

# [Project managment](https://assignbuster.com/project-managment/)

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Project Management Project management PROJECT SELECTION We live in a world of finite resources and therefore cannot carry out all the projects we need. We therefore have to rank all the proposed projects and then select the most beneficial. Below are the three selected projects. The project sponsor is specific on the kind of project he is willing to finance; they should be between500, 000 and 1 million and should have a payback period of between 6months and 2 years.
Project 1: Oil pipeline cost
Direct cost
Wages & salaries 188440
Employee benefit 8000
Consultants travel 9000
Cost of raw material 250000
supplies 50000
Depreciation 40000
taxes 120000
Fees 40000
Motor expense 46000
insurance 50000
Machinery at cost 250000
Indirect cost
Repair& maintenance 130000
Total 1, 181, 440
Project 2: Health centre
Direct cost
Wages & salaries 300000
Social expenditure 10000
Employee benefit 8000
Travel 12000
supplies 50000
Depreciation 40000
taxes 110000
Building rent 40000
Motor expense 46000
insurance 50000
Machinery 250000
Light 5000
Indirect cost
Repair& maintenance 200000
Total 1, 220, 000
Project 3: RENEWABLE ENERGY RESEARCH
Direct cost
Wages & salaries 150, 000
Social expenditure 35000
Consultants and researcher’s travel 105000
Cost of raw material 35000
supplies 30000
Depreciation 25000
taxes 120000
Fees 20000
Motor expense 35000
Building rent 40000
insurance 60000
Machinery at cost 100000
Employee benefit 107000
Light 5000
Indirect cost
Repair& maintenance 130000
Total 997000
Additional information
Payback period
Cash flow per year
1. Oil pipeline cost
3 years
450, 000
2. Health centre
2 years
560, 000
3. Renewable energy research
2 years
540, 000
From the above information on the proposed projects, one project is to be selected. In order to achieve this, information on total cost, ROI and payback period will be used.
Total cost-the proposed budget should be between 500, 000 and 1 million. This means that the first two projects on Oil pipeline and a Health centre do not qualify since their total costs exceed the available budget. Therefore, using costs I will select the project on renewable energy research since it meets this requirement.
Payback period- a smaller payback period is recommended since it shows that the company is able to recover its costs of investment in a short period. It shows that the project is generating high income. Therefore, the second and third projects will be selected since they have lower payback period (Kinney & Raiborn 2008)
Return on investment-this is the returns of investment divided by the cost of investment (George & Franklin 1996). The proposed project’s ROI for a 4 year period:
Project 1 ROI= 1800000-1, 181, 440 / 1, 181, 440= 0. 52
PROJECT 2 ROI= 2240000-1, 220, 000 / 1, 220, 000= 0. 83
PROJECT 3 ROI= 2, 160, 000-997, 000 / 997, 000= 1. 17
In connection to this, project 3 will be selected since it has a higher ROI despite it having a lower cash flow as compared to Project 2.
In conclusion, from the following analysis it is evident that project three is most favourable; it has achieved the recommended initial investment requirement, has a high ROI and its payback period is also low. I would therefore select it for implementation.
References
Kinney, M & Raiborn, C. 2008. Cost Accounting: Foundations and Evolutions. Thomson North West: Boulevard.
George, T &Franklin, J. 1996. Understanding Return on Investment. New York: John Wiley & Sons.