Net present value assignment

Business

An example of a capital investment return could be computing the return on investment of a marketing advertisement campaign on television for any product or service such as credit cards, where the impasses can get a real good return on investment (ROI) through interest rates and ways like this. 15. Which is the best capital investment evaluation technique for ranking investment opportunities? DC Technologies states that (2000, p. 14) " a real understanding of the use of the ranking techniques comes only with the actual practical use of the techniques.

The selection of project time period and discounting rate, and the estimation of initial capital expenditure, as well as incomes and costs to determine cash flow figures is most important when undertaking economic evaluations. I think using a combination of the evaluation techniques would be greatly beneficial to show factors from various sides of the situation and to help with making a more informed decision. Edmonds, Tsar, & Olds, (2011, p. 58) tells us that many of the techniques for evaluating capital investment proposals ignore the time value of money and are less accurate but are more quick and simple, I would think that these techniques would not be considered as one of the best capital investment techniques for ranking investment opportunities although there could be times when a situation could benefit from the SE of one of these techniques if the investment if small or the returns are expected within a short time, or if there were factors that called for a really quick decision to be made in the here and now of the moment.

The study guide for the text (page 147) gives the following guidelines: If a company is presented with only one investment opportunity, the decision rules are: If using the net present value method, accept the investment if it

has a positive NAP. If using the internal rate of return method, accept the investment if it has an AIR that is greater than the company's desired rate of return. When choosing among multiple investment options the rules are: If using the present value method, divide each project's NAP by the investment required.

This produces a present value index that should be greater than 1. 00. The higher a project's present value index, the more desirable it is. If using the internal rate of return method the first step is to rank the acceptable projects based on their AIR; the higher the AIR the better. In some situations a smaller project with a higher AIR may be less desirable than a larger project with a lower AIR. 19. " L always go for the investment with the shortest payback period. Is this a sound strategy?

Why or why not? The text tells us on page 458 that usually investments with shorter payback periods are considered better because the payback method measures only investment recovery and not profitability; it goes on to say, however, this can be invalidated when considering investment alternatives. There could be alternative factors that could bring a different set of outcomes to the given situation. The best strategy have to be chosen for the given set of circumstances that are confronted.

Once again, this would go back to the statement made by DC Technologies (2000, p. 14) which says that the individual that has to make these decisions need to have a real good understanding and actual practice of the use of the various evaluation techniques for making decisions on returns on capital investments. 21 . What are the advantages and disadvantages associated

with the unadjusted rate of return method for evaluating capital investments?

Some of the advantages and disadvantages associated with the unadjusted rate of return method for evaluating capital investments given by the text on page 459 are: disadvantage–the accuracy of the unadjusted rate of return suffers from the failure to recognize the recovery of invested capital. Movement (2000, p. 5) says “ the primary advantages of the unadjusted rate of return are simplicity and ease of understanding and the primary disadvantage is that the technique fails to take into account the time value of money. Chapter 1 1 3. How do manufacturing costs flow through inventory accounts? Manufacturing costs flow through three distinct inventory accounts: the raw materials inventory, which consists of lumber, metals, paints, and chemicals that will be used to make the products; the work in process inventory, which has partially completed products; and, finished goods inventory, which is the completed products hat are ready for sale. The cost of materials is first put in the raw materials inventory account.

The cost of materials is first put in the raw materials inventory account and later transferred from the raw materials inventory account when the cost of materials are placed in production, it then go into the work in process inventory account. The cost of labor and overhead are added in the work in process account. The cost of goods finished during the period is transferred from the work in process inventory account to the finished goods inventory account. The cost of the goods that are sold ring the accounting period is transferred from the finished goods inventory account to the cost of goods sold account.

The balances that remain in the raw materials, work in process, and finished goods inventory accounts show up on the balance sheet (Edmonds & Olds, 2009, up. 163-4). 7. Why is the salary of a production worker capitalized while the salary of a marketing manager expensed? The salary of a production worker is capitalized while the salary of a marketing manager is expensed because the labor was used to make the products, the cost is added to the Work in Process inventory account. It is considered as another asset exchange (Edmonds, Tsar, & Olds, 2011, IPPP). The labor cost of the production worker's salary results in the production of inventory that has a future economic benefit to the company. The inventory will produce revenue through sales at some future date. In order to accomplish matching, the cost of the production worker's salary is capitalized in inventory until the inventory is sold. When the sales money is recorded, the salary cost is expensed in the cost of goods sold account. So, money is matched with the expense (production worker's salary) incurred to produce it.

While some portion of the marketing manager's salary may result in some future economic benefit, the point at which it can be seen is usually too hard to measure. Thus, practical considerations require the accountant to treat the marketing manager's salary as a selling, general, and administrative cost that is expensed in the period in which it happens" (Nonfat, 2000, p. 2). 9. What do the terms oversupplied overhead and underplayed overhead mean? The term oversupplied overhead mean that if the amount of applied overhead is greater than the actual over head cost, the differences is called oversupplied overhead.

Underplayed overhead is when the amount of applied overhead is less than the actual overhead cost, the difference is called underplayed overhead. The amount of over or under applied overhead is closed to the cost of goods sold account at the end of the accounting period (Edmonds & Olds, 2009, p. 165). 16. How does the variable costing approach differ from the absorption costing approach? Explain the different income statement formats used with each approach. The absorption costing approach incorporates all product costs (fixed and variable) that is accumulated in the inventory accounts.

It is required for public reporting. The variable costing approach is used for internal reporting and only variable product costs are included in the inventory accounts. Fixed manufacturing costs are expensed when incurred regardless of when the inventory is sold. Computing it this way, variable product cost serve as a proxy for relevant cost and help with decision making. Variable costing also discourages managers from overproducing for the purpose of delaying the expense recognition of fixed overhead costs by hiding them in inventory accounts (Edmonds & Olds, 2009, p. 166).

The income statement for the absorption costing approach Just calculates sales at the given number of unit, cost of goods sold at the given number of units and price, and the gross margin. The income statement at the variable costing approach calculates the sales at the given number of units, taking out the variable cost of goods sold at the given number of units, the contribution margin, taking out the fixed manufacturing costs ending up with the net income (Edmonds, Tsar, & Olds, 2011, p. 501). Movement, K. E. (2000). Chapter 10: Planning for Capital Investments. Chapter 1 1: Product