

Sunk costs
↓

based on
page 15, 309

Project II Capital Budgeting

Prepare financials detailing the relevant cash flows of this project. Calculate NPV, IRR and Payback. Attach as Exhibit A

Prepare a full one page, single-spaced executive summary with your recommendation. Get right to the point with your recommendation early in the first paragraph. The decision at hand is whether or not to invest in this project.

yes - do project
or no - secure

Be sure to use NPV, IRR, and Payback in your explanation. Be concise in your recommendation and give brief, but thorough explanations of what the project NPV, IRR, Payback results mean to the company. Without wasting words, concisely walk the decision maker through the correct logic for evaluating the project based on the resulting NPV, IRR and Payback calculations. Hint: I will be looking to see how well you understand the concepts and will be judging your ability to explain the financial results to a non-finance audience.

Explain if your recommendation depends on whether or not the investment in this project is mutually exclusive. - yes

Include a paragraph showing a sensitivity analysis using one or two critical assumptions in your analysis and explain how that would or would not change the result and your recommendation.

Chapter - Investigation of what happens to NPV when one variable is changed if investment went down ~ 10% etc

if less or more what happens to sales down ~ 5% still have pos NPV
ie if sales not MARRS - we - straight line depreciation

Sensitivity In the investment cost 20% more how does that affect

if sales are down by 5% what happens

look 15% plus or minus
example