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Term 1

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1. Introduction

The assignment aims to present a detailed ratio analysis and the ways the financial aspects of the company could be improved. This assignment presents the cash conversion cycle of the company, which happens to be poor and seeks serious intervention. The last segment of the paper presents the capital appraisal methods, which show which investment procedure will bear definite results. Assessing the Financial Health Check

Assessing the firm's financial statements

Evaluate the firm's income statement:

Vertical analysis of the income statement

The cost of sales or the cost of goods sold has consistently absorbed a large proportion of the revenue. Moreover, it is witnessed that the gross profit margins had essentially weakened notably in the year 2023. This addresses a certain reduced operational efficiency. One needs to comprehend that operational expenses had increased sharply as a percentage of the sales in the year 2023, which exceeds the gross profit. This would lead to substantial operating losses. In the year 2024, the expense control had improved, and there had been a recovery in gross profit margin (**Appendix 1**). This, therefore, reduces the overall losses relative to sales. However, net income remained negative. This exhibits a fact that, despite cost management improvement, the company has not yet restored sustainable profitability based on its sales structure.

Horizontal Analysis

In order to assess the income statement of General Electronics, a horizontal analysis is considered, as witnessed from the above table (Fridson and Alvarez, 2022). The horizontal analysis here reveals that the net sales had exhibited consistent declines, with the largest plummet or drop happens to be in 2023. Owing to an increase in per-unit expenses, operating **expenses increased sharply in 2023**, contributing to a major deterioration in operating results (**Appendix 2**). However, the year 2024 here essentially reflects a turnaround, with reduced expenses and a substantial enhancement in the operating income as well as the net loss. One here could witness large negative movements in 2023, and that highlights a **structural profitability shock**, rather than a minor operational fluctuation (Vaca-Tapia, Martínez-Fernández, and Juanatey-Boga, 2020)

Assessing the firm's balance sheet

Vertical analysis

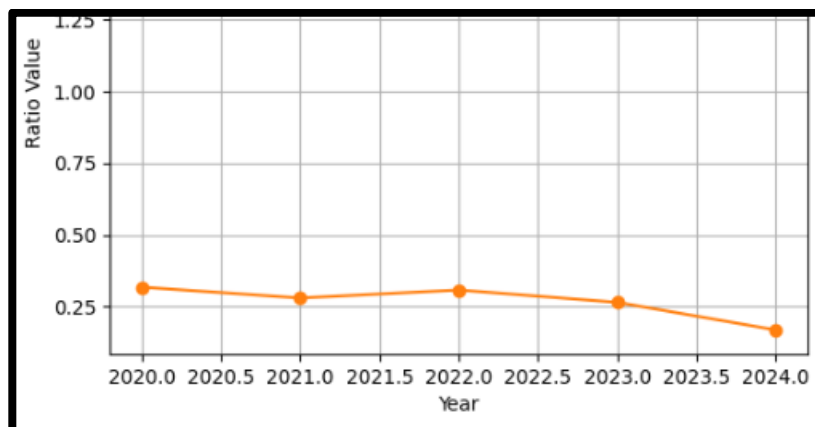
Upon examining the vertical analysis of the balance sheet, it becomes apparent that the company's asset structure is heavily weighted towards the value of current assets, primarily its receivables and inventories. This, therefore, stresses the company's strong working capital dependence. From the period of 2022 to 2024, the total asset value had declