MBA7060 Financial Management and Decision Making	
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Executive Summary

This report explores the complexities of valuing investments in Goldstar (Ltd.) and addresses the many challenges and opportunities of the UK's ever-evolving economy. With a targeted analysis and a precise understanding of the prevailing circumstances, it strives to provide strategic recommendations in line with the company's goals and desires. As Goldstar (Ltd.) looks to expand globally, it embarks on a journey to find the most solid investment strategy ready to thrive in the changing UK economy.

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Introduction

The British economy has been troubled in recent years. The global pandemic sent the country's economy through shock waves that brought unprecedented challenges. As the UK embarked on the road to recovery in 2021, it faced job shortages, rising energy prices and continued supply constraints (Marqués, García, and Sánchez, 2020). The consequences of leaving Europe's single market and customs union in 2021 have made trade and immigration more difficult and increased supply chain disruptions. As per the discussions of Reavis, Singh and Tucci (2021), in this difficult time, inflationary pressures began to increase, causing a major slowdown in economic growth, as highlighted by the OECD (2022). In addition, the Bank of England has responded to this dynamic environment with sustained rate hikes not seen since the 2008 global financial crisis.

At the centre of this complex economic scenario is Goldstar (Ltd.), a prominent British company specializing in food imports from the European Union (EU). The company is ready to expand globally, focusing on markets outside the EU (Lukač et al., 2019). Goldstar (Ltd.) used the expertise of a CFO to navigate this important phase and make informed investment decisions. This role involves evaluating potential investment projects, applying rigorous investment appraisal techniques and comprehensively assessing risks and uncertainties. The ultimate goal is to create a strategic plan that not only protects the company from economic fluctuations but also maximizes shareholder wealth.

1.1. Calculation of the Payback Period and the Net Present Value for each project

Payback Period

The payback period is a term used to describe the time taken for an investment to recover its cost. In terms, it measures the time for an investment to break even. Individuals and businesses invest their money with the expectation of receiving returns, which is why the payback period holds importance (Adiputra and Patricia, 2020). Essentially investments, with fewer payback periods, are considered appealing. To calculate the payback period one can, divide the investment by the cash flows.

One can find out the payback period by using the following formula:

Payback Period= Cost of Investment/Average Annual Cash Flow

Calculation of Payback Period

Project A

Cost of Investment £20000

Total Cash Flow

Year 1 £4000

Year 2 £6000

Year 3 £10000

Total £20000

Average Cash Flow for 3 years = 20000/3 = £6666.67

Payback Period = 20000/6666.67 = 3 years

Project B

Cost of Investment £20000

Total Cash Flow

Year 1 £5000

Year 2 £5000

Year 3 £9000

Year 4 £3600

Total £ 22600

Average Cash Flow for 4 years = 22600/4 = £5650

Payback Period = 20000/5650 = 3 years 6 months

Project C

Year 1 £4000

Year 2 £5000

Year 3 £8000

Year 4 £5000

Year 5 £1400

Total £23400

Average Cash Flow for 5 years = 23400/5 = £4680

Payback Period = 20000/4680 = 4 years 4 months

From the above, one may conclude that Project A which is in Brazil should be taken up as it has the lowest payback period so the initial investment will be recovered earlier with respect to other projects.

Net Present Value

Net Present Value is excess value of the present value of all future expected cash inflows and the present value of the cash outflows (Van Raaij, Antonides and De Groot, 2020). NPV is a financial resources which help in assesing the time value of money and is used to compare the rates of return of different projects or to compare a projected rate of return with the required return rate to approve an investment.

Net present value may have one of the following potential outcome :

Positive NPV: If the value of NPV is positive it means that the project is likely profitable and should be pursued.

Negative NPV: If the value of NPV is negative it means it may cause loss in future and should not be pusued.

Zero NPV: A zero NPV means the project is neither profitable nor will cause any loss. A company may pursue projects with an NPV of zero if the project has significant benefits, such as strategic positioning, creating goodwill or increasing satisfaction of consumer .

One can figure out the NPV by using the following formula:

$$NPV = \frac{Cash\ Flow_1}{(1+r)^1} + \frac{Cash\ Flow_2}{(1+r)^2} + \frac{Cash\ Flow_n}{(1+r)^n} - Initial\ Investment$$

Here, (Cash Flow) means the sum of money spent or money earned on the investment or project in a given period of time. (n) means the time period (r) means the discount rate.

Calculation of Net Present Value

The initial Investment in all the project is £20000 with cost of capital is 9% and the scrap value at the end of project is £7000.

