



## **CAREER CLUSTER**

Finance

## **CAREER PATHWAY**

Corporate Finance

## **INSTRUCTIONAL AREA**

Financial Analysis

# **BUSINESS FINANCE SERIES EVENT**

## **PARTICIPANT INSTRUCTIONS**

- The event will be presented to you through your reading of the 21<sup>st</sup> Century Skills, Performance Indicators and Event Situation. You will have up to 10 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 10 minutes to make your presentation to the judge (you may have more than one judge).
- You will be evaluated on how well you demonstrate the 21<sup>st</sup> Century Skills and meet the performance indicators of this event.
- Turn in all of your notes and event materials when you have completed the event.

## **21<sup>st</sup> CENTURY SKILLS**

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- Critical Thinking – Reason effectively and use systems thinking.
- Problem Solving – Make judgments and decisions and solve problems.
- Communication – Communicate clearly.
- Creativity and Innovation – Show evidence of creativity.

## **PERFORMANCE INDICATORS**

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- Explain the nature of capital investment.
- Explain methods used to analyze capital investments (e.g., payback period, discounted break-even, net present value, accounting rate of return, internal rate of return, etc.).
- Explain the impact of the cost of capital on capital investments.
- Calculate capital investment return.
- Identify project benefits and costs.

**EVENT SITUATION**

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You are to assume the role of the senior accountant with FISHER INDUSTRIES. Your manager (judge) wants you to analyze a potential investment and determine issues that should be considered.

Your manager (judge) is considering an investment of \$130,000 in new equipment for the company. The new equipment is expected to last 10 years. It is expected to have a zero-salvage value at the end of its useful life. Additional information is summarized below.

Investment	\$ 130,000
Estimated Useful Life	10 years
Estimate Salvage Value	0
Discount Factor for 10 periods (PV = 12%)	5.65022

Estimated Annual Cash Flows	
Cash Inflows from Customers	\$ 200,000
Cash Outflows from Operating Costs	<u>176,000</u>
Net Annual Cash Flow	<u>\$ 24,000</u>

The manager (judge) wants you to provide a summary of the issues that should be considered before the investment is made. You will also calculate the cash payback and net present value for the investment. You will report these numbers to the manager (judge) and give your opinion on the investment based on these numbers.

You will present the information to the manager (judge) in a role-play to take place in the manager's (judge's) office. The manager (judge) will begin the role-play by greeting you and asking to hear your ideas. After you have presented the information and have answered the manager's (judge's) questions, the manager (judge) will conclude the role-play by thanking you for your work.

## JUDGE INSTRUCTIONS

### DIRECTIONS, PROCEDURES AND JUDGE ROLE

In preparation for this event, you should review the following information with your event manager and other judges:

1. Participant Instructions, 21<sup>st</sup> Century Skills and Performance Indicators
2. Event Situation
3. Judge Role-Play Characterization  
Allow the participants to present their ideas without interruption, unless you are asked to respond. Participants may conduct a slightly different type of meeting and/or discussion with you each time; however, it is important that the information you provide and the questions you ask be uniform for every participant.
4. Judge Evaluation Instructions and Judge Evaluation Form  
Please use a critical and consistent eye in rating each participant.

### JUDGE ROLE-PLAY CHARACTERIZATION

You are to assume the role of a manager at FISHER INDUSTRIES. You want the senior accountant (participant) to analyze a potential investment and determine issues that should be considered.

You are considering an investment of \$130,000 in new equipment for the company. The new equipment is expected to last 10 years. It is expected to have a zero-salvage value at the end of its useful life. Additional information is summarized below.

Investment	\$ 130,000
Estimated Useful Life	10 years
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Discount Factor for 10 periods (PV = 12%)	5.65022

Estimated Annual Cash Flows	
Cash Inflows from Customers	\$ 200,000
Cash Outflows from Operating Costs	176,000
Net Annual Cash Flow	<u>\$ 24,000</u>

You want the senior accountant (participant) to provide a summary of the issues that should be considered before the investment is made. The senior accountant (participant) will also calculate the cash payback and net present value for the investment. The senior accountant (participant) will report these numbers and give their opinion on the investment based on these numbers.

The participant will present information to you in a role-play to take place in your office. You will begin the role-play by greeting the participant and asking to hear about his/her ideas.

