Higher Colleges of Technology -Dubai Dubai Women's Campus BUS 2303 Financial Management Project Coversheet Level 3-Sem 1-2012/2013

PROJECT INFORMATION

Project 2 - Coursework: Case Analysis

Topic - Capital Budgeting Project

Project Summary (For further details please refer to Project Assessment Criteria):

In Financial Management Fundamentals course, you are required to analyze potential investments of a firm using capital budgeting techniques.

The objective of this project is to be able to

- Calculate and explain a variety of capital budgeting calculations Payback period, Accounting rate of return and Net present value
- Evaluating capital investments using these techniques and taking decisions after considering the strengths and weaknesses of each of these techniques.

Word Limit/Page Limit: 3 - 6 pages

Submission Mode: Hard copy Or Soft copy

Percentage of Total Marks: 20 %

Project Due Date: Week 15

Contact Details for Concerned Teacher/s: 1. Dr. Sitalakshmi Ramanan Ext: 588

LEARNING OBJECTIVES:

ummary of					, student/s shou	ld know:
	Project	Assignment	Learning O	utcomes	Course	Learning
		4.04.025.62			Obi	ective
			and the second		(from cou	rse outme)

Analyze potential investments of a firm using capital budgeting techniques

STUDENTS TO COMPLETE THIS SECTION NOTE: Please attach this page with your project. Your teacher/s will NOT accept your project

7979118950

Higher Colleges of Technology -Dubai Dubai Women's Campus BUS 2303 Financial Management Project Coversheet Level 3-Sem 1-2012/2013

unless a signed copy of	this page is attached with your project.	
Team Members:	St ID	
1.	C+ ID	
2	St. ID.	
3 4.	St. ID.	
IMPORTANT INSTRU		6
IMPORTANT INSTRU	JCHONS	
	Assessments and exams	il .
submissions will have 5 will not be accepted and to solve any technical is	be submitted on the deadline at the set time in the approximate the set of the set time in the approximate the set time in the approximate the set of the student will receive zero for that assessment. It is the set is sues before the due date.	ident's responsibility
given a maximum exten	isses a deadline, a medical note must be provided within 3 days ision equal to the number of days of documented illness based ent is sick for 3 days, she will have a maximum of 3 days ap assessments, each situation will be considered on its of	extra to submit her
teacher will use their c	ilser etion.	
If a student misses an edays of the exam date, a	exam or a presentation, she will receive zero. If a medical note an alternative assessment will arranged between the student and	d the teacher.
2. Plagiarism/Saf	fe-Assign	DD 17:
To avoid plagiarism, s	students are required to submit all their assignments to Safe n. Please remember that HCT has ZERO tolerance policy tow ted to Safe Assign, please consult with your instructor for clari-	Assign on BB Visia wards cheating. If you iffication.
3. Referencing	y a	
To avoid, plagiarism it	is important for you to apply the Modern Language Association any written work. If you need to know more about this referen com/courses/common/mla/mla.php	on (MLA) standard of cing technique, please
	STUDENT DECLARATION	
Ti	ve read and understood the instructions and the work attached is m	y/our own work.
	Sign	
2.	Sign. Sign.	
3.	Sign	
4.	Sign	
FOR TEACHERS	MARKS AWARDED (PLEASE WRITE COMMENTS AT THE BACK OF THIS SHEET)	
The second secon	Percentage Grade	
Total Marks	Percentage	

Higher Colleges of Technology

BUS 2303-Financial management

Case Study-Capital budgeting

Capital Budgeting Case Study - School for Advanced Studies

A private school is considering investing in its own transport fleet (School buses). Currently, the transportation has been contracted to an outside organization:

The initial cost of the transport fleet would be AED 600 000. The life of the transport fleet would be five years, after which time the vehicles would have to be scrapped with no salvage value.

The management has come up with the following Revenues and Cost data for the next five years.