For Project A (3 years)

NPV = [£4,000 / (1 + 0.09) ^1] + [£6,000 / (1 + 0.09) ^2] + [£10,000 / (1 + 0.09) ^3] - £20,000 + £7,000

NPV = £3,669.73 +£5,335.08 + £8,586.71 - £20,000 + £7,000.

NPV = £4,591.52

For Project B (4 years)

NPV = [£5,000 / (1 + 0.09) ^1] + [£5,000 / (1 + 0.09) ^2] + [£9,000 / (1 + 0.09) ^3] + [£3,600 / (1 + 0.09) ^4] - £20,000 + £7,000.

NPV = £4,587.16 + £4,191.36 + £7,166.59 + £2,867.59 - £20,000 + £7,000.

NPV = £6,813.70

For Project C (5 years)

NPV = [£4,000 / (1 + 0.09) ^1] + [£5,000 / (1 + 0.09) ^2] + [£8,000 / (1 + 0.09) ^3] + [£5,000 / (1 + 0.09) ^4] + [£1,400 / (1 + 0.09) ^5] - £20,000 + £7,000.

NPV = £3,669.73 + £4,191.36 + £6,813.70 + £4,547.94 + £1,173.61 - £20,000 + £7,000.

NPV = £7,396.34

Based on NPV, Project C has the highest net present value, making it the most financially attractive option.

1.2. Project Recommendation: Evaluation of Financial Viability

Based on the various financial analysis techniques applied, including the above payback period and net present value (NPV), Project C emerges as the most favourable choice. The detailed recommendation of Project C is given below.

- ***Payback Period:*** Project C has a payback period of 4 years and 4 months, which is longer than Project A but shorter than Project B. While it doesn't recover the initial investment as quickly as Project A, it still does so within a reasonable timeframe.
- ***Net Present Value (NPV):*** Project C has the highest NPV of £7,396.34 when considering a 9% cost of capital and a scrap value of £7,000. This indicates that Project C generates the most substantial positive value in today's terms compared to the other projects.
- ***Long-term Profitability:*** Project C demonstrates consistent cash flows over its 5-year duration, which is appealing for long-term profitability. It not only recovers the initial investment but also generates significant positive cash flows.
- ***Risk Consideration:*** Although Project B has a shorter payback period, its NPV is lower, suggesting that it may not be as financially attractive as Project C. Additionally, Project A has a shorter payback period but a lower NPV, making it less lucrative over the long run.

1.3. Investment Appraisal Technique: Understanding Uses, Limitations and Merits

Investment appraisal techniques serve as the basis for guiding businesses and organisations when making critical decisions about potential investments and projects. These tools help in evaluating the feasibility and financial viability of various projects (Hermawan, 2021). In this topic one will look into the uses, limitations, and merits of investment appraisal techniques, shedding light on their importance and potential negatives.

Uses

- ***Project Selection:*** One of the primary purposes of investment appraisal techniques is to assist in project selection. Businesses often have several investment opportunities at hand, and these techniques provide a structured framework for comparing these options (Block, Hirt, and Danielsen, 2019). By analysing the expected financial outcomes of each project, organisations can identify those with the highest potential returns and prioritise them.
- ***Capital Budgeting:*** Efficient allocation of capital is essential for the sustainable growth of a business. Investment appraisal techniques aid in capital budgeting by ensuring that investments align with the organisation's strategic objectives (Eun, Resnick and

Chuluun, 2021). They help prevent the misallocation of resources into projects that may not contribute significantly to the company's long-term goals.

- ***Risk Assessment:*** Investment decisions inherently carry risks, and these techniques play a vital role in identifying and quantifying these risks. Sensitivity analysis and scenario modelling are tools within appraisal techniques that allow organisations to assess the impact of different risk levels on project outcomes. By doing so, companies can develop risk mitigation strategies and make more informed investment choices.
- ***Resource Allocation:*** Efficiently allocating resources is crucial for maintaining financial health. Investment appraisal techniques enable businesses to optimise resource allocation by directing funds toward projects with the highest expected returns (Vasvári, 2020). This ensures that the available resources are put to their best use, leading to enhanced profitability.

