

Acquisition of a new piece of equipment for coca-cola



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Coco-Cola has plans of acquiring a new piece of equipment. The company is likely to get funding problems under the following scenarios

Risk

Coca Cola would run a financial risk problem depending on which source of finance they contemplate to use in financing this new project. A firm either utilizes its internally generated resources or borrows from outside. However, the internal sources especially the retained earnings may be insufficient compelling Coca Cola to borrow by issuing either debentures or preference shares. Such external sources of finance give rise to fixed interest charges, lead to financial riskness that may force Coca Cola to be bankrupt. (Bower, 1990)

Cost

This new project is a capital investment and by their nature, capital investments involve high initial cash outlays. (www. teachmefinance.com/capitalbudgeting. html). In addition to the initial cost, Coca- Cola would also incur huge incidental costs related with the installing of this new equipment these include labor and carriage costs. More other funds would be incurred in employee training on its usage . Coca Cola however would have to look into ways and means of getting additional funds which are essential in meeting these costs.

Politics

Some board members of the decision-making organ of Coca Cola may not be comfortable with this investment plan and therefore may not pass it. The end result of this decision would be that the funds may be channeled to

other projects. This is because Capital projects by their nature, need prioritization be done since there may be insufficient funds of financing all the viable projects that the company might have passed.

Economical Factors

The budgeted funds to fund this new project might be insufficient due to government changes on the taxation policies and any other legislation that may be inherent within the government system.

Cost and Benefit Estimates

It is estimated that the new equipment would generate the following after-tax cashflows:

Year before tax cash flows

1. (10, 000)

2. 1000

3. 2500

4. 3000

5. 4000

6. 7000

7. 7000

8. 5000

9. 4500

Net cash flows 16, 800

The initial investment is \$10000

References

1. Joseph L Bower, *Managing the Resource Allocation Process*, Harvard Business School Press, 1990.