Preparing the feasibility study 2

Technology, Information Technology

Feasibility Study: A Look at Cost Benefit Analysis of Software System al affiliation: Feasibility Study Creating an application for Information Technology is considered as an investment for the future because these applications can significantly benefit organizations from the feasible profits. This can be in monetary form or improved working conditions. There are also risks associated with it because in some cases, the estimate can be erroneous. Furthermore, it can also turn out to be non-beneficial to the organization in the long run (FreeTutes 1).

Cost benefit analysis is quite beneficial when assessing the proposed cost of a project as compared to the total anticipated benefits. This aids in determining whether or not the project is valuable to the organization. Furthermore, CBA is useful to the organization as it gives them a clear picture of the CBR (cost, benefit and risks) which can also be used in comparing alternate investments that can be rolled out by the organization (FreeTutes 1). CBA determines the benefits as well as the savings anticipated from the system and compares it with estimated project cost. There are several examples of cost lifecycle including; personnel, supplies, equipment, overheads and consultants' fees (Plowman 1).

Costs can also be broadly divided into two broad categories which are development and operating costs. Development costs includes wages and equipment, while operating cost includes supplies and overhead costs. Once the equipment have been purchased, the outstanding expenses are personnel fees and are presented in the table below. It is clear that it keeps on rising steadily through the years.

Maintenance also is cost intensive, and should be checked on in the future to

avoid any losses from the project. It should be noted that maintenance fees are required to ensure that the machines are up and running at all times (FreeTutes 1).

When the results of the comparative evaluation suggest that benefits associated with the projects outweigh the cost of starting the project, then the project can be implemented without further delays.

CBA has a three parts associated with it. First, the potential costs to be incurred, secondly, anticipated benefits associated with the proposed actions and finally, the difference to determine if the project is feasible (+results) or non-feasible (-results) (Plowman 1). The procedure to be followed when doing a CBA includes evaluation of the projects' benefits and cost.

To effectively achieve a perfect CBA, the team leader of the project must take into consideration the steps one has to follow. Includes brainstorming the costs and benefits of doing the project. The list of all the costs and benefits should be made available while undertaking the study. They should also think of unexpected cost during the process. The next step involves assigning the monetary value to the cost and these includes the resources required, that of human effort used. This is relatively easy to come up with the estimates. Step three is assigning the monetary value to the expected benefits, which is a less straightforward one. It can prove to be difficult to estimate the revenue expected accurately. The benefits value is often intangible and will be used in determining the feasibility of the project.

There are flaws associated with cash benefit analysis like varying revenues from the estimates periodically. There is also an aspect of predicting exactly if the implemented project will achieve its target. This in the end affect the

assessment of the revenues (possible) and makes it unreliable.

Cost Benefit Analysis as measured in USD

Year/cost

Year 1

Year 2

Year 3

Year 4

Year 5

Hardware

50, 000

Software

50, 000

Manpower

7, 000

10, 000

20, 000

30, 000

40, 000

Maintenance

0

5, 000

7, 000

9, 000

11, 000

Cost at the year end

107, 000

15, 000

27, 000

39, 000

51, 000

Cumulative cost

107, 000

122, 000

149, 000

188, 000

239, 000

Expected Benefits from the proposed project

Year/Benefit

Year 1

Year 2

Year 3

Year 4

Year 5

From end products

20, 000

25, 000

30, 000

35, 000

40, 000

Sales Increase

25, 000

30, 000

35, 000

40, 000

45, 000

Benefits at year end

45, 000

55, 000

65, 000

75, 000

85, 000

Cumulative benefits

45, 000

100, 000

165, 000

240, 000

325, 000

Thus profits can be calculated as the difference between the costs from benefits

Therefore: Profits = Benefits – Costs

= 325, 000-239, 000

= USD 86, 000

The project is feasible to the company, and hence can be implemented.

References

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