	Year 1	Year 2	Year 3	Year 4	Year 5
Revenues	300,000	330,000	350,000	380,000	400,000
Drivers' Costs	33,000	35,000	36,000	38,000	40,000
Repairs & maintenance	8,000	13,000	15,000	16,000	18,000
Other Costs	130,000	135,000	140,000	136,000	142,000
Depreciation	120,000	120,000	120,000	120,000	120,000

To raise funds for the project your company is proposing to raise a long-term loan at 12% interest rate per annum.

You are told that there is an alternative project that could be invested in using the funds which has the following projected results:

Payback period

= 3 years

Accounting rate of return Net present value = 30% = AED140 000.

As funds are limited, investment can only be made in one project.

Note: The transport fleet would be purchased at the beginning of the project and all other expenditure would be incurred at the end of each relevant year.

Required:

- 1. Prepare a table showing the net cash flows over the life of the transport fleet project.
- 2. Calculate the following for the transport fleet project:
 - (i) Payback period
 - (ii) Accounting rate of return
 - (iii) Net present value
- Write a short memo to the Investment Manager in your company explaining whether the company should invest in the transport fleet project or choose the alternative project available. You must clearly explain the reasons for your decision.

Table A-3 Present Value Interest Factors for One Dollar Discounted at k Percent for n Periods: $PVIF_{k,n} = I/(1+k)^n$

