# INVESTMENT ANALYSIS YEARLY WITH EXPENSES ONLY COMPARISON Example USA

#### INTRODUCTION

This example shows how to compare two investments that;

- 1. Involves an investment in equipment
- 2. Incurs operating costs

Uses the "Invest Expenses Only Yearly Projection" template and the "Incremental Cash Flow Report" because revenues are not relevant to the investment decisions.

#### EXAMPLE

A organization needs to install monitoring equipment to measure the number of units processed per hour and has received proposals from two suppliers and needs to decide which is the most economic alternative over a seven year period.

#### **General Information**

Analysis Period: 7 Years Corporate Marginal Tax Rate (Including State Taxes): 35.00% Discount Rate (Before Tax): 15.00% Depreciation: 200% Declining Balance. Recovery Period: 7 years

#### Supplier A.

Investment: \$500,000

**Repairs & Maintenance**: \$35,000 per year increasing at 4.00% per year compounding **Utilities**: \$250 per month for the first year then increasing at 3.00% per year compounded **Working Capital for spare parts**: \$30,000 **Salvage Value**: \$15,000

#### Supplier B

**Investment**: \$400,000

**Maintenance Contract**: Supplier B will provide a service contract, which includes parts and labor for five years at \$4,000 per month for five years and then \$5,500 per month for the remaining two years. The service contract excludes overtime calls.

#### Estimated overtime servicing costs;

Hourly Rate: \$60 per hour for the first year then increasing at 3.00% per year compounded No. of Hours per year: Year 1 - 100 hours increasing at 4.00% compounding per year for the next two years then 7.00% per year compounded

**Utilities**: \$300 per month for the first year then increasing at 3.00% per year compounded **Working Capital**: Zero

Salvage Value: \$15,000

#### **TEMPLATE SELECTION**

The selection of the appropriate template is based on the following;

- 1. The analysis is not impacted by the revenues, which is the same for both options
- 2. Projections are Yearly

Template: Invest Expenses Only Yearly projections

#### STEPS

Using the Invest Expenses Only Yearly projections template;

- 1. Enter the analysis for Supplier A and save
- 2. Enter the analysis for Supplier B and save
- 3. Use the "Project Comparison Report" or the "Incremental Cash Flow Report" to compare the two options

#### SUMMARY OF THE TEMPLATE INPUT INFORMATION

#### **Supplier A**

#### **Project Info Folder**

Project Name: Monitor from Supplier A Project Description: Production Line Measuring System Analysis Period: 7 years

#### **Investor Folder**

Marginal Tax Rate: 35.00% Discount Rate (Before Tax): 15.00%

#### **Investment Folder**

Description: Equipment Amount: \$500,000 Depreciation Method: Personal Property 200% DB Recovery Period: 7.0 years

#### **Working Capital Folder**

Working Capital: Year 1 \$30,000

#### **Expenses Folder**

**Repairs & Maintenance:** \$35,000 per year increasing at 4.00% per year compounded **Utilities:** \$250 per month for the first year then increasing at 3.00% per year compounded

Financing Folder

No financing

#### **Salvage Value Folder**

Salvage Value: \$15,000

#### **Supplier B**

#### **Project Info Folder**

Project Name: Monitor from Supplier B Project Description: Production Line Measuring System Analysis Period: 7 years

#### **Investor Folder**

Marginal Tax Rate: 35.00% Discount Rate (Before Tax): 15.00%

#### **Investment Folder**

Description: Equipment Amount: \$400,000 Depreciation Method: Personal Property 200% DB Recovery Period: 7.0 years

#### **Working Capital Folder**

Working Capital: Zero

#### **Expenses Folder**

**Maintenance Contract:** \$4,000 per Month for five years then \$5,500 for the remaining two years compounding

**Overtime Service Costs:** 

Hourly Rate: \$60 per Hour for first year then increasing at 3.00% per year compounded
 No. of Hours per Year: 100 for the first year then increasing at 4.00% compounding for the next two years then 7.00% compounding per year for the remaining years
 Utilities: \$300 per month for the first year then increasing at 3.00% per year compounded

#### **Financing Folder**

No financing

#### **Salvage Value Folder**

Salvage Value: \$15,000

## **INSTRUCTIONS OR ENTERING SUPPLIER A**

#### **Getting started**

The first step is to open the Investit Decisions Template "Invest Expenses Only Yearly" as follows:

