Extension of Budgeting

Methods/Techniques for Capital Budgeting

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Project Management

Project budget

Today's task is to prepare a possible extension of your cash flow project to take into account time and effects such as inflation, discount rate, etc. Today you can use a suitable method to set a certain return on the project (PB, NPV, IRR, ROI, CBA).

You are processing a part of the project according to the seminar paper template:

- **2.7 Return on investment** - comparison of overall benefits and disadvantages with project costs. The investment assessment should show how the project will be financed.

Contents

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1. **PART** (10 min.)

- Short introduction – selected factors and methods for expanding your project cash flows calculations (PB, NPV, IRR, ROI, CBA).
- **2. PART** (70 min.)
- Student teams work on the analysis of which of the methods they will use is the most suitable for their project plan. They then apply it, determine the individual CF in the years of interest, include the effect of time, provide a discount rate and evaluate the result. Whether the project is acceptable according to this outcome.
- **3. PART** (10 min.)
- Feedback and control of the application of the evaluation method to the project teams.

Learning and practice objectives

You should be able to:

- Analyse the suitability of the method (PB, NPV, IRR, CBA, ROI) on a specific project example.
- Gain knowledge and practically apply it to calculations for project evaluation.
- Understand the importance of CF and the impact of factors such as time, inflation, discount rate.
- Be able to evaluate a project plan to determine whether it is acceptable for implementation.

What you are working with today

- Use a seminar paper template that includes section „**2.7. Return on investment“**
- Use MS Excel to calculate the various values and Methods.
- Apply your knowledge of 8. topic – **lecture**.
- Use the supporting document Related to 8. Topic.
- All materials are available in the IS.

You can find support in the following sources:

- Book – Kerzner, H. 2013. Project Management. Chapter 14, p. 511 (focused on parts 14.21-14.28)
- Book – PMBOK Guide. 2017. Chapter 7 (p. 231 Project Cost Management)

Extension of Budgeting - methods

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Today's steps:

1. Select the appropriate method according to your project plan (there may be more than one).

2. Then determine the necessary CF values, alternative values for the discount rate, the number of years of implementation, the expected benefits (benefits).

3. Perform the calculations (according to the formulas from lecture 8).

4. Then evaluate and interpret the results.

The output is the application of one or more methods and demonstration of knowledge of the calculated result (what it means for the project).

Extension of Budgeting - methods

In addition to the many capital budgeting methods available, the following list outlines a few by which companies can decide which projects to explore:

- Payback Period Method
- Net Present Value Method (NPV)
- Internal Rate of Return (IRR)
- Profitability Index
- Return on Investment (ROI)
- Cost Benefit Analysis (CBA)

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What method(s) did you choose and why?

How will you do CF (cash flow)?

How will you go about determining the discount rate?

What will the calculated result mean?

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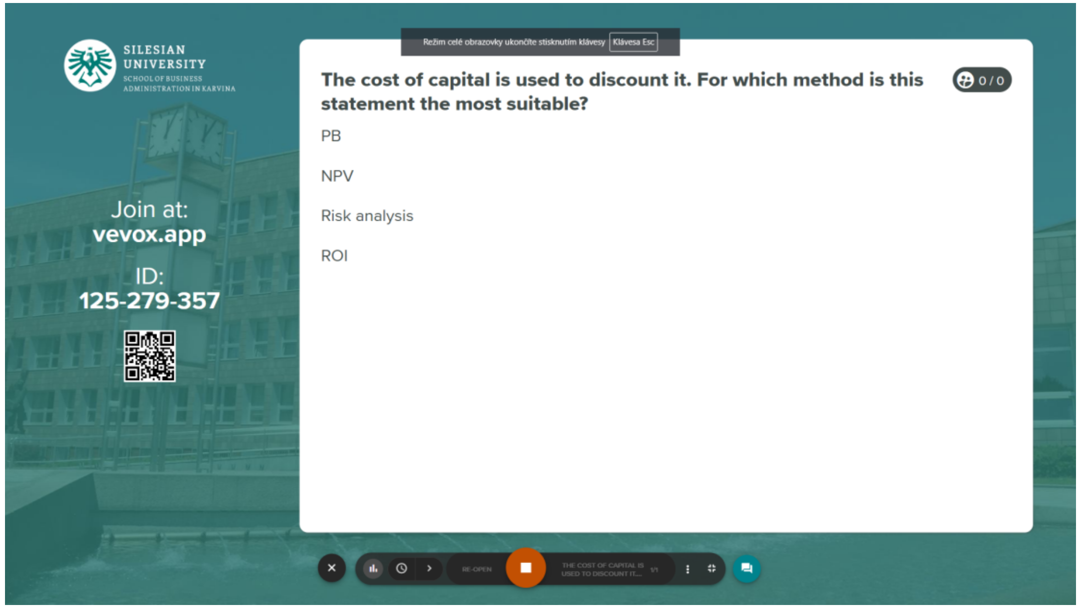
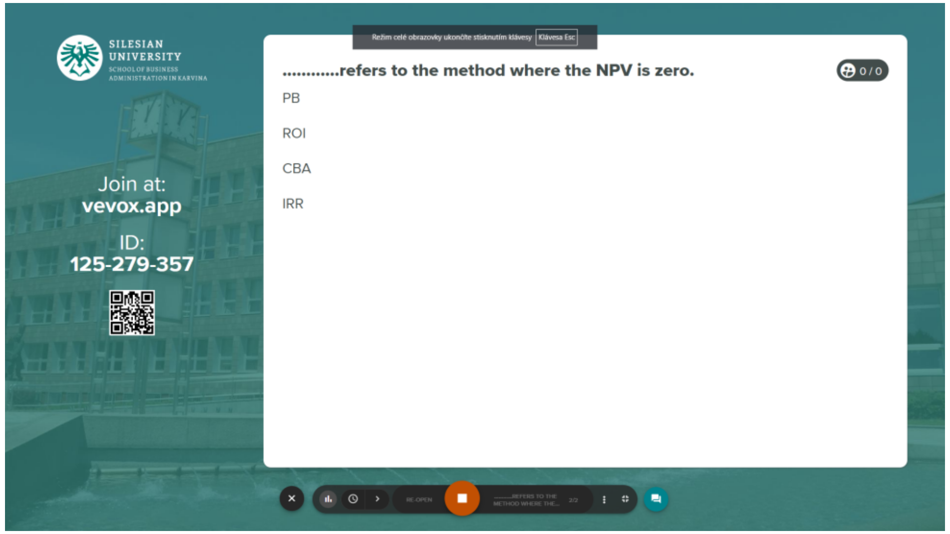
Vevox questions…





https://silesianuniversity.vevox.com/#/meeting/449915/polls

Summary of today's seminar, what should be done

- You have identified the cash flows with respect to the project implementation period.
- You select the appropriate method (NPV, PB, IRR, ROI, CBA).
- You will have calculated one method.
- You know what the outcome means and what the recommendation is for the implementation of the project.