T

0.833 0.8065 0.6544 0.6574 0.6574 0.6574 0.6574 0.6574 0.6574 0.6574 0.6785 0.							The state of the state of	-		The second of the second		SECONOMINE DESCRIPTION OF THE PERSON NAMED IN COLUMN 1	CONTRACTOR AND ADDRESS OF			200	0.00		-		
	100	107	706	30%	49%	2%	%9	7%		%6	70%	11%	12%		-	-	-			-	0 7092
0.9010 0.9020<	erion	0/1	20000	00700	21900	0.9524	0.9434	100	0.9259	-	+	+	+	+	+	+	+	-	-	0.6400	0.5917
	-	1066 0	0.9804	0.5103	CIOC'O	0000	0 8900	0 8734	0.8573	-	0.8264	0.8116	+	+	+	+	+	+	-	0.5120	0.4552
0.9421 0.9421 0.9421 0.9421 0.9421 0.9422 0.9422 0.9422 0.9422 0.9422 0.9422 0.9422 0.9422 0.9422 0.9422 0.9422 0.9422 0.9422 0.9423 0.9424 0.9434 0.9424 0.9434 0.9444 0.9444 <th< td=""><td>2</td><td>0.9803</td><td>0.9612</td><td>0.9426</td><td>0.9246</td><td>0.3070</td><td>20000</td><td>29100</td><td>0.7938</td><td>-</td><td>0,7513</td><td>0,7312</td><td>-</td><td>+</td><td>+</td><td>+</td><td>+</td><td>+</td><td>+</td><td>0 4096</td><td>0 3501</td></th<>	2	0.9803	0.9612	0.9426	0.9246	0.3070	20000	29100	0.7938	-	0,7513	0,7312	-	+	+	+	+	+	+	0 4096	0 3501
09420 08486 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08500 08450 08500 08450 08500 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450 08450	3	9076.0	0.9423	0.9151	0.8890	0.8638	0.8330	00000	0.7750	+	-	0.6587	-	-	+	+	+	+	+	77610	0 2693
0.912 0.8568 0.8578 0.8719 0.7329 0.7279 </td <td>4</td> <td>0.9610</td> <td>0.9238</td> <td>0.8885</td> <td>0.8548</td> <td>0.8227</td> <td>0.7921</td> <td>0.1029</td> <td>0.0300</td> <td>0 6400</td> <td>+</td> <td>0 5935</td> <td>0.5674</td> <td>-</td> <td>+</td> <td>+</td> <td>+</td> <td>+</td> <td>+</td> <td>1</td> <td></td>	4	0.9610	0.9238	0.8885	0.8548	0.8227	0.7921	0.1029	0.0300	0 6400	+	0 5935	0.5674	-	+	+	+	+	+	1	
CHANCE CHANCE CHANCE CHANCE CHANCE CASAGE CASAGE<	. 5	0.9515	0.9057	0.8626	0.8219	0.7835	0.7473	0.7130	0.0000	0.00	+		-		1	+	+	+	+	12900	0.2072
0.9350 0.8373 0.7482 0.7483 0.6483 0.6483 0.6483 0.6483 0.6483 0.6483 0.6483 0.6483 0.6483 0.6483 0.6483 0.6483 0.6483 0.6483 0.6483 0.6483 0.6483 0.6483 0.6484 0.6484 0.6483 0.4833 0.6484 0.6483 0.6484 0.6484 0.6483 0.6484<	A. 12.00									1	2000	0.6346	99050	-	-	-	+	+	+	2000	0.1504
0.933.5 0.813.6 0.715.6 <t< td=""><td>10000</td><td></td><td>0 8880</td><td>0.8375</td><td>0,7903</td><td>0.7462</td><td>0.7050</td><td>0.6663</td><td>0,6302</td><td>0.5963</td><td>0,5645</td><td>0,0340</td><td>0.4573</td><td>-</td><td>-</td><td>-</td><td>+</td><td>+</td><td>+</td><td>1507.0</td><td>92010</td></t<>	10000		0 8880	0.8375	0,7903	0.7462	0.7050	0.6663	0,6302	0.5963	0,5645	0,0340	0.4573	-	-	-	+	+	+	1507.0	92010
09131 011534 </td <td>0</td> <td>1</td> <td>2000</td> <td>0.0121</td> <td>0052.0</td> <td>07107</td> <td>0,6651</td> <td>0.6227</td> <td>0.5835</td> <td>0.5470</td> <td>0.5132</td> <td>11040</td> <td>0.000</td> <td>-</td> <td>03506</td> <td>-</td> <td>+</td> <td>+</td> <td>+</td> <td>0.1010</td> <td>6,000</td>	0	1	2000	0.0121	0052.0	07107	0,6651	0.6227	0.5835	0.5470	0.5132	11040	0.000	-	03506	-	+	+	+	0.1010	6,000
0.0533 0.1536<	17		0.8700	0.000	0.7207	0.6768	0.6274	0.5820	0.5403	0.5019	0.4665	0.4339	0.4039	+	0.3075	H	-	+	+	0.1342	2000