- 1. Open Investit Decisions.
- 2. Select the Investit Template folder

Inv	estit Templates My Templates My Projects	Ì
	Select Template for New Project	
	Invest Decisions Yearly Projections	٠
	Invest Expenses Only Yearly 🖛	=
	Invest Revenue & Expenses Yearly	
	Invest Decisions Monthly Projections	
	Invest Expenses Only Monthly	
	Invest Revenue & Expenses Monthly	
	Replacement Decisions Yearly Projections	
	Keep Expenses Only Yearly	
	Keep Revenue & Expenses Yearly	•
	Open Help	

- 3. Select and open the Investit template "Invest Expenses Only Yearly". The analysis period dialog will open at this point.
- 4. Enter 7 years and click OK **For how many years do you wish to analyze the project?**Analysis Time Period 7 years
  <u>OK</u> <u>Cancel</u> <u>Help</u>

# Entering the project data and information

- Project Info Folder
   Enter the Property Name: Monitor from Supplier A
   Enter Description: Production Line Measuring System

The project info folder should look like this;

Project Info.	Investor	Investment	Working Capital
Report Head	ers		
Project Name	e Monitor fro	om Supplier A <del></del>	
Project Desci	ription Production	n Line Measuring Syste	em 🔶
- Analysis Tim	e Period		
7	Years C	hange Analysis Time	Period
- Entry Informa	ntion		
Enter Revenu	ie and Expenses 🗅	/early Change Ent	ry Information
Starting Date	January Year 1		

#### **Investor Folder**

1. Enter the Discount Rate Before Tax: 15.00%

#### The investor folder should look like this;

Project Info.	Investor	Investment	Working Capital
Turn off Tax	x Calculations		
Investor's Ma	rginal Tax Rate	35.00%	
Capital Gain	Tax Rate	35.00%	
Recaptured D	)epreciation Tax Rate	35.00%	
- Discount Rate	e or Desired Return o	n Investment	1
Before Tax			
After Tax		9.75%	

#### **Investment Folder**

The investment folder should appear like this;

💕 Investit Decisions - Untitled Project					_ 🗆 🖂
<u>File E</u> dit <u>R</u> eports <u>T</u> ools <u>U</u> tilites <u>I</u> nvestit <u>A</u> ctivation	<u>H</u> elp				
🗅 훋 🖬 🎒 👗 🗈 🕅 My Comp	any Info. C	lient Info.	Note	s	
Project Info. Investor Investment	Working Capital	Expe	nses	Financing	Salvage Value
Investments					
Inflate					
Description	Amount	Year	Month	Depreciation Method	Recovery Period [yrs]
Land	\$0	Year 1 🗾	Jan 🗾	Land (No Deprec.)	-
Building	\$0	Year 1 🗾	Jan 🖃	Commercial Prop. St Line	39.0
Equipment & Machinary	\$0	Year 1 🗾	Jan 🗾	Personal Prop. 200% DB	7.0
Investment [Year 1 Total] \$ 0					
Add In	sert Dele	ie M	ove		
				0	comments
		Template:	Invest E	xpenses Only Yearly	

- 1. Individually Delete rows 'Land' and 'Building' by selecting the row and clicking on the "Delete" button.
- Change 'Equipment & Machinery' to 'Equipment'
   Complete the Investment folder as follows:

👫 Investit Decisions - Invest Expenses Analysis Supp	lier A				_ 🗆 🛛
<u>File E</u> dit <u>Reports Tools U</u> tilites <u>Investit Activation</u>	<u>H</u> elp				
🗅 🖻 🖬 🎒 👗 🖻 💼 🕅 My Compa	any Info. CI	ient Info.	Note	s	
Project Info. Investor Investment	Working Capital	Expe	nses	Financing	Salvage Value
Investments					
Inflate					
Description	Amount	Year	Month	Depreciation Method	Recovery Period [yrs]
Equipment		Year 1 🗾	Jan 🗾	Personal Prop. 200% DB	7.0
Investment [Year 1 Total] \$ 500,000				Select	
Add Inse	ert Delet	e M	ove		
					Comments
	•	Template: I	nvest Ex	penses Only Yearly	

