Corporate finance: course notes assignment

Business

Having studied this chapter you will be able to: Evaluate the potential value added to a firm arising from a specified capital investment project or portfolio using the net present value model.

Project modeling should Include explicit treatment of: (a) Inflation & specific price variation (b) Taxation Including capital allowances and tax exhaustion (c) Single & multi-period capital rationing to include the formulation of programming methods and the interpretation of their output (d) Probability analysis and sensitivity analysis when adjusting for risk and uncertainty in investment appraisal e) Risk adjusted discount rates (covered in chapter 7) Outline the application of Monte Carlo simulation to investment appraisal.

Candidates will not be expected to undertake simulations In the exam but will be expected to demonstrate understanding of (a) simple model design (b) the different types of distribution controlling the key variables In the simulation (c) the significance of the simulation output and the assessment of the likelihood of project success (d) the measurement and interpretation of project value at risk Establish the potential economic return using AIR and modified AIR & advise on a projects return argil.

Tax is paid one year in arrears. The company will claim capital allowances on fittings and equipment at 25% on a reducing balance basis. Capital allowances are not available on land and buildings. Estimated resale proceeds of OHIO, OHO for the fittings and equipment have been included in the total figure of given above. Paint Pl expects the working capital requirements to be 15% of turnover during each of the four years of the investment programmer. Vanish real cost of capital is 7. 7% p. A. Inflation at

4% p. A. Has been ignored in the above information. This inflation will not apply to the resale value of the business which is given in nominal terms.