913.10 0.0233 0.1344 0.0358 0.4354 0.2489 0.1347 0.1347 0.2467 0.2367 0.2367 0.2367 0.2367 0.2367 0.2367 0.2367 0.2367 0.1369 0.1122<	80	1	0.8368	+	0,7026	0.6446	0.5919	0.5439	0,5002	0.4604	0.4241	0.3572	0.3220	0.2946	0.2697	1	+	+	0.1164	0.1074	0.0120
0.8873 0.7724 0.6606 0.5288 0.4750 0.4896 0.3875 0.1374 0.1266 0.1054 0.1174 0.1054 0.1174 0.1054 0.1174 0.1054 0.1174 0.1054 0.1172 0.1054 0.1174 0.1054 0.1172 0.1054 0.1172 0.1054 0.1172 0.1054 0.1172 0.1172 0.1054 0.1172 0.1054 0.1172 0.1054 0.1172 0.1054 0.1172 0.1054 0.1172 0.1054 0.1172 0.1054 0.1172 0.1054 0.1182 0.1172 0.1054 0.1182<	2	20	0.8203	+	0.6756	0.6139	0.5584	0,5083	0.4632	0.4774	0,36,0	1000					+	1	00000	0 0859	0.0558
0.881.0. 0.772.4. 0.6406. 0.5846. 0.5846. 0.4731. 0.4389. 0.4371. 0.4389. 0.4371. 0.4389. 0.4371. 0.4389. 0.4371. 0.4389. 0.4371. 0.4389. 0.4379. 0.4389. 0.4389. 0.2267. 0.2267. 0.2267. 0.2267. 0.1887.	10.00	1	0.020	+							1	00000	2797.0	0 2607	0.2366	-	+	0.1340	0.0930	0000	0.0479
0.8877 0.7787 0.7787 0.7287<	SECTION SECTION	-1		+	+	0 5847	0.5268	0.4751	0.4289	0.3875	0.3505	0,3173	0.000	70550	0.2076		+	0.1122	0.0757	0.000	01230
0.872.8 0.718.9 0.718.0 0.578.9 0.247.9 0.277.9 0.277.9 0.277.9 0.277.9 0.277.9 0.277.9 0.277.9 0.277.9 0.277.9 0.277.9 0.277.9 0.277.9 0.277.9 0.277.9 0.277.9 0.277.9 0.278.9 0.278.9 0.1827.9	WHINE.		0.8043	+	+	+	+	0 4440	0.3971	0.3555	0.3186	0.2858	0.2301	10000	0.1001	0.1625	0.1452	0.0935	0.0610	0.0550	00000
0.878.7 0.773.0 0.6810 0.6800 6 0.5336 0.4840 0 0.7230 0 0.2800 0 0.2200 0 0.1450 0 0	17		-	-	+	+	+	0.4150	LL 95 0	0.3262	0.2897	0.2575	0,2292	0.2042	0.1021	0.1413	0.1252	6710.0	0.0492	0.0440	0.0254
0 \$ 0 \$ 10 \$ 10 \$ 10 \$ 10 \$ 10 \$ 10 \$ 1	113	1	-	-	-	+	+	0.41.0	SUPEO	0 2992	0,2633	0.2320	0.2046	0.1807	0.1397	00000	01070	0.0649	0.0397	0.0352	0.0195
Colored Colo	Se de la		+	-	-	-	0.4423	+	CO+C'O	20000	102494	0.2090	0.1827	0.1599	0.1401	0.17.9	0.1012				
0.8228 0.7234 0.6237 0.4581 0.1399 0.1415 0.1145 0.1145 0.1149<	110	4	+	+		-	-	+	0,3152	0.2750							00000	0.0541	0.0320	0.0281	0.0150
0.828.8 0.17284 0.6272 0.6273 0.4481 0.3387 0.4281 0.7219 0.1148 0.1148 0.10529 0.1078 0.1148 0.10529 0.1078 0.1078 0.1148 0.1078 0.1078 0.1078 0.1078 0.1078 0.1078 0.1078 0.1078 0.1078 0.1078 0.1078 0.1078 0.1078 0.1078 0.1078 0.1078 0.1078 0.1078 0.1078 0.0	Cr	1	+	╁					1	01500	ALICO	+	0,1631	0.1415	0.1229	0.1069	0.000	DONNE	0.0258	0.0225	0.0116
9.05444 0.7142 0.6650 0.5134 0.4653 0.3714 0.2316 0.2708 0.2211 0.1719 0.1729 0.1520 0.1108 0.0504 0.0008 0.0008 0.0009 0	STATE OF THE PARTY	1	+	+	-	-	_	4	+	0.235	0.1070	+	0.1456	. 0.1252	0,1078	0.0929	0.0802	3750.0	0.0208	0.0180	0.0089
08464 0.1742 0.2874 0.4935 0.4315 0.2293 0.2293 0.2293 0.1293 0.1103 0.1103 0.1103 0.1103 0.0103 0.0103 0.0103 0.1	91	-	+	+	+	-	-	-	+	0.2311	0.1710	0000	01300	0.1108	0.0946	8080.0	0.0091	0,000	89100	0.0144	0,0068
0.81350 0.7002 0.73854 0.4259 0.42745 0.2367 0.2365 0.2317 0.10485 0.1347 0.1101 0.0368 0.0718 0.0018 0.0019 0.0019 0.0018 0.0019 0.0018 0.0019 0.001	11		-	+	+	+	-	-	-	0.2120	0.1799	+	13110	0.0081	0 0829	0.0703	0.0596	0.0313	0,0100	51100	0.0053
0.8137 0.6664 0.5337 0.4546 0.3329 0.3128 0.2584 0.2145 0.1784 0.1486 0.1240 0.1017 0.0000 0.0018 0.	-18		-	+	+	+	+	+	-	-	0.1635	+	+	0.000	0.0728	0.0611	0.0514	0.0261	0.0135	0.00	