The Investment folder should now look like this

# **Working Capital Folder**

Working Capital: \$30,000 Steps for setting up the Working Capital folder

The Working Capital folder should appear like this;

💕 Investit Decisions 🗉 Ur	ntitled Project			
<u>F</u> ile <u>E</u> dit <u>R</u> eports <u>T</u> ools	; <u>U</u> tilites <u>I</u> nvestit <u>A</u> ctivation <u>H</u> elp			
	🗈 🔁 💿 My Company Info.	Client Info. N	otes	
Project Info. Investo	or Investment Capital	Expenses	Financing	Salvage Value
Working Capital				
Description	Entry Choice	Year 1 Jan	Year 2 Jan	Year 3 Jan
Vorking Capital	Add or Subtract (-) Working Capital	<mark>.</mark> ₹0	\$0	<b>\$</b> 0
Add Insert Delete		Projection Wizard	Proj	ection Description
	Templa	te: Invest Expense	s Only Yearly	

1. Enter \$30,000 into the grid for Year 1 Jan

The working oupliar lok		
👫 Investit Decisions 🗉 Inv	vest Expenses Analysis Supplier A	
<u>F</u> ile <u>E</u> dit <u>R</u> eports <u>T</u> ools	<u>U</u> tilites <u>I</u> nvestit <u>A</u> ctivation <u>H</u> elp	
	🗈 💼 My Company Info.	Client Info. Notes
Project Info. Investo	or Investment <b>Working</b> Capital	Expenses Financing Salvage Value
Working Capital		
Description	Entry Choice	Year 1 Jan Year 2 Jan Year 3 Jan
Working Capital	Add or Subtract (-) Working Capital	✓ → \$ 30,000 \$ 0 \$ 0
Add Insert Delete		Projection Wizard Projection Description
	Tem	plate: Invest Expenses Only Yearly

The working capital folder should now look like this;

#### **Expenses Folder**

Repairs & Maintenance: \$35,000 per year increasing at 4.00% per year compounded.

Utilities: \$250 per month for the first year then increasing at 3.00% per year compounded.

Project Info.	Investor	Investment	Working Capital	Ì	Expenses	Financing
Expenses						
Descriptio	n	Entry Choice		Qty	Category	Year 1 Jan
Labor	\$ per Y	'n	<u>_</u>		Common	<b>-</b> ] \$0
Materials	\$ per Y	r	<b>T</b>		Common	\$0
Repairs & Maintena	nce \$perY	'n	<b>T</b>	—	Common	\$0
Utilities	\$ per Y	'n	<b>T</b>		Common	\$0
Insurance	\$ per Y	r	<b>T</b>		Common	50
Incremental Overhe	ad \$perY	r	<b>T</b>		Common	50
Rent	\$ per S	q. Ft per Yr	<b>*</b>	0	Common	\$ 0.00

The expenses folder should appear like this;

Steps for setting up the Expenses folder

- 1. Individually Delete rows 'Labor', 'Materials', 'Insurance', 'Incremental Overhead' and 'Rent' by selecting the row and clicking on the "Delete" button.
- 2. Select row with description 'Utilities'
- 3. Select the entry choice '\$ per Mo'

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	🖹 💼 My Company Info.	Client Info.	Notes	
Project Info. Investo	r Investment Working Capital	Expenses	Financing	Salvage Value
Expenses				
Description	Entry Choice	Gty	Category	Year 1 Jan
Repairs & Maintenance	\$ per Yr	<u> </u>	Common 🔄	<b>\$</b> 0
Utilities	\$ per Mo	<u> </u>	Common 🗾	\$ 0.00
			•	
Add Insert Delete				
	Projection Wizard	Projection	Description	
				Comments
	Temp	late: Invest Expen	ses Only Yearly	

The expenses folder should now look like this:

# Steps for setting up the Repairs & Maintenance 1. Select row 1 'Repairs & Maintenance'

- Projection Wizard 2. Click on the button. Enter the following Entries

💕 Projection Wi	zard				
Entry Information					
Description: Repairs &	& Maintenance				
Entry Choice: \$ per Yr					
- Projection					
				Time Perio	d
Entry	Project Select	Increase	Starting	To	Copt Proi
Lindy	Entry Using	increase	Year	End	cont. Troj.
\$ 35,000	Annual Compounding 🔨 🗾	4.00%	Year 1 👱		<b>*</b>
1	🖁 Projection Descriptio	n			
	Panaira 9 Maintananaa				
	Repairs & Maintenance				
	Year 1 \$35.000	per Year			
	Compour	nding at 4.00% per year f	or next 6 yea	irs 🛛	
	-				
	<u> </u>	Print Report	Heik		
[	New Projection Inse	rt Projection	e Prc ection		
	Delete	All Projections	Pro	jection <u>D</u> es	cription

Press OK to save your entries and return to the Expenses folder

Steps for setting up the Utilities

- 1. Select row 1 'Utilities'
- 2. Click on the Projection Wizard button.
- 3. Enter the following entries

👫 Projection Wizard					
- Entry Information					
Description: Utilities					
Entry Choice: \$ per Mo					
Projection					
				Time Period	
Entry	Project <b>Select</b> Entry Using	Increase	Starting Year	To End	Cont. Proj.
	Annual Compounding 🔻 🖃		Year 1 🗾	7 🗹	
	Projection Description				
l i	Jtilities				
E	Entry Choice: \$ per Month				
	Year1 \$250.00 pe	er Month for 1 year			
	Compound	ing at 3.00% per year fo	or next 6 year	rs 🛛	
	<u>K</u>	int Report	<u>H</u> elp		
New Proje	tion Insert Projection	Delete Projection			
	Delete All Projection	ns Pro	jection <u>D</u> esc	cription	

Press OK to save your entries and return to the Expenses folder

#### **Financing Folder**

This example does not contain any financing.

#### Salvage Value Folder

Salvage Value: \$15,000

This example does not contain any Disposition Costs so only the Salvage Value needs to be entered.

The Salvage Value should appear like this;

Working Capital	Expenses	Financing	Salva Value
isposition Costs			
Description		Entry Choice	Expense
Selling Expenses		% of Salvage Value 👱	0.00%
Legal Fees		% of Salvage Value 👱	0.00%
	1		
Add Salvage Value	Insert	Delete	Move
Add Salvage Value Descriptio	n Insert	Capital Investment	Move Salvage Value

Enter \$15,000 into the grid for Equipment

The Salvage Value should now look like this;

Capital	Expenses	Financing	Salvag Value				
)isposition Costs							
Desci	ription	Entry Choice	Expense				
Selling Expenses		% of Salvage Value 👱	0.00%				
Legal		% of Salvade Value 🔻	0.00%				
Ad	d Inser	t Delete	Move				
Ad	d Inser	t Delete	Move				
Ad	d Inser	t Delete Capital Investment	Move Salvage Value				

-1

SAVE YOUR PROJECT

## **INSTRUCTIONS OR ENTERING SUPPLIER B**

#### **Getting started**

The first step is to open the Investit Decisions Template "Invest Expenses Only Yearly" as follows:

- 1. Open Investit Decisions.
- 2. Select the Investit Template folder

Inv	estit Templates My Templates My Projects	Ì
	Select Template for New Project	
	Invest Decisions Yearly Projections	
	Invest Expenses Only Yearly 🖛	=
	Invest Revenue & Expenses Yearly	
	Invest Decisions Monthly Projections	
	Invest Expenses Only Monthly	
	Invest Revenue & Expenses Monthly	
	Replacement Decisions Yearly Projections	
	Keep Expenses Only Yearly	
	Keep Revenue & Expenses Yearly	•
	Open Help	

- 3. Select and open the Investit template "Invest Expenses Only Yearly". The analysis period dialog will open at this point.
- 4. Enter 7 years and click OK



#### Entering the project data and information

#### **Project Info Folder**

- 1. Enter the Property Name: Monitor from Supplier B
- 2. Enter Description: Production Line Measuring System

The project info folder should look like this:

Project Info.	Investor		Investment	Working Capital
Report Heade	ers			
Project Name		Monitor fron	n Supplier B 🗲	
Project Descr	ription	Production	Line Measuring Syste	em 🗲
- Analysis Tim	e Period			
7	Years	Ch	iange Analysis Time	Period
Entry Informa Enter Revenu Starting Date	<b>ition</b> le and Ex January	penses Ye ′Year1	arly Change Ent	try Information

#### **Investor Folder**

1. Enter the Discount Rate Before Tax: 15.00%

The investor folder should look like this:

Project Investor	Investment
Turn off Tax Calculations	
Investor's Marginal Tax Rate Capital Gain Tax Rate	35.00% 35.00%
Recaptured Depreciation Tax Rate	35.00%
Before Tax After Tax	9.75%

#### **Investment Folder**

The investment folder should appear like this	The	investment	folder	should	appear	like this:	
---	-----	------------	--------	--------	--------	------------	--

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<u>File Edit Reports Tools Utilites Investit Activation</u>	<u>H</u> elp				
🗅 🖻 🖶 🎒 🐰 🖻 💼 🕅 My Compa	any Info. Cl	ient Info.	Note	s	
Project Info. Investor Investment	Working Capital	Exper	nses	Financing	Salvage Value
Investments Inflate					
Description	Amount	Year	Month	Depreciation Method	Recovery Period [yrs]
Land	\$0	Year 1 🗾	Jan 🗾	Land (No Deprec.) 📃 👱	
Building	\$0	Year1 🗾	Jan 🗾	Commercial Prop. St Line 👱	39.0
Equipment & Machinary	\$0	Year 1 🗾	Jan 🗾	Personal Prop. 200% DB 👱	7.0
Investment [Year 1 Total] \$ 0	ert Delet	e M	ove		
				Co	mments
		Template:	Invest E	xpenses Only Yearly	

- 1. Individually Delete rows 'Land' and 'Building' by selecting the row and clicking on the "Delete" button.
- Change 'Equipment & Machinery' to 'Equipment'
   Complete the Investment folder as follows:

🕼 Investit Decisions - Invest Expenses Analysis Supp	lier B				_ 🗆 🔀
<u>File Edit Reports Tools Utilites Investit Activation</u>	<u>H</u> elp				
🗅 🖻 🖬 🎒 👗 🖻 🛍 💿 My Compa	ny Info. Cl	ient Info.	Note	s	
Project Info. Investor Investment	Working Capital	Exper	nses	Financing	Salvage Value
Investments					
Inflate					
Description	Amount	Year	Month	Depreciation Method	Recovery Period [yrs]
Equipment	\$ 400,000	Year1 🗾	Jan 🗾	Personal Prop. 200% DB	7.0
Investment [Year 1 Total] \$ 400,000					
Add Inse	ert Delet	e M	ove		
				C	omments
		Template:	Invest E	xpenses Only Yearly	

# **Working Capital Folder**

The example for supplier B does not contain any Working Capital.

#### **Expenses Folder**

**Maintenance Contract:** \$4,000 per Month for five years then \$5,500 for the remaining two years compounding

#### **Overtime Service Costs:**

**Hourly Rate:** \$60 per Hour for first year then increasing at 3.00% per year compounded **No. of Hours per Year:** 100 for the first year then increasing at 4.00% compounding for the next two years then 7.00% compounding per year for the remaining years

Utilities: \$300 per month for the first year then increasing at 3.00% per year compounded

Project Info.	investor	Investment	Working Capital	Ì	Expenses	Ì	Financing
Expenses							
Description		Entry Choice		Gty	Category		Year 1 Jan
Labor	\$ per Yr		<b>x</b>	—	Common	-	\$0
Materials	\$ per Yr		*		Common	-	\$0
Repairs & Maintenance	\$ per Yr		*		Common	-	\$0
Utilities	\$ per Yr		*		Common	-	\$0
Insurance	\$ per Yr		*		Common	-	\$0
Incremental Overhead	\$ per Yr		*		Common	-	\$0
Rent	\$ per Sq. Ft per	Yr	*		Common	-	\$ 0.00

The expenses folder should appear like this;

Steps for setting up the Expenses folder

- 1. Select row 1 'Labor'
- 2. Enter Description 'Maintenance Contract'
- 3. Select Entry Choice '\$ per Mo'
- 4. Select row 2 with description 'Materials'
- 5. Enter Description 'Overtime Costs'
- 6. Select Entry Choice '\$ per Hour and Quantity'
- 7. Individually Delete rows 'Repairs & Maintenance', 'Insurance', 'Incremental Overhead' and 'Rent' by selecting the row and clicking on the "Delete" button

