# Project managment

Finance

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.