## Review Classmates: Module 2 Mini-Project

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| --- | --- |
| **Reviews** | 6 complete |

**Well done!**

You've sent 6 classmates valuable feedback that will help them improve. You can review another submission below or you can continue the course.

The previous submission was successfully flagged. You can review a different submission below.

Cut Here & There, Inc.



by Mohammad Reda

Submitted on August 10, 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

|  |  |  |
| --- | --- | --- |
|  | Option A | Payback |
| Immediate outflow | $100,000 |  |
| Cash Savings |  |  |
| Year 1 | 10,000 | 90,000 |
| Year 2 | 50,000 | 40,000 |
| Year 3 | 20,000 | 20,000 |
| Year 4 | 70,000 | ***-50,000*** |
| Year 5 | 80,000 |  |
| Year 6 | 10,000 |  |
|  |  | 0.285714 |
|  |  |  |
| Payback |  | **3.28** |

* **Payback** for Option A is the positive numbers for Year 1,2 & 3 respectively + The fraction calculated with (20,000/70,000) = 0.28
* **Accounting rate of return** : We could calculate it as follows:

1. **Average Outflow** = $100,000 / 6 Years = $16666.67
2. **Average Cash Savings** = Sum all Years / Number of Years = $240,000 / 6 Years = $4,000
3. **ARR** = ( Average Cash Savings - Average Outflow )/ Immediate Cash Flow = ($16,666.67 + $4,000)/$100,000 = ***23.33%***

* **Net Present Value :** Assuming Discount Rate 13% then NPV will equal = $53,024.18
* Using This Web based calculator : <https://goo.gl/mt6vYv>

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|  |  |  |
| --- | --- | --- |
|  | Option B | Payback |
| Immediate outflow | $250,000 |  |
| Cash Savings |  |  |
| Year 1 | 1,000 | 249,000 |
| Year 2 | 2,000 | 247,000 |
| Year 3 | 3,000 | 244,000 |
| Year 4 | 1,000 | 243,000 |
| Year 5 | 20,000 | 223,000 |
| Year 6 | 390,000 | ***-167,000*** |
|  |  | 0.571795 |
|  |  |  |
| Payback |  | **5.57** |

* **Payback** for Option B is the positive numbers for Year 1,2,3,4 & 5 respectively + The fraction calculated with (223,000/390,000) = 0.57
* **Accounting rate of return :**

1. Average Outflow = $250,000 / 6 = $41,666.67
2. Average Cash Savings = Sum all Years / Number of Years = $417,000 / 6 = $69,500
3. ARR = ( Average Cash Savings - Average Outflow )/ Immediate Cash Flow = ( $69,500 - $41,666.67 ) / 6 = ***11.13%***

* **Net Present Value :** Assuming Discount Rate 13% then NPV will equal = **-46,676.85**
* Using This Web based calculator : <https://goo.gl/mt6vYv>

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 my calculations I suggest to proceed with project 1 as it will generate more income, and the payback is only 3.28 years, compared to 5.57 years for project 2, Also the Accounting Rate of Return is significantly higher for Project 1 than Project 2.

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?

Below I'll summarize Pros and Cons between Project 1 & Project 2 in accordance to the measures used in this module, as follows:  
  
1. Payback:

* Pros: Easy understanding of restoring the investment amount.
* Cons: Ignores the time value of money.

2. Accounting rate of return:

* Pros: Easy Calculations, and since it's accounting based solutions, no other reports are needed.
* Cons: Cash basics might not be accurate.

3. Net present value:

* Pros: Recognize the risk of future cash flows.
* Cons: Project Size isn't taken into consideration.

4. Internal rate of return:

* Pros: Preliminary tool to measure if the investment is worth or not before take action
* Cons: Inflation rate is not included in the formula.

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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Feedback

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?

excellent !!!

**Submit Review**

### Comments

Visible to classmates