0,8195 0,6730 0,6353 0,4564 0,3569 0,2415 0,1487 0,1637 0,1117 0,0926 0,0768 0,0768 0,0513 0,0413 0,0111 0,0926 0,0768 0,0568 0,0452 0,0452 0,0413 0,0111 0,0926 0,0568 0,0568 0,0452 0,0452 0,0112 0,0123 0,0113 0,0117 0,0936 0,0568 0,0456 0,0452 0,0452 0,0117 0,0937 0,0938 0,0561 0,0462 0,0462 0,0453 0,0117 0,0937 0,0938 0,0451 0,0451 0,0452 0,0453 0,0117 0,0938 0,0661 0,0461 0,0462 0,0453 0,0138 0,0138 0,0451 0,0431 0,0138 0,0138 0,0453 0,0453 0,0138 0,0453 0,0453 0,0138 0,0453 0,0453 0,0138 0,0453 0,0453 0,0138 0,0453 0,0453 0,0138 0,0138 0,0453 0,0453 0,0138 0,0453 0,0453 0,0453 0,0453<	19		\dashv	+	+	+	+	+	-	-	-	-1	+	0,000						2000	O DOUGO
1,11,11,11,11,11,11,11,11,11,11,11,1,1,1	20	530	-	1	+	+	+	+		1			+	0000	80000	0.0531	0.0443	0.0217	0.0109	0.0092	100.0
0.8814 0.6858 0.5239 0.4234 0.4244<	STORES OF	3	The second		1	+	+	+	╁	-	0.1351	0.1117	+	0.0758	0.0000	0.0467	0.0382	0.0181	0.0088	0.0074	0.003
0.8734 0.6468 0.5219 0.4422 0.0348 0.21719 0.4222 0.0348 0.21703 0.1703 0.1703 0.1171 0.0507 0.0508 0.0551 0.0541 0.0452 0.0248 0.02170 0.1041 0.0242 0.0243 0.0244 0.0243 0.0244 0.0243 0.0244 0.0243 0.0244 0.0243 0.0244	1. T.		-	_	-	+	+	+	+	╁	-	-	+	0.0680	00000	0.000	0.0329	0.0151	1700.0	0.0059	0.0024
0.7794 0.6542 0.2667 0.4667 0.2528 0.2647 0.2189 0.1160 0.1064 0.0653 0.0633 0.0633 0.0634 0.0534 0.0546 0.0546 0.0533 0.0547 0.0546 0.0646 0.0533 0.0547 0.0547 0.0547 0.1160 0.0947 0.0747 0.0164 0.0754 0.0547 0.0176 0.0754 0.0547 0.0176 0.0754 0.0547 0.0176 0.0754 0.0547 0.0176 0.0754 0.0547 0.0547 0.0176 0.0754 0.0547 0.0547 0.0147 0.0147 0.0176 0.0047 0.0547 0.0147 0.0147 0.0047 0.0047 0.0047 0.0047 0.0047 0.0047 0.0047 0.0147 0.0047<		1	-	-	-	+	+	+	+	╁	-	-	-	+	0.0491	0.0340	0.0784	0.0126	0.0057	0.0047	0.0018
0.7476 0.6217 0.4519 0.3500 0.3101 0.2470 0.15470 0.1547 0.1514 0.0574 0	200		-	-	-	1	+	+	+	+	+	-	-	+	0.0431	0.0343	0.0245	0.0105	0.0046	0.0038	0.0014
0.7798 0.6959 0.4710 0.2351 0.2351 0.2351 0.2351 0.1842 0.1440 0.1150 0.0373 0.0373 0.0473 0.0473 0.0473 0.0473 0.0473 0.0174 0.0174 0.1314 0.0784 0.0754 0.0473 0.0473 0.0139 0.0112 0.0115 0.0116 0.0116 0.0017 0.7039 0.5000 0.3524 0.2314 0.1314 0.0587 0.06346 0.0349 0.0139 0.0139 0.0112 0.0017 0.0017 0.0017 0.0017 0.0017 0.0017 0.0017 0.0017 0.0017 0.0017 0.0017 0.0014 0.0014 0.0017 0.0014		1_	+	-	_	+	1	+	1	+	+	-	-	-	0.0378	0.000	100				
0.7479 0.5251 0.4120 0.2063 0.2214 0.1741 0.1314 0.05994 0.0754 0.06773 0.06477 0.0134 0.0125 0.0156 0.0105 0.0101 0.0010	1	1	+	-	-	-	+	+	1	+	+	-			1	1	91100	0.0042	0.0016	0.0012	•
0.7419 0.53521 0.4120 0.3083 0.2314 0.1314 0.1314 0.03934 0.00354 0.02356 0.0235 0.0139 0.0102 0.00102 0.00035 0.0014 0.00035 0.0355 0.	1	2400	+	-				+	+	+	+	-	-	-	+	+	0.000	0.0017	0 0005		
0.7559 0.5060 0.3554 0.2554 0.1813 0.1301 0.05873 0.05075 0.05873 0.05075 0.0573 0.057	01.00	1	+	+	-	-	+	+	+	+	+	-	-	-	-	+	0.000.0	0.0014			•
0.5999 0.4902 0.3450 0.2457 0.1727 0.1727 0.1727 0.0002 0.0003 0.0003 0.0003 0.0007 0.0007 0.0003 0.0003 0.0003 0.0009 0.	200	1	+	-	-	-	+	+	+	+	+	-	-	-	+	+	2000	0.0007			•
0.6717 0.4529 0.3066 0.2083 0.1420 0.0972 0.0008 0.0490 0.0234 0.00085 0.0035 0.0035 0.0022 0.0014 0.0009	74.	100	+	-	-	-	+	+	+	+	1	+	-	-	+	+	+				•
0.0577 0.0339 0.0213 0.1407 0.0872 0.0543 0.0339 0.0213 0.0154	200	1	+	+	\vdash		-	+	+	+	1	+	-		\dashv	+	4	-			
The state of the s	A STATE OF		+	+	-	-		\dashv	\dashv	H	4	1									