The expenses rolder on				
💕 Investit Decisions 🗉 Ur	ititled Project			
<u>F</u> ile <u>E</u> dit <u>R</u> eports <u>T</u> ools	<u>U</u> tilites <u>I</u> nvestit <u>A</u> ctivation <u>H</u> elp			
	🛍 💼 My Company Info.	Client Info.	Notes	
Project Info. Investo	r Investment Capital	Expenses	Financing	Salvage Value
Expenses				
Description	Entry Choice	Qty	Category	Year 1 Jan
Maintenance Contract	\$ per Mo	<u> </u>	Common 🔄	\$ 0.00
Overtime Costs	\$ per Hour and Quantity		Common 📃	\$ 0.00
	Quantity			0
Utilities	\$ per Mo	<b>_</b>	Common 🗾	\$ 0.00
			•	•
Add Insert Delete				
	Projection Wizard	Projection	Description	
				Comment:
	Templ	ate: Invest Expen	ses Only Yearly	

The expenses folder should now look like this:

Steps for setting up the Maintenance Contract 1. Select row 1 'Maintenance Contract'

- Projection Wizard button. Enter the following entries 2. Click on the

💕 Projection Wizard	ſ						
- Entry Information							
Description: Mainte	enance Contract						
Entry Choice: \$ per	Mo						
- Projection							_
					Time	Period	
Entry	Project	Increase	Term	Starting	То	Yrs	Cont. Proj.
	Entry Using			Year	End	V	,
<b>\$ 4,000.00</b>	Stepped Projection	\$ 5,500.00	1	Year1 👱 Vear6		5 <u>×</u>	
	Select			r car o			
Stepped Projection							
stepped riojection							
Nouvelue et"End of	Tam" basad an	Projection Descri	iption	_	_		<u> </u>
New value at End of	Mased on.	aintenance Contract					
C Annual Compound	ding Rate Increase	try Choice: \$ per Mon	th				
<ul> <li>Enter Value</li> </ul>		ear1 Jan Ste	pped Pro	jection	-	E	
C\$ Increase		Ter	m 1: ֆ4,u m 2: Cha	nged to \$5,50	0.00 pe	o years er Month	for 2 years
©% Increase							
_		<u>0</u> K	<u>P</u>	rint Report		<u>H</u> elp	
No. of Terms:	2						
	Show Exan	nple ->					
	Cancel	olp					
<u></u>							
	New Projection	Insert Projecti	on [	<u>)</u> elete Proje	tion		
Edit Stepp	ed Projection	Delete All Projec	tions		Proje	ction <u>D</u>	escription

Press OK in the projection wizard to save your entries and return to the Expenses folder

- Steps for setting up the Overtime CostsSelect row with description 'Overtime Costs'
- Projection Wizard 2. Click on the button

Enter the following entries

2					
💕 Projection Wizard					
Entry Information					
Description: Overtime	Costs				
Entry Choice: \$ per Ho	ur				
- Projection					
				Time Period	
Entry	Project Select	Increase	Starting	To Facil Yrs	Cont. Proj.
	Entry Using	<b>•</b> • • • • •	Year		
<b>\$ 60.00</b>	Annual Compounding		Year1 🔟		
1	🕈 Projection Description	ı			
	Overtime Costs				
	Entry Choice: \$ per Hour				
	Year1 \$60.00 pe	er Hour			
	Compoun	ding at 3.00% per year f	or next 6 yea	rs	
			<b>A</b>		
	<u>O</u> K E	Print Report	leip		
New	Projection Insert Proje	ction Delete Proje	tion		
	Delete All Pro	jections	Projection	Description	
1					

Press OK to save your entries and return to the Expenses folder

- Steps for setting up the Quantity 1. Select row with entry choice 'Quantity'
- Projection Wizard 2. Click on the button.

Enter the following entries:



Press OK to save your entries and return the Expenses folder

Steps for setting up the Utilities

- 1. Select row with description 'Utilities'
- 2. Click on the <u>Projection Wizard</u> button.

