# Payback Period - Job One

Year	Cash Flow	Cumulative CF	
0	(110)	(110)	
1	50	(60)	
2	5	(55)	
3	20	(35)	
4	30	(5)	

Job one payback period is more than 4 year

## Payback Period - Job Two

r			
Year	Cash Flow	Cumulative CF	
0	(90)	(90)	
1	40	(50)	
2	5	(45)	
3	20	(25)	
4	15	(10)	

Job two payback period is more than 4 year. Therefore, Barry is incorrect to say that using payback period will result in Job Two being chosen over Job one as both seems to indicate similar result.

The above computation is based on the assumption that staff morale is non-cash and the amount is subjective thus excluded.

Barry mentioned about quick win, but it should be noted that payback method indicate time to recover cost of investment but it doesn't show overall profitability of project, which is the ultimate aim of investment.

Disc rate chosen is not solely based on inflation rate, disc rate is based on the co's cost of capital taking into account the project risk at the same time.

Using 3% or 4% will not change the investment decision as Job One will yield higher NPV than Job Two, thus the conclusion would still be the same as using 8%.

Based on IRR, Job One will continue to be better than Job Two bcos Job One's NPV is much higher than Job Two, Barry comment again is incorrect. However, IRR will not be useful for Barry bcos IRR is only useful when there is a target IRR, above target only acccept.

### Dec 2012

Project/Supplier	Demand	Profit	
	Н	\$3m x 6yrs =\$18m x 0.4	
Δ	L	\$3m x 0.4	EV = 10.5 - 7 =
	HL	(\$3m x 3yrs) + (0.5m x 3yrs) = \$10.5m x 0.2	<u>\$3.5m</u>
	Н	\$24m x 0.4	FV- 40.0 0 -
В	L	\$0.6m x 0.4	EV = 12.3 - 8 = <b>\$4.3m</b>
	HL	\$12.3m x 0.2	<u>**.0111</u>

#### **Implications**

Based on the decision tree, Topaz will be chosen given that it has highest EV. However, the risk to WE would be when demand is actually low, in this case option A would be better.

### **Shortcomings**

The decision is based on assumption that the given probability is accurate, thus any inaccuracy may have an implication on the decision.