During the course of the role-play, you are to ask the following questions of each participant:

1. What is a weakness of the cash payback technique?
2. What would happen to the analysis if a higher discount rate was used to calculate the net present value of the project?

Once the senior accountant (participant) has presented the information and has answered your questions, you will conclude the role-play by thanking the senior accountant (participant) for the work.

You are not to make any comments after the event is over except to thank the participant.

## **SOLUTION**

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Considerations relevant to the capital budgeting decision include:

- Availability of funds to finance the investment but also cover other expenses that are deemed essential
- The relationship among proposed projects – is the acceptance or rejection of the new equipment going to affect other business issues (such as staffing)
- The risk associated with this project, including the financial returns, obsolescence, market considerations, etc.

### **Cash Payback**

$$\begin{array}{l} \text{Cost of Investment / Net Annual Cash Flow} \\ \$130,000 / \$24,000 = 5.42 \text{ years} \end{array}$$

A bit over 50% of the investment's useful life. The project should be accepted on this basis. Generally, the shorter the payback period, the more attractive the investment.

### **NPV**

$$\begin{array}{l} \text{Discount Factor x Present Value of Cash Flows} \\ 5.65022 \times \$24,000 = \$135,605 \end{array}$$

Capital Investment	130,000
Net Present Value	<u>\$ 5,605</u>

A positive NPV indicates an acceptable condition for the project to be approved.

### **Judges Questions:**

1. The cash payback technique ignores the time value for money and the useful life of alternative projects.
2. If a higher discount rate is used in calculating the net present value of a project, the resulting net present value will be lower and thus the project will be less likely to be accepted.

## EVALUATION INSTRUCTIONS

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The participants are to be evaluated on their ability to perform the specific performance indicators stated on the cover sheet of this event and restated on the Judge's Evaluation Form. Although you may see other performance indicators demonstrated by the participants, those listed in the Performance Indicators section are the critical ones you are measuring for this particular event.

### Evaluation Form Interpretation

The evaluation levels listed below and the evaluation rating procedures should be discussed thoroughly with your event director and the other judges to ensure complete and common understanding for judging consistency.

Level of Evaluation	Interpretation Level
Exceeds Expectations	Participant demonstrated the performance indicator in an extremely professional manner; greatly exceeds business standards; would rank in the top 10% of business personnel performing this performance indicator.
Meets Expectations	Participant demonstrated the performance indicator in an acceptable and effective manner; meets at least minimal business standards; there would be no need for additional formalized training at this time; would rank in the 70-89 <sup>th</sup> percentile of business personnel performing this performance indicator.
Below Expectations	Participant demonstrated the performance indicator with limited effectiveness; performance generally fell below minimal business standards; additional training would be required to improve knowledge, attitude and/or skills; would rank in the 50-69 <sup>th</sup> percentile of business personnel performing this performance indicator.
Little/No Value	Participant demonstrated the performance indicator with little or no effectiveness; a great deal of formal training would be needed immediately; perhaps this person should seek other employment; would rank in the 0-49 <sup>th</sup> percentile of business personnel performing this performance indicator.





## BUSINESS FINANCE SERIES 2024

### JUDGE'S EVALUATION FORM District Event 1

Participant: \_\_\_\_\_

### INSTRUCTIONAL AREA: Financial Analysis

ID Number: \_\_\_\_\_

Did the participant:		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
<b>PERFORMANCE INDICATORS</b>						
1.	Explain the nature of capital investment?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
2.	Explain methods used to analyze capital investments (e.g., payback period, discounted break-even, net present value, accounting rate of return, internal rate of return, etc.)?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
3.	Explain the impact of the cost of capital on capital investments?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
4.	Calculate capital investment return?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
5.	Identify project benefits and costs?	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
<b>21<sup>st</sup> CENTURY SKILLS</b>						
6.	Reason effectively and use systems thinking?	0-1	2-3	4	5-6	
7.	Make judgments and decisions, and solve problems?	0-1	2-3	4	5-6	
8.	Communicate clearly?	0-1	2-3	4	5-6	
9.	Show evidence of creativity?	0-1	2-3	4	5-6	
10.	Overall impression and responses to the judge's questions	0-1	2-3	4	5-6	
<b>TOTAL SCORE</b>						