Review Classmates: Module 2 Mini-Project

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| **Reviews** | 5 complete |

**Well done!**

You've sent 5 classmates valuable feedback that will help them improve. You can review another submission below or you can continue the course.

Investment Analysis - Cut Here, Inc.



by Megan Tenboer

Submitted on August 8, 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 = 3.4 years  
Accounting Rate of Return = 35%  
Net Present Value with required 10% Discount Rate = $68,569  
Internal Rate of Return = 27.81%  
  
  
**Option B**  
Payback = 6.34 years  
Accounting Rate of Return = 16.7%  
Net Present Value with required 10% Discount Rate = -$11,938  
Internal Rate of Return = 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?

After calculating payback period, accounting rate of return, NPV, and internal rate of return, it is clear that Cut Here management should select Option A. The have more cash in hand quicker, and as they expressed this as a benefit for them, it's a clear cut decision.

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?

* Initially no target discount rate for NPV calculations was provided, however this allowed me to try a variety of options and to understand how each percentage impacted the results.
* For the payback period caluculation, I assumed that all payments were made at the end of the year with initial investments immediately.
* For the accouting rate of return, I assumed straight-line depreciation with no remaining value.
* Even thought the analysis provided a clear answer, it was stated that Cut Here's cash flow was MOST important.
* To understand the full picture, each calculation was required, as they all provide a different outlook on the investment options.

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

I assisted peers and marked 8 peers. 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