Higher Colleges of Technology

BUS 2303 - Financial Management

Capital Budgeting

BUS 2303 - Case Study Marking Scheme

Name/Student ID:	
Topic/Project:	Individual Case Study Analysis – Capital Budgeting
Date:	
Assessor:	
Overall Grade:	

MARKING

Part 1: Net Cash Flows Table - 15 pts

Correct calculation & depiction on the table of each year's cash flows: 3 pts x 5 years

Part 2: Application of Capital Budgeting Methods / Calculations - 70 pts

- (i) Correct calculation of the project's payback period: 20 pts
- (ii) Correct calculation of the project's accounting rate of return: 20 pts
- (iii) Correct calculation of the project's net present value: 30 pts

Part 3: Memo / Recommendation - 15 pts

Correct recommendation to management with appropriate/sufficient explanation for the reasons of the decision

6

Higher Colleges of Technology

Comments:	
a company of the comp	8
9	

BUS 2303 – Financial Management

Capital Budgeting

7

Student Name:

Student ID:

Section:

ANSWERS:

1.

	Year 1	Year 2	Year 3	Year 4	Year 5
	8				
		1			
Cash Flows	VE 80	9			

2.

(i) Payback Period:

4

Student Name:

Student ID:

Section:

(ii) Accounting Rate of Return (ARR):

(iii) Net Present Value (NPV):