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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[Previous Lesson](https://www.coursera.org/learn/managerial-accounting-tools/quiz/Kpokm/lesson-2-4-practice-quiz)

[Next Week](https://www.coursera.org/learn/managerial-accounting-tools/home/week/3)

## Review Classmates: Module 2 Mini-Project

Review by July 20, 11:59 PM PDT

|  |  |
| --- | --- |
| **Reviews** | 4 left to complete |

Week 2 Assignment



by Aditya Kumar

Submitted on June 7, 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

**\*\*\*As this is a video rendering system/software. I have made 2 ASSUMPTIONS\*\*\*\***  
**-> Initial cost is for license of 6 Years**  
**-> Zero depriciation**  
  
**Payback Period**  
Option A : 4 Years(if cash is realized at end of year) or 3.29 years(if cash is realized equally throughout the year).  
Option B : 6 Years(if cash is realized at end of year) or 5.57 years(if cash is realized equally throughout the year).  
  
**Accounting Rate of Return (\*\*Assuming Zero Depreciation)**  
Option A: 40%  
Option B : 27.8%  
  
**Net Present Value (Considering we are deciding to invest now, and considering returns for 6 years)**

|  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- |
|  | Option A | Factor | Current Value | Option B | Factor | Current Value |  |
| Immediate outflow | 100,000 |  |  | 250,000 |  |  |  |
| Cash Savings |  |  |  |  |  |  |  |
| 1 | 10,000 | 0.714286 | 7,143 | 1,000 | 0.782473 | 782 |  |
| 2 | 50,000 | 0.510204 | 25,510 | 2,000 | 0.612263 | 1,225 |  |
| 3 | 20,000 | 0.364431 | 7,289 | 3,000 | 0.479079 | 1,437 |  |
| 4 | 70,000 | 0.260308 | 18,222 | 1,000 | 0.374866 | 375 |  |
| 5 | 80,000 | 0.185934 | 14,875 | 20,000 | 0.293323 | 5,866 |  |
| 6 | 10,000 | 0.132810 | 1,328 | 390,000 | 0.229517 | 89,512 |  |
|  |  |  | **74,366** |  |  |  | **99,197** |
| Total Return | 240,000 |  |  | 417,000 |  |  |  |
| Return per year | 40000 |  |  | 69500 |  |  |  |
| ARR | 40.00 |  |  | 27.80 |  |  |  |
| Rate | 0.40 |  |  | 0.28 |  |  |  |

*Option A : NPV= current value of future earnings- current value of invested money = 74366-100000=(-25634)*  
*Option B : NPV= current value of future earnings- current value of invested money = 99197-250000=(-150803)*  
  
*Internal Rate of Return (the rate at which NPV is Zero)*  
*Option A: NPV Becomes Zero at rate 0.27808 i.e. 27.808 % i.e. 27.81%*  
*Option B:* **NPV Becomes Zero at rate 0.0908665 i.e. 9.08665 % i.e. 9.09%**

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?

If the Asset life is fixed for 6 Years, then i would not like to recommend either of these option as NPV is negative in both cases.

However, if there is just the choice between these two options with 6 years life analysis, then option 1 is better as it provides better rate of return. (ARR & CRR both )

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?

Strength of my analysis :  
> Very quantitative analysis  
  
Weaknesses of my analysis  
> Doesn't considers qualitative comparison between both options  
> Depreciation is not considered  
> Asset life is theoretically assumed to 6 years

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

Visible to classmates

