Good applied managerial finance research paper example

Business, Company

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Introduction

There are number of things that come under the ambit of financial management, and among them, the name of Capital Budgeting is one of them (Parkinson, 2012). The main perspective of this assignment is to analyze the Capital Budgeting stance with the help of Net Present Value (NPV) and Internal Rate of Return (IRR).

Analytical Provision

Cash Flow Analysis

Initial Outlay = $ 20 Million Equipment

WACC = 5%

Tax Rate = 35%

The cash inflow is mentioned below,

Net Present Value

Net present value commonly denoted as NPV is an important financial tool which is applied to scrutinize the degree of deviation between present value of cash inflows and the present value of outward cash of an organization. The company's cash inflows are basically earnings or income which is generated from any program or plan. However, the cash outflow designated investment that is associated with any project. NPV is considered to be the most widely used financial instrument in capital budgeting to assess any project whether it brings synergic effect or cannibalization effect over the financial health of a company (Besley, 2000). The project is proved to be beneficial for company if the net present value would be positive. NPV can also be used to better analyze the current value of dollar with potential dollar value by keeping both inflation and profit elements into consideration.

IRR

IRR is an acronym of Internal Rate of return which is aimed to identify the present value of cash flows in the particular program, and is equivalent to the mark of zero. IRR is basically a project evaluation technique in which there is a comparison between weighted average cost of capital (WACC) and internal rate of return. If the IRR is higher in relation to WACC then the concerned project would be suitable for the company and vice verse (Ghosh, 2013). IRR has also been identified as a ERR which defines the economic rate of return to monitor and determine the profitability of spending on capital investment

Recommendations

- The company should undertake this project into consideration for its future consequences and should forget about the last project

- John Matthews should select the project and it would bring synergy based effects over the company
- I have used Net Present Value (NPV) and Internal Rate of Return (IRR) analysis for the assessment, which are some of the dominating tools of capital budgeting
- No. The second project should not be accepted, as the new project would be more worthwhile for the company

References

Besley, S. (2000). Essentials of Managerial Finance. London: Dryden Press.

Ghosh, D. K. (2013). Managerial Finance in the Corporate Economy. Houston: Routledge.

Parkinson, A. (2012). Managerial Finance. New York: Routledge.