Case study

Finance

Case Study: Finance and Accounting Brand New Vs Second Hand High Speed Digital Printers For the business future success and survival in the printing industry, our company has no otherwise, but to acquire a new or a second hand high speed digital printer. This is because new copy shops are likely to be opened in this region with a probability of 30 percent. Moreover, stiff competition from the new copy shops is likely to cost this company a 10 percent reduction in sales, so a 3 percent average reduction on revenue should be expected. This is illustrated below:

If another copy shop opens up, 10% reduction with a 30% probability, therefore, a 3 % average reduction on revenue should be built in;

Current revenue without a high speed digital printer = £210, 000 – 3%

Projected revenue with a high speed digital printer = £245, 000 – 3%

Difference in a revenue = £35, 000 per annum projected – 3% = £33, 950

The company manager is planning to acquire a Xerox DocuPrint 135MX high speed digital printer either by purchasing a brand new or a second hand one. The expenses that are incurred in buying a new or second hand printer are as follows;

Cost of digital Printer = £40, 000 + 7. 4 interest (if the money is borrowed).

Cost of 2nd hand digital printer = £30, 000 + 20% of £15, 000 (£3, 000) = £33, 000 + 7. 4% interest

By comparing the prices above, it is evident that buying a second hand high speed printer is more cost effective/cheaper than buying a new high speed printer. However, this printer is four year old, and it is estimated that it will cost the company £15, 000 of expenses for repairs and lost business. The expenses incurred in maintaining the second hand printer is large enough to reduce revenue significantly. It is, therefore, not recommendable to obtain a

high speed digital printer by buying a second hand Xerox DocuPrint 135MX high speed digital printer.

Although a new printer will cost higher than a second hand printer, it will last longer without involving repair and maintenance costs, while in the warranty period, and it is also a fixed overhead. The only disadvantage it has is that it will potentially generate £33, 950 in revenue. This revenue, however, is the actual profit margin, which is usually accepted at approximately 20 percent profit margin, and this means that it will take the company owner at least seven years to recover his investment.

It is evident from the two illustrations above that both buying a brand new and a second hand high speed digital printer will make the company incur large losses. In order to avoid these loses, I recommend that my brother should acquire the printer on a monthly leasing deal, with a get out clause built in after every year, should the machine not work well, or new versions with new technology are introduced into the market while the printer is on a leasing. Through leasing, repair and maintenance costs are incurred by the leasing company, and this will be additional overhead to be considered by the manager if he wants to buy a new printer.