Limitations

- ***Assumption Dependency:*** Most investment appraisal techniques rely on various assumptions about future events and market conditions. For instance, cash flow projections assume a certain growth rate or revenue trajectory. These assumptions may not always hold true in real-world scenarios, especially in dynamic markets (Agustina et al., 2019). Changes in economic conditions or competitive landscapes can significantly impact the accuracy of predictions.
- ***Neglect of Non-Financial Factors:*** While these techniques excel at quantifying financial aspects, they often neglect non-financial factors that can be critical in decision-making. Factors such as environmental impact, social responsibility, or strategic alignment with organizational values might not be adequately considered. Consequently, relying solely on financial metrics may lead to decisions that do not align with broader corporate goals or stakeholder interests.
- ***Complexity:*** Some appraisal techniques, particularly the Discounted Cash Flow (DCF) method, can be quite complex (Mihajlović, Tadin and Gordić, 2020). They require extensive data inputs, including cash flow projections, discount rates, and terminal values. This complexity can be a barrier for smaller businesses or for projects with limited historical data. In such cases, simpler techniques like Payback Period or Accounting Rate of Return might be more practical but may lack the precision of DCF.
- ***Subjectivity:*** The choice of required rate of return is often subjective. Different analysts or decision-makers may have various opinions on the various types of discount rate to

use. This subjectivity can lead to different project evaluations and outcomes, potentially introducing bias or inconsistency in the decision-making process.

Merits

- ***Quantitative Analysis:*** Investment appraisal techniques provide a systematic and quantitative approach for assessing projects. This quantitative approach helps remove subjectivity from decision-making, so to help with objective assessments based on data and calculations.
- ***Time Value of Money:*** Techniques like the Net Present Value (NPV) and Internal Rate of Return (IRR) takes into account the time value of money (Astiti, Warmana and Hidayah, 2019). They recognize that the money received in the future is not worth the same as one received today. By using future cash flows, these techniques helps in providing a more accurate representation of the financial value of the project.
- ***Comparative Analysis:*** Investment appraisal techniques is best in doing comparative analysis. They allow budiness to assess and compare multiple investment and project opportunities side by side. This is particularly useful when a business has limited resources and must decide between competing projects.
- ***Risk Assessment:*** Sensitivity analysis, scenario modelling, and tools like the Probability Index are important financial metric in investment appraisal techniques. They enable businesses to assess the impact of various risk scenarios on project outcomes (Sari et al., 2020). By understanding the extent of potential outcomes, companies can make risk-informed decisions and develop risk allevation strategies.

1.4. Legal Requirements and Accounting Principles Mandated for Goldstar (Ltd.)

In the United Kingdom, businesses have to follow specific legal requirements and accounting principles to prepare their financial reports. Understanding these important guidelines is crucial for companies like Goldstar (Ltd.) to ensure compliance and accurate financial reporting. This project will clarify the accounting principles that are legally required to be provided by Goldstar (Ltd.).

- ***GAAP (Generally Accepted Accounting Principles):*** In the UK, businesses, especially those not applying International Financial Reporting Standards (IFRS), are mandated to follow GAAP. GAAP provides a structured framework for the preparation of

financial statements, ensuring consistency and comparability (Podhorska et al., 2020). This helps to understand principles governing revenue recognition, expense treatment, and help in preparing financial statement.

- ***Accrual Accounting:*** In accrual accounting, the records of revenue and expenses are recorded when they are earned or incurred , not taking into account that cash is exchanged or not, is typically a legal requirement. Accrual accounting provides a more accurate representation of a company's financial data and its stability.
- ***True and Fair View:*** Financial statements must provide a "true and fair view" of a company's financial status, it's performance, and cash flows (Zaytsev et al., 2021). This principle is fundamental to all accounting law everywhere in the world , providing transparency and reliability in financial reporting.
- ***Statutory Reporting Framework:*** UK companies must follow to the statutory reporting framework mentioned in the Companies Act 2006 (Lubis and Irawati, 2022). This framework has specific requirements providing the content and format of financial statements.
- ***UK Tax Regulations:*** Although not accounting principles, but companies must comply with UK tax regulations and laws . These regulations may necessitate specific accounting treatments for tax purposes and helps to avoid sancitions and fines.

These accounting principles are legally important to ensure the transparency and accuracy of financial reporting within the UK. For Goldstar (Ltd.), it is necessary to follow these principles while preparing financial statements to fulfil its legal requirements and provide stakeholders with reliable and true financial information.

2.1. Diversifying Capital Resources: Evaluating Other Financial Options

Goldstar (Ltd.) has several alternative sources of finance beyond traditional project appraisal methods. These sources can help the company raise capital for its expansion plans and ongoing operations. Some critical evaluations of potential sources of finance for Goldstar (Ltd.):

Equity Financing

- ***Initial Public Offering (IPO):*** Goldstar (Ltd.) can consider going public by conducting an IPO. This allows the company to sell shares to the public, raising substantial capital. However, it comes with the requirement of meeting regulatory obligations and providing transparency to shareholders.

