Lessons: [Back to Week 2](https://www.coursera.org/learn/managerial-accounting-tools/home/week/2)

Lesson 6 of 6: Module 2 Review

##### [**Quiz:**](https://www.coursera.org/learn/managerial-accounting-tools/exam/Qg0Yb/module-2-quiz) [Module 2 Quiz](https://www.coursera.org/learn/managerial-accounting-tools/exam/Qg0Yb/module-2-quiz)

[12 questions](https://www.coursera.org/learn/managerial-accounting-tools/exam/Qg0Yb/module-2-quiz)

##### [**Peer Graded Assignment:**](https://www.coursera.org/learn/managerial-accounting-tools/peer/crAeu/module-2-mini-project) [Module 2 Mini-Project](https://www.coursera.org/learn/managerial-accounting-tools/peer/crAeu/module-2-mini-project)

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## Review Classmates: Module 2 Mini-Project

Review by July 20, 11:59 PM PDT

|  |  |
| --- | --- |
| **Reviews** | 2 left to complete |

an analysis of Cut Here Inc on the new video rendering system



by joseph ibanez

Submitted on June 1, 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

**a) Payback Using the Payback Period :**

we have for option A Initial outflow : $100,000 for option B : initial outflow $250,000

yr1: 10,000 for yr: 1.000

yr 2: 50,000 for yr 2: 2,000

yr 3 : 20,000 for yr 3: 3,000

yr4: 70,000 : 20,000/70,000 =.285 for yr 4: 1,000

payback period : 3.285 years for yr 5 : 20,000

for yr 6: 390,000 224,000/390,000= .574

for payback period for investment B : 5.574 yrs

**b) Accounting rate of return**

for investment A : 240,000/6: = 40,000 for investment B : 416,000/6: 69.33333

100,000/6: = 16,6666667 250,000/6: 41.66666

Acctg RR for investment A (40,000-16,66666667)/ 100,000 = 23.333%

For ACCTG RR for Investment B: (69.333-41.666)/ ,250000 = 00.0110666656%

**c)Net present value 10% cost of capital**

for option A : for Option B :

Initial investment : 100,000 Initial Investment: 250,000

Interest rate : 10% Interest rate :10%

Cash flow cash flow

1) 10,000 1) 1,000

2) 50,000 2) 2,000

3) 20,000 3) 3,000

4) 70,000 4) 1,000

5) 80,000 5) 20,000

6) 10,000 6) 390,000

Net Present Value : 62 355.37 NPV = -(10,852.54)

**d) IRR Method**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
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| |  |  |  |  | | --- | --- | --- | --- | |  | Option A |  | Option b | | Immediate outflow | ($100,000) |  | ($250,000) | | Year 1 | 10,000 |  | 1,000 | | Year 2 | 50,000 |  | 2,000 | | Year 3 | 20,000 |  | 3,000 | | Year 4 | 70,000 |  | 1,000 | | Year 5 | 80,000 |  | 20,000 | | Year 6 | 10,000 |  | 390,000 | |  |  |  |  | | IRR 28% |  |  | IRR 9% | | In order to make the IRR =0 the discount rate must equal to .27808 |  |  | must be eQUAL TO 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 the 4 options which i have done , i would use the net present value as my choice and i would use option A for NPV for Cut Here's Management**

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.

### 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?

**While useful NPV method is useful , it has both its advantages and disdavantages to select a project**   
  
**Advantages:**

* **With the NPV method, the advantage is that it is a direct measure of the dollar contribution to the stockholders.**
* **With the IRR method, the advantage is that it shows the return on the original money invested.**

**Disadvantages:**

* **With the NPV method, the disadvantage is that the project size is not measured.**
* **With the IRR method, the disadvantage is that, at times, it can give you conflicting answers when compared to NPV for mutually exclusive projects. The 'multiple IRR problem' can also be an issue.**

**The Multiple IRR Problem occurs when cash flows during the project lifetime is negative (i.e. the project operates at a loss or the company needs to contribute more capital).This is known as a "non-normal cash flow", and such cash flows will give multiple IRRs.**  
  
**The Post-Audit's RoleThe post-audit process in the capital-budgeting process is quite important. In the post-audit process, an analyst examines a company's capital-budgeting decisions to see how the actual results from the projects compare to the results the company estimated. The post-audit process gives the company a sense of not only how the projects are performing, but also how good its inputs were.**  
**If a project's actual results differed significantly in a negative direction, the post-audit process will help the company learn where it went wrong with respect to inputs so that the same mistake will not be made when analyzing future projects.**

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

### Comments

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