

Lesson on Capital Budgeting

WebQuest Description: The Assure Model lesson plan was used to create a lesson for the Topic Capital Budgeting. The following terms were addressed in the lesson

Grade Level: College / Adult

Curriculum: Business / Economics

Keywords: Capital, Budgeting, Capital Budgeting

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Introduction

Before determining learning objectives, and designing a work-based learning program to address the gaps that have been identified in an evaluation assessment, it is important to have a very good understanding of the learners with whom we will be working. Using this Learner Profile tool will help us to get a better grip on our intended target audience, and help ensure that the program designed is appropriate for this audience. The Class Profile: this class profile consists of individual learner profile of students in the class. Background of Learners What are the age, gender, location, ethnicity, language, disability, level of education, etc. backgrounds of your learners? Class had learners' eleven (11) students, of Jamaica ethnicity who all speak English language. Prior Experience What prior knowledge, skills, experience will they have that is relevant? How will past experience influence their cognition and development? How can this experience be drawn out and integrated into the learning? The general educational background of the learner is that they have all completed Financial Accounting 1 and 2 and Costing and Management 1. Their past experience in accounting will make learning Cost and Management Accounting 2 manageable. Learners' Objectives What do you think the learners' objectives will be for completing the program? The learners' objectives for completing this call are - discuss the difficulties that affect Capital Budgeting with regard to decision making. 2. analyze the four Capital Budgeting Methods; Learners' Motivation What will make the program most relevant to the learners? What will prove meaningful, and provide motivation to learn? The skills and knowledge gained from the different topics learnt will be rewarding as it will equip learners with efficient management skills. Success Factors What factors might affect learner success or failure in the program Success factor will be achieved when learners practice and participate in group activities. Technology Do the learners have access to learning technologies (e.g. computer, CD-ROM, Internet, video, etc.)? Are they pre-disposed to using these? Technology available to learners are Internet, I-pods, Laptops and School Computers. Learning Strategies How will they best learn – participation, self-reflection, activities, practice? How can different learning styles (e.g. visual, auditory, kinesthetic) be accommodated? visual/linguistic and visual/spatial followed by bodily/kinesthetic, musical/rhythmic, and logical/mathematical Reference: Template for learner profiler retrieved from: https://www.google.com/jm/search?q=learner+profile+by+work-basedlearning.org&oq=learner+profile+by+work-basedlearning.org&aqs=chrome..69i57.6115j0j4&sourceid=chrome&espv=210&es_sm=93&ie=UTF-8#es_sm=93&espv=210&q=learner+profile+template+by+work-basedlearning.org

Tasks

Capital Budgeting - Capital budgeting is a process used by companies for evaluating and ranking potential expenditures or investments that are significant in amount. The large expenditures could include the purchase of new equipment, rebuilding existing equipment, purchasing delivery vehicles, constructing additions to buildings, etc. The large amount spent for these types of projects are known as capital expenditures. Capital Budgeting Methods: In order to be as informed as possible in making these hard decisions the owners can use different methods to facilitate this process. Some may use one (1) while others use more than one. There are many methods such as: Payback Period – This is the length of time to recover the cost of an investment. This is an important determinant of whether to undertake the position or project as longer payback periods are typically not desired for investment options. Initial Cash / Annual Cash Flow Accounting Rate of Return – The amount of profit or return, which an individual can expect based on the investment made. Accounting Rate of return divides the average profit by initial investment in order to get the ratio. Net Income / Average Investment Internal Rate of Return (IRR) – The discount rate often used in capital budgeting that makes the net present value of all cash flows from a particular project equal to zero. Generally speaking, the higher a project's internal rate of return, the more desirable it is to undertake the project. As such, IRR can be used to rank several prospective projects a firm is considering. Assuming all other factors are equal among the various projects, the project with the highest IRR would probably be considered the best and undertaken first. Amount Invested / Net Cash Flow Net Present Value – The difference between the present value of cash inflows and the present value of cash outflows. NPV is used in capital budgeting to analyze the profitability of an investment or project. Profitability Index – Profitability Index is an investment appraisal technique calculates by dividing the present value of future cash flows of a project by initial investment required for the project. If a project profitability index is greater than 1 then the project is considered to be profitable. However, if the project is less than 1 then the company is likely to lose. Profitability Index (PI) = Present Value of Future Cash Flow / Initial Investment Required Please see attachment below for the following: Assured Model Lesson Plans, Powerpoint Presentation on Capital Budgeting and Annuity Table References: Drury, C. (2008). Management and Cost Accounting, (7th ed.) Andover, MA: Cengage Learning; <http://www.accountingcoach.com/blog/what-is-capital-budgeting>

Conclusion

Question 1 The president of Georgetown Company is evaluating three investment projects. The net cash flows for each project are estimated as follows:

Investment Projects	A	B	C	Initial Cost	(\$212,508)	(\$227,448)	(\$217,180)
Year 1	\$ 90,000	\$ 60,000	\$ 50,000	2	90,000	60,000	50,000
Year 2	60,000	50,000	50,000	3	90,000	60,000	50,000
Year 3	50,000	50,000	50,000	4	90,000	60,000	50,000
Year 4	50,000	50,000	50,000	5	90,000	60,000	50,000
Year 5	50,000	50,000	50,000	6	90,000	60,000	50,000
Year 6	50,000	50,000	50,000	7	90,000	60,000	50,000
Year 7	50,000	50,000	50,000	8	90,000	60,000	50,000
Year 8	50,000	50,000	50,000	9	90,000	60,000	50,000
Year 9	50,000	50,000	50,000	10	90,000	60,000	50,000
Year 10	50,000	50,000	50,000	11	90,000	60,000	50,000
Year 11	50,000	50,000	50,000	12	90,000	60,000	50,000

Compute Each of the following:

- The payback period for each investment project
- The net present value for Each investment project
- The profitability index for Each investment project
- Rank the three investment projects based on the three measures in (i-iii)

(CAPE 2010) Assignment must be completed in groups. Attach an action plan outlining the task completed by each member.

Solutions

Project	Payback Period	Net Present Value	Profitability Index
Project A	2.3612 yrs	227,448	1.27
Project B	3.7908 yrs	217,180	1.318
Project C	4.3436 yrs	212,508	1.841

Process

Visit <http://quizlet.com> and sign in with your Facebook or Gmail login information. If you don't have either of the two aforementioned accounts, click on the sign up option and complete the information required to create a "quizlet" account. Once you have successfully logged in "quizlet", enter "Capital Budgeting 101" in the search field. Click on "Capital Budgeting 101" from the options that will appear. After selecting the assessment, choose the mode of assessment of your preference to reinforce content information. Subsequent to completing the assessment, feel free to share your progress results with your friends on Facebook. If you experience any difficulty with login instructions, please see "Quizlet screen shots" in the attachment below.

Evaluation

Group Members Responsibilities Gayle T. Hayles O Webquest, quizlet and video editing and creation and modification Carter C. James S. Campbell C. Development of assured model lesson plans, content information, power point presentation, solutions to questions in the course work. All members worked assiduously to complete given task and attended group meetings

Category and Score					Score
				Total Score	

Teacher Page

Standards

Credits

Other