- ***Private Equity (PE) or Venture Capital (VC):*** Goldstar (Ltd.) can seek investment from private equity firms or venture capitalists. These investors provide funding in exchange for equity ownership or a share of future profits. They often bring expertise and resources to support growth.

Debt Financing

- ***Bank Loans:*** Goldstar (Ltd.) can secure traditional bank loans to finance its expansion. These loans come with interest payments and repayment obligations but offer flexibility in terms of usage.
- ***Corporate Bonds:*** Issuing corporate bonds is an option, where Goldstar (Ltd.) can borrow money from investors by issuing bonds having fixed interest rates and maturity dates. It provides access to a broader pool of investors but involves meeting bondholder expectations (Brigham and Houston, 2021).

Trade Credit and Supplier Financing

Goldstar (Ltd.) can negotiate extended payment terms with suppliers or utilize trade credit effectively. Delaying payments to suppliers can free up cash for other purposes, such as expansion.

Angel Investors

Angel investors are high net worth individual who invests or provide capital to startups and early-stage companies in exchange for equity. Goldstar (Ltd.) can seek angel investors who may provide not only funding but also industry expertise and connections.

Asset-Based Financing

Goldstar (Ltd.) can consider asset-based financing options like factoring or asset-backed loans. These arrangements involve using company assets (e.g., accounts receivable, inventory, or equipment) as collateral for obtaining funds.

Government Grants and Subsidies

On the basis of the nature of Goldstar (Ltd.)'s operations and expansion plans, the company might be eligible for various government grants or subsidies. These grants can provide financial support and incentives for specific activities, such as research and development or environmental initiatives.

Strategic Alliances and Joint Ventures

Exploring strategic alliances, partnerships, or joint ventures with other entities in the food industry is an avenue to consider (Finkler, Calabrese and Smith, 2022). These collaborations can unlock funding, resources, and access to new markets while sharing risks and rewards.

In evaluating these financing sources, Goldstar (Ltd.) must carefully consider factors including the cost of capital, risk tolerance, ownership dilution, regulatory compliance, and the specific financial requirements associated with its expansion plans.

2.2. Strategic Investment Recommendation for Goldstar (Ltd.) in the Uncertain UK Economy

Recommendations

In the present scenario of the challenging economic scenario in the United Kingdom and the analysis from the above investment appraisal techniques, it is clear that Goldstar (Ltd.) must proceed with extreme caution while pursuing its expansion plans. Here are the final recommendations for Goldstar (Ltd.):

Diversification of Investments

Given the uncertainties and economic fluctuations in the UK, it is important for Goldstar (Ltd.) to diversify its investments. It is recommended to consider using a mix of the three potential projects mentioned in the "Project Appraisals" Excel File. Diversification can help reduce risk by increasing exposure across different areas and markets.

Payback Period and NPV Considerations

Project A: With a payback period of 3 years and a positive NPV, Project A in Brazil appears to be a appealing option. It offers a fairly quicker return on investment, aligning with Goldstar (Ltd.)'s need for timely capital recovery.

Project B: With a payback period of 3 years and 6 months and a positive NPV, also presents a good opportunity. While the payback period is little bit longer, it offers attractive returns over time.

Project C: Project C, with a payback period of 4 years and 4 months and a positive NPV, have potential for long-term profitability. However, it requires a longer investment period.

Risk Mitigation and Contingency Planning

Goldstar (Ltd.) should adopt a quick risk problem solving strategy to address various challenges created by economic fluctuations and inflation. Additionally a contingency plan should always be ready as a backup to deal with potential economic challenges.

Monitoring and Flexibility

In the current economic situation of the UK, Goldstar (Ltd.) should continuously monitor its investments and should always be prepared to adopt strategies as needed. This must includes assessing the impact of interest rate hikes by the Bank of England.

Stakeholder Communication

Transparent and regular communication different stakeholders of the company is crucial. Goldstar (Ltd.) should always keep them informed about the company's investment decisions, strategies, and the reason behind them.

Conclusion

Goldstar (Ltd.) is in a crucial situation in the midst of the dynamic and difficult UK economic situation. To guide the business's next steps, various investment appraisal techniques have been used to critically evaluate potential investment projects, assess risks, and evaluate investments strategies. The current decisions are more difficult to make because of the economic environment, which is characterised by post pandemic effects and shifting trade dynamics. While understanding the individual strengths of each project, diversification is advised. Strong risk mitigation, adaptability, professional guidance, and open communication with stakeholders are required for Goldstar (Ltd.). With these tactics, the business is set up for success and long-term expansion while navigating the UK economy's constant change in a way that maximises company's profit and helps in the growth.

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