

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>



**Andrej Kožić**a year ago

Net present value discount rate is specified in the discussion forum. 10%