

Is it worth it? Investment appraisal and finance strategy

A Level 10.3 Payback · ARR · NPV · 10.4 Accounting data in strategy

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Running case: Wahat Foods · 60 minutes

How this topic is examined

Paper 3 • Decision-making • 60 marks • 1 h 45

Calculate payback [2]–[3]

Calculate ARR (average investment) [2]–[4]

Calculate NPV with discount factors [3]–[4]

Evaluate which project to choose [12]

Paper 4 • Business strategy • 40 marks • 1 h 15

Evaluate the impact of decisions on ratios [20]

Advise on debt or equity finance [20]

Use annual-report data over time

Link accounts to strategy

Typical questions on this topic

Using the data in Table 1.2, calculate the payback period of the location. [2]

Calculate the accounting rate of return (ARR) of the project. [2]

Calculate the net present value (NPV) of the project. [4]

Recommend whether [business] should proceed with the project. Justify. [12]

Evaluate how significant ratio results were to [business]’s strategy. [20]

By the end of this lecture you can...

- 1 Explain why businesses use investment appraisal.
- 2 Calculate and interpret payback and ARR.
- 3 Calculate and interpret NPV using discount factors.
- 4 Combine quantitative and qualitative factors; compare methods.
- 5 Use annual reports and ratios in strategic decisions.
- 6 Explain how debt, equity, dividends and growth change ratios.

END OF PREVIEW

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