

# Finance and project amounts

[Finance](#)



A negative net present value is envisaged for the capital project of \$92, 878. This means that a decrease in the financial wealth of that amount will occur if the project is undertaken. The Internal Rate of Return, which can be regarded as the break-even point of the capital project amounts to 7. 48%. This is much lower than the required rate of return of 15%. In view of the above the capital project is financially unfeasible and should not be undertaken. However, it is cautious to say that before reaching such a decision qualitative features inherent in the project should also be considered.

4. a The MACRS depreciation method is preferable, because it is an accelerated cost recovery system that leads to accelerated depreciation. This thus leads to tax benefits resulting in lower taxation for the company at the initial stages of the project. This is highly desirable since the initial years are normally the most critical years of a capital project. In addition the payback period will also be enhanced. 4. b The accounting break-even point is the point at which the particular product or service neither makes a profit nor a loss.

Break-even analysis is usually performed under management accounting in order to outline the profit capabilities of a particular product/service. However such system holds a number of limitations that hinder its effectiveness. These encompass the following:

- Break-even analysis is supply sided and concentrates solely on costs. This may deviate management attention to sales revenue generation, which is likewise important.
- Presumes that fixed costs are constant and that variable costs and sales are linear.

In practice this is not always the case. A solution to the first problem outlined above is to include the marketing department during cost-volume profit analysis. Such staff will exert particular attention to the sales figure. Solutions to the latter problem are normally around more complex mathematical methods in determination of such figures. However, it is important that a cost-benefit analysis is carried out to ensure that the cost of such compound methods is lesser than the benefit attained.

References: Emath. edu (n. d. ) Chapter 15 - Cost of Capital (on line). Available from: [http://www1.emath.pu.edu.tw/cplo/%25B0%5D%25B0%25C8%25BA%25DE%25B2z%25BD%25D2%25B5%7B%25B8%25EA%25AE%25C6/Ross%25AE%25D1%25AA%25BA%25A7%25EB%25BCv%25A4%25F9/ROSS/CH15/im\\_chapter\\_15.doc&w=dividend+growth+model+models+disadvantages+disadvantage&d=JIngQZ2uSTkH&icp=1&.intl=us](http://www1.emath.pu.edu.tw/cplo/%25B0%5D%25B0%25C8%25BA%25DE%25B2z%25BD%25D2%25B5%7B%25B8%25EA%25AE%25C6/Ross%25AE%25D1%25AA%25BA%25A7%25EB%25BCv%25A4%25F9/ROSS/CH15/im_chapter_15.doc&w=dividend+growth+model+models+disadvantages+disadvantage&d=JIngQZ2uSTkH&icp=1&.intl=us) (Accessed 1st March 2009). Harper College (n. d. ). ACC 101 Chapter 13 - Bonds Payable and Investments in Bonds (on line). Available from: