



CAREER CLUSTER

Finance

CAREER PATHWAY

Corporate Finance

INSTRUCTIONAL AREA

Financial Analysis

CORPORATE FINANCE EVENT

PARTICIPANT INSTRUCTIONS

- The event will be presented to you through your reading of the General Performance Indicators, Specific Performance Indicators and Case Study Situation. You will have up to 30 minutes to review this information and prepare your presentation. You may make notes to use during your presentation.
- You will have up to 15 minutes to make your presentation to the judge (you may have more than one judge).
- Turn in all of your notes and event materials when you have completed the event.

GENERAL PERFORMANCE INDICATORS

- Communications skills – the ability to exchange information and ideas with others through writing, speaking, reading or listening
- Analytical skills – the ability to derive facts from data, findings from facts, conclusions from findings and recommendations from conclusions
- Production skills – the ability to take a concept from an idea and make it real
- Priorities/time management – the ability to determine priorities and manage time commitments
- Economic competencies

SPECIFIC PERFORMANCE INDICATORS

- Explain the nature of capital investment.
- Identify project benefits and costs.
- Explain the impact of the cost of capital on capital investments.
- Calculate cash flows associated with an investment (e.g., initial investment, operating cash inflows, operating cash outflows, terminal flows).
- Analyze cash-flow patterns.

CASE STUDY SITUATION

You are a member of the finance team at ACME COMPANY, a production company. ACME COMPANY is evaluating the proposed acquisition of a new milling machine. The machine's base price is \$625,000, and it would cost another \$25,000 to modify it for special use by the firm. To use the machine, the company will need to maintain additional raw materials inventory of \$100,000.

The company's production department anticipates the new machine will generate an additional \$450,000 per year in annual operating revenue, while the associated annual operating expenses are projected to be \$325,000 per year. The economic life of the machine is expected to be five years. This milling machine is a Class 9 Asset which has a capital cost allowance of 30% double declining rate. The company uses the declining balance method for depreciation, with a half-year rule in year 1 and has a 45% marginal tax rate.

YOUR CHALLENGE

Your manager has asked you to calculate several criteria to evaluate the purchase of this new machine. First, you must calculate the capital cost and estimate the company's after-tax cash outlay for this acquisition. Second, you are to estimate the amount of after-tax cash flow for each year of the assets useful life.

You will incorporate these numbers into an analysis of the pros and cons of the purchase, with a final recommendation.

SOLUTION

$$\text{Capital cost} = \$625,000 + \$25,000 = \$650,000$$

Initial Cash Outlay = Initial Capital Cost + Change in Net Working Capital + Opportunity Costs

$$\begin{aligned} &= \$650,000 + \$100,000 + 0 \\ &= \$750,000 \end{aligned}$$

For all five years, operating income will equal operating revenue – operating expenses

$$\begin{aligned} &= \$450,000 - \$325,000 \\ &= \$125,000 \end{aligned}$$

CCA Calculations:

Year 1				
Capital Cost x CCA x ½	=	\$650,000 x 30% x ½	=	\$ 97,500
Year 2				
UCC (Cap Cost) – CCA(1)	=	\$650,000 - \$97,500	=	\$552,500
CCA(2)	=	\$552,000 x 30%	=	\$166,750
Year 3				
UCC (2) – CCA(2)	=	\$552,000 - \$166,750	=	\$386,750
CCA (3)	=	\$386,750 x 30%	=	\$116,025
Year 4				
UCC (3) – CCA (3)	=	\$386,750 - \$116,025	=	\$270,725
CCA (4)	=	\$270,725 x 30%	=	\$ 81,218
Year 5				
UCC (4) – CCA (4)	=	\$270,725 - \$ 81,218	=	\$189,507
CCA (5)	=	\$189,507 x 30%	=	\$ 56,852
UCC at end of Year 5	=	\$189,507 - \$ 56,852	=	\$132,655

Combining these estimates with the company's tax rate of 45%, Cash Flow estimates are as follows:

	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
Operating Income	\$125,000	\$125,000	\$125,000	\$125,000	\$125,000
Less: CCA	(97,500)	(166,750)	(116,025)	(81,218)	(56,852)
Taxable Income	27,500	(41,750)	8,975	43,782	68,148
Less: Taxes	(12,375)		(4,039)	(19,702)	(30,667)
After Tax Income	15,125	(41,750)	4,936	24,080	37,481
Add back: CCA	97,500	165,750	116,025	81,218	56,852
Net Cash Flow	<u>\$112,625</u>	<u>\$124,000</u>	<u>\$120,961</u>	<u>\$105,298</u>	<u>\$94,333</u>

This is just one method of solving the cash flow; another would be to calculate the after tax operating and add back the CCA savings (CCA x Tax rate). Both methods should result in the same Net Cash Flow

The project should be accepted as it does result in a positive net cash flow throughout the useful life of the machinery.

Some discussion points on the nature of capital investment:

- A decision by a business to make a capital investment is a long-term growth strategy.
- A company plans and implements capital investments in order to ensure future growth.
- Capital investments generally are made to increase operational capacity, capture a larger share of the market, and generate more revenue.

EVALUATION INSTRUCTIONS

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 th 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 th 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 th percentile of business personnel performing this performance indicator.



**CORPORATE FINANCE
2024**

JUDGE'S EVALUATION FORM
Association Event 1

Participant: _____

INSTRUCTIONAL AREA
Financial Analysis

ID Number: _____

Did the participant:		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
PERFORMANCE INDICATORS						
1.	Explain the nature of capital investment?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
2.	Identify project benefits and costs?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
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	13-14-15	
4.	Calculate cash flows associated with an investment?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
5.	Analyze cash-flow patterns?	0-1-2-3	4-5-6-7-8	9-10-11-12	13-14-15	
PRESENTATION						
6.	Demonstrate clarity of expression?	0-1	2-3	4	5	
7.	Organize ideas?	0-1	2-3	4	5	
8.	Show evidence of mature judgment?	0-1	2-3	4	5	
9.	Overall performance: appropriate appearance, poise, confidence, presentation, technique and response to judge's questions	0-1-2	3-4-5	6-7-8	9-10	
TOTAL SCORE						