Financial analysis of amended profit and loss accounts

Finance, Financial Analysis

The following tables show the appropriate NPV values of the proposed project assuming the discount rate is 15% as the literature states. Tables have also been included to represent discount rates of 10% if the project exceeds expectations or 30% if the project doesn't meet forecast. The financial assessment method of NPV has been chosen as the primary assessment method as NPV includes all relevant cash flows irrespective of when they are expected to occur and takes into account date of flows with discount factors.

The discount factors take into account that a is worth less in a years time than its present value due to inflation so an investment to be worthwhile has to exceed inflation. NPV has a direct impact on the wealth of shareholders in the company and as a company's main aim is to create wealth a positive NPV enhances a company's wealth thus a negative NPV reduce company wealth. The NPV of the project shows positive figures for all the discount rates applied showing that even if the project doesn't perform to expectations it will still produce a positive NPV even if 30% discount factors are used as a worst-case scenario.

Other Methods of Evaluating Project The pay back period or PP as it is often quoted could be used to show how long the project would take to payback the initial investment from the projects cash inflows. This could have been used only in the project to show how long the project would take to repay the initial investment in the vehicles. Payback period isn't of any real benefit in this projects context, as PP doesn't show profitability and only deals with cash flows until payback has been achieved.

PP also has no mechanism to deal with problems of risk or uncertainty relating to the project. Pay back as a method of analysing the project has been discounted because of its shortcomings in providing a complete analysis of the projects potential. Accounting Rate of Return or ARR method, which takes the average accounting profit that the investment will generate and expresses it as a percentage of the average investment over the life of the project.

This basically would show the percentage return of the capital at the end of the investment and ignore s cash flows. ARR is not really suitable to measure performance over the life of the project; it is cash flow rather than accounting profit that is important. Cash is the measure of economic wealth generated by an investment. This is particularly important with the TOSA Project, as cash is needed to buy the licence each year so cash flow is an important measurement when gauging the projects potential.

Internal Rate of Return or IRR have also been overlooked as an analysing method in assessment of the project as IRR doesn't address the question of wealth generation although it would indicate the same signal as NPV as to whether a project should go ahead. IRR would also ignore the scale of investment made and assume that a high rate of return being preferable without taking into consideration cost of capital, which is an important investment decision in any project.