Enter the following entries:

- 100	-				
1 Projection	Wizard				
- Entry Informati	on				
Description:	Utiities				
Entry Choice:	\$ per Mo				
Projection					
					Time Period
Ent	ry	Project <b>Select</b> Entry Using	Increase	Starting Year	To End Yrs Cont. Proj.
	<b>&gt; \$</b> 300.00	Annual Compounding 🔨		Year 1 🔄	7 🖬
	👫 Proje	ection Description			
	Utiities				
	Entry Cr	noice: \$ per Month			
	Year 1	\$300.00 per Mor	ith for 1 year	_	
		Compounding at	3.00% per year for next	6 years	
		<u>0</u> K	int Report	elp	
		New Projection	rt Projection	e Projection	]
		Delete	All Projections	Proj	jection <u>D</u> escription

Press OK in the Projection Wizard to save your entries and return to the Expenses folder

# **Financing Folder**

This example does not contain any financing.

# Salvage Value Folder

Salvage Value: \$15,000

This example does not contain any Disposition Costs so only the Salvage Value needs to be entered.

Working Capital	Working Expenses		Salvage Value		
Disposition Costs					
Description		Entry Choice	Expense		
Selling Expenses		% of Salvage Value 💌	0.00%		
Legal Fees 9		% of Salvana Valua 🔻	0.00%		
Legal Fees					
Add	l Inser	t Delete	Move		
Salvage Value	i Inser ription	Capital	Move Salvage Value		

The Salvage Value should appear like this;

Enter \$15,000 into the grid for Equipment

The Salvage Value should now look like this;

Working Capital Expenses		Financing	Salvage Value
isposition Costs	\$		
Description		Entry Choice	Expense
Selling Expenses		% of Salvage Value 💌	0.00%
Legal		% of Salvaga Value 💌	0.00%
Legal		no of Salvage Value	
Legal Ad	d inser	t Delete	Move
Ad alvage Value	d Inser	t Delete Capital Investment	Move Salvage Value

SAVE YOUR PROJECT

## DECIDING BETWEEN "SUPPLIER A" or "SUPPLIER B"

To decide between the two options use the;

- a) The Project Comparison Report and
- b) The Incremental Cash Flow Report

#### **Project Comparison Report**

Up to four projects can be compared side by side.

Steps involved in selecting the projects for the Project Comparison Report.

1. Select the Project Comparison Report on the Report menu



2. On the Project Comparison Report dialog click on the "Add" button to display the Report Selection List. Select the Project and click 'Ok". Repeat the process to add another project.

Selected Projec	ts Click on the "A then click on the Comparison Report is generated from the selected	dd" button, select the project ne "Done" button
	Project Name	Add
F	Project Selection List	Remove
	Select project	Remove all
Preview R	A1 Make Example. Expenses Only Yearly Proj A1 Outsource Example. Expenses Only Yearly Pro Keep Example with Revenue & Expenses New Jersey Plant Expansion Option A New Jersey Plant Expansion Option B Projection Wizard Monthly Practice Set Projection Wizard Yearly Practice Set Replace Example Revenue & Expenses Supplier A Analysis Supplier B Analysis	port PDF Done

3. The diagram below shows selected projects to be displayed in the "Project Comparison Report"

Project Comparison Report	
Selected Projects	
The Multi-Project Comparison Report is generated from the selected projects.	
Project Name Add	d
Supplier A Analysis.nnp	
Supplier B Analysis.nnp 🔶 Rem	nove
Remo	ive all
Move Up Move Down	
Preview Report         Print Report         Export to Excel         Export to PDF         Done	

#### **Project Comparison Report**



#### **Interpretation and Decision**

**Financial Results** 

Option	Net Present Value (NPV) at 15.00%	Annual Equivalency at 15.00%
Supplier A	(\$687,299)	(\$165,199)
Supplier B	(\$655,642)	(\$157,590)

The company should choose the option that provides the lowest Net Present Value (NPV), which is Supplier B

#### **Incremental Cash Flow Report**

Can be used the show the differences in the cash flow for "Supplier A" versus "Supplier B"

Steps

Select the Incremental Cash Flow on the Report menu



Enter;

Investor's Marginal Tax Rate Discount Rate Short Term Rates

On the "Incremental Cash Flow Report" dialog click on the "Add" button to display the Report Selection List. Select the Project and click 'Ok". Repeat the process to add another project.

