

# Financial management superior manufacturing



**ASSIGN  
BUSTER**

## Financial Management Superior Manufacturing, Forecasting and Cost factors

Prepare a ment showing the incremental cash flows for this project over an 8-year period.

2. Calculate the Payback Period (P/B) and the NPV for the project.

Payback = Total Investment / Annual Cash Flow

Since cash flow is not the same every year, payback is computed as:

Year 1= \$1, 200, 000 - (-\$125) = -\$1, 200, 125

Year 2-5 = \$1, 200, 125 - (\$160, 750\*4) = -\$ 557, 125

Year 6= \$ 557, 125 - \$490, 750 = \$ 66, 375

Year 7= \$66, 375 - \$490, 750 = -\$424, 375

The payback period is approximately 6. 13 years.

NPV = ((Cash Flow)<sup>n</sup> \* (PVIF)<sup>n</sup>) + ((Cash Flow)<sup>n+1</sup> \* (PVIF)<sup>n+1</sup>)

NPV = (-\$120, 000, 000\*1. 0) + (-\$125\*0. 909) + (\$160, 750\*2. 8816) + (\$490, 750\*1. 554)

NPV = \$19, 004. 91

3. Based on your answer for question 2, do you think the project should be accepted Why Assume Superior has a P/B (payback) policy of not accepting projects with life of over three years.

From the answers in number 2, it can be seen that the total investment in the project can be recouped in a span of 6. 13 years. The analysis also shows that the project has a positive net present value. Using the net present value alone, the company should accept the project as it will yield profit for them at a cost of capital of 10%. However, if Superior has a policy of accepting projects with only a life span of 3 years, investment in this project will be rejected as total investments will only be recouped after 6. 13 years. It should also be noted that the NPV for the first three years will also be

negative.

4. If the project required additional investment in land and building, how would this affect your decision Explain.

If the project requires additional investment in land and building, the cash flow will significantly changed. The land and the building will be requiring additional outflow. The land, being an asset whose value appreciates over time will have a higher disposable value at the end of the project's value. Meanwhile, the building will be depreciated to account for the natural wear and tear. At the end of the project's life, the building can be sold according to its salvage value. If these considerations are taken into account, the project will only be accepted if the present value of the salvage value of land and building will be able to offset the present value of their acquisition cost.