GOVERNMENT DEGREE COLLEGE (M), SRIKAKULAM

Problem Solving Methodology: Case study Analysis

Date:	9-06-2023
Class:	III B.com 6th Sem
No. of students attended	48
Case Background	Capital Budgeting
Issue:	Investment Decision
Context:	Project selection
1. Problem Identification:	
A. Define the Problem	There are two projects X and Y each project requires an investment of Rs. 1,00,000 you are required to calculate and which project is preferred according to the pay back period method and give your suggestions and conclusion from the following information. **Cash flows of the following years:** (see table below)
B. Analyse the Context	Apply payback period method from the above information to select appropriate/ Economical project.
C. Gather Data	Project A payback period is 3 years 7 months Project B payback period is 2 years 8 months
2. Problem Analysis:	Project selection through payback period method
A. Root cause analysis	Small businesses frequently use the "payback" method when deciding which projects to pursue.
B. SWOT analysis	This method is easy to understand, and its relatively short-term focus suits a risk-averse business owner. But the payback approach has weaknesses that could lead a business to reject a profitable project while pursuing one that is ultimately a money loser. The simplicity gained by not adjusting the value of future cash

Cash flows of the following years:

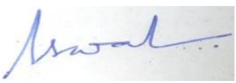
Years	Project X	Project Y
1	10,000	20,000
2	20,000	40,000
3	40,000	60,000
4	50,000	80,000
5	80,000	Nil

	flows can lead to a misleading calculation of the payback period. Sometimes the most profitable projects take more time to reach their full potential. A project with a relatively large up-front cost may start generating cash immediately, with the amount growing each year for the foreseeable future. But if the company has set, say, a strict three-year time limit on payback periods, then it may end up rejecting a worthwhile project. . It completely ignores the time value of money.
3. Solution Generation Brainstorm potential solutions	• How it helps evaluate the benefits of an investment or the cost of a project. • How It is a simple method to calculate return on investment. • How we get to know the risk and the liquidity involved in an investment. • How it helps you reinvest earnings and make a profit.
4. Decision Making Select the most viable solutions	Investment decision refers to the process of allocating funds from various financial securities such as stocks, bonds, and derivatives, with the expectation of generating returns in the future. These investment decisions can be performed by individual investors, companies, or any financial institution and evaluate various factors such as risks associated with such investments, expected return on investment, and available investment options. Effective investment decisions are important because it generates returns, provide financial security, protect against market volatility, and contribute to economic growth.
5. **Discussion and Analysis**:	The payback period shows you the time taken to recover the cost of the project. The payback period helps you to evaluate the associated risks of an investment. An investment may have a short or a long payback period. If your investment has a short payback period, you may quickly recover the cost of the investment. You may select a project or an investment that has a short payback period. The payback period in capital budgeting gives the number of years it takes for you to recover the cost of the investment
6. Conclusion:	A payback period calculator is a utility tool that shows you the time taken to recover the cost of the project or an investment. You can determine the number of years it takes to recover the cost of the investment. The payback period calculator consists of a formula box, where you enter the initial investment and the periodic cash flow. The payback period will show you the payback period of the investment.
Students Feedback & Signatures	1. It is very useful and helpful 2. It increase the level of understanding on decision of making project selection 3. It enhance the logical thinking on profitability 4. It encourages analytical advancement of skills 5. It improves the narrative writing skills

Photo Gallery

<u>Feedback of the Class Incharge:</u>

The major purpose of this study was to determine in the thought process towards decision making of the project selection. It helps to evaluate the overall performance of the student community. The study regarding to the topic will enhance the analysis of the topic and generalizing the topic. It will bring more relevance and understanding to how to interpreter the learning level of students



Signature of the Class In charge **Signature of the Department In charge**