Fundamentals of Investment Appraisal

CPD 40 units | 40 PL Credits

Online Pre-work + 5 Day Classroom or 10 Virtual Sessions or Online Self-Paced

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Overview

Financing a Project involves a lot of resources both manpower and financial resources, the same investment project can have different investment appraisal outcomes due to the different dynamics and available synergies in different companies and their respective costs of capital.

Risk and uncertainty need to be measured, understood, and weighed against returns. This course will describe the principles and introduce tools and models you can use to perform investment appraisal calculations.

You will also learn about the qualitative issues that affect the decision-making process; these include certain behavioral aspects of finance that need to be considered when appraising projects.

Learning Outcomes

By the end of the course participants will be able to:

- Apply the different investment appraisal techniques
- Apply the impact of inflation and tax on investment decisions
- Adjust for Risk and Uncertainty in Investment decisions
- Apply the models to specific decision making
- Estimate Cost of Capital and show good understanding of sources of finance
- Understand qualitative and behavioral aspects of the decision-making process
- Prepare Investment Appraisal Reports for management review

Online Pre-work

- Participants will have access our online LMS for the pre-work and resources for the course on www.OfficeTrainingHub.com

Course Content

Overview of Investment Appraisal Techniques

- Identify and calculate relevant cash flows for investment projects.
- Calculate payback period and discuss its usefulness as an investment appraisal method.
- Calculate discounted payback and discuss its usefulness as an investment appraisal.
- Calculate return on capital employed (accounting rate of return) and discuss its usefulness as an investment appraisal method.
- Calculate net present value and discuss its usefulness as an investment appraisal method.
- Calculate internal rate of return and discuss its usefulness as an investment appraisal method.
- Discuss the superiority of discounted cash flow (DCF) methods over non-DCF methods.
- Discuss the relative merits of NPV and IRR.

Allowing for Inflation and taxation in DCF

- Apply and discuss the real-terms and nominal-terms approaches to investment appraisal.
- Calculate the taxation effects of relevant cash flows, including the tax benefits of tax-allowable depreciation and the tax liabilities of taxable profit.
- Calculate and apply before- and after-tax discount rates.

Adjusting for risk & uncertainty in investment appraisal

- Describe and discuss the difference between risk and uncertainty in relation to probabilities and increasing project life
- Apply sensitivity analysis to investment projects and discuss the usefulness of sensitivity analysis in assisting investment decisions.
- Apply probability analysis to investment projects and discuss the usefulness of probability analysis in assisting investment decisions.
- Apply and discuss other techniques of adjusting for risk and uncertainty in investment appraisal, including:
  - simulation
  - adjusted payback
  - risk-adjusted discount rates.

Specific Investment Decision (Leasing or buy, asset replacement, capital rationing)

- Evaluate leasing and borrowing to buy using the before- and after-tax costs of debt.
- Evaluate asset replacement decisions using equivalent annual cost and equivalent annual
- Evaluate investment decisions under single-period capital rationing, including:
  - the calculation of profitability indexes for divisible investment projects
  - the calculation of the NPV of combinations of non-divisible investment projects
  - a discussion of the reasons for capital rationing

Estimating the cost capital

- Estimate the cost of equity including:
  - application of the dividend growth model, its assumptions, advantages and disadvantages.
  - explanation and discussion of systematic and unsystematic risk
  - relationship between portfolio theory and the capital asset pricing model (CAPM)
  - application of the CAPM, its assumptions, advantages and disadvantages.
- Estimating the cost of debt:
  - irredeemable debt
  - redeemable debt
  - convertible debt
  - preference shares
  - bank debt
- Estimating the overall cost of capital including:
  - distinguishing between average and marginal cost of capital
  - calculating the weighted average cost of capital (WACC) using book value and market value weightings.
- Sources of finance and their relative costs
- Describe the relative risk-return relationship and the relative costs of equity and debt.
- Describe the creditor hierarchy and its connection with the relative costs of sources of finance.
- Identify and discuss the problem of high levels of gearing.
- Assess the impact of sources of finance on financial position, financial risk and shareholder wealth using appropriate measures, including:
  - ratio analysis using statement of financial position gearing, operational and financial gearing, interest coverage ratio and other relevant ratios
  - cash flow forecasting
  - leasing or borrowing to buy.
  - Impact of cost of capital on investments including:
    - the relationship between company value and cost of capital.
    - the circumstances under which WACC can be used in investment appraisal
    - the advantages of the CAPM over WACC in determining a project-specific cost of capital.
    - the application of the CAPM in calculating a project-specific discount rate.

Other Practical consideration regarding investment Appraisal

- Budget and budgetary controls
- Treasury Management
- Working Capital Management
- Fraud and fraud management
- Taxation Considerations
- Financial Instruments (Treasury bills, Bonds, commercial papers etc)

Investment Appraisal Reporting

- Project Background
- Project Details
- Project Appraisal (the different techniques)
- Project Benefits
- Recommendations & Conclusions

To learn more and register, contact us by phone, email or visit our website

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