investor s reales. Applieu to all selec	ted projects				
Investor		Short Term Rat	es (Before Tax) -	12	
Investor Marginal Tax Rate 🗕 🗕		Financing Rate			
Discount Rate (Before Tax)	15.00%	Reinvestment Rate			
Selected Projects					
The Incremental Cash <mark>Flow Report is</mark> Projects.	created by 'Addin	g' or 'Subtracting' t 1) Click displa	he cash flows for on the "Add" by the project	the selected button to list	
Project Name		Add Cash Flow	Subtract Cash Flow	Add	
53		-14		Remove	
				Remove all	
-3	Project Sel	ection List		•	
Move Up	Select proj	iect			
	obiotrpioj				
Preview Report Print Repo	Keen Eva	mole with Revenue			
Preview Report Print Repo	Projection	mple with Revenue Wizard Monthly Pr	ractice Set		
Preview Report Print Repo	Keep Exa           Projection           Projection	mple with Revenue Wizard Monthly Pro Wizard Yearly Pra	ractice Set rotice Set		
Preview Report Print Repo	Projection Projection Projection Replace I	mple with Revenue Wizard Monthly Provident Microsoft Wizard Yearly Provident Provide	ractice Set Inctice Set & Expenses		
Preview Report Print Repo	Projection Projection Projection Replace I Supplier / Supplier I	mple with Revenue Wizard Monthly Pro Wizard Yearly Pro Example Revenue A Analysis 4	ractice Set Inctice Set & Expenses		
Preview Report Print Repo	Keep Exa       Projection       Projection       Replace I       Supplier I	mple with Revenu Wizard Monthly Pro Wizard Yearly Pra Example Revenue A Analysis <b>4</b> 3 Analysis	actice Set actice Set & Expenses		

The selected projects for the Incremental Cash Flow Report are;

Incremental Cash Flow Report 🛛 🔀					
<ul> <li>Investor's Rates. Applied to all selected projects</li> <li>Investor</li> </ul>	Short Term Rat	es (Before Tax)			
Investor Marginal Tax Rate 35.00%	Financing Rate	,,	8.00%		
Discount Rate (Before Tax) 15.00%	Reinvestment Rate		2.50%		
Selected Projects					
The Incremental Cash Flow Report is created by Adding Projects.	The Incremental Cash Flow Report is created by 'Adding' or 'Subtracting' the cash flows for the selected Projects.				
Project Name	Add Cash Flow	Subtract Cash Flow	Add		
Supplier B Analysis.nnp	۲	0	Remove		
Supplier A Analysis.nnp	0	o	Remove all		
The cash flow for "Supplier A" will be subtration         Move Up       Move I         Preview Report       Print Report         Export to	cted from the Down Excel Exp	cash flow fo	r "Supplier B"		

Click on the "Preview Report" button to display the "Incremental Cash Flow Report"

		Incremental Cash Flow Report (Before Tax	
Net Cash Flow(Before Tax)			
	Dhue	h firmer	Incremental Not Cash Flow
	Flus Supplier B Applycia	Rupplier A Ap abovic	(Boforo Tav)
× 0 –	Supplier & Analysis	(EDD 000)	(Belole 14X) 420,000
rear O	(400,000) (57,600)	(38,000)	(19,600)
2	(58,135)	(39,490)	(18,645)
3	(58,693)	(41,039)	(17,855)
4	(59,539)	(42,648)	(16,891)
5	(60,426)	(44,322)	(16,104)
6	(79,355)	(46,061)	(33,294)
	(65,472)	(2,868)	(62,603)
lotai	(839,220)	(784,427)	(54,/92)
Before Tax Financial Return			
Internal Rate of Return (IRR)	N/A	N/A	7.82%
Net Present Value (NPV) at 15.00%	(\$ 655,842)	(\$ 687,299)	\$ 31,657
Modified Internal Rate of Return (MIRR)	N/A	N/A	2.61%
Short term financing rate	8.00%	8.00%	8.00%
Short term reinvestment rate	2.50%	2.50%	2.50%
Annual Equivalency at 15.00%	(\$ 157,590)	(\$ 165,199)	\$ 7,609
Benefit to Cost Ratio at 15.00%	N/A	N/A	N/A
Payback Period	N/A	N/A	N/A
Discounted Pay Back Period at 15.00%	N/A	N/A	N/A
Note	se all the Cash Flows are s	an ativo	

# Interpretation and conclusion

Purchasing from Supplier B will save \$31,657 when discounted at 15.00% and provide an Internal Rate of Return (IRR) of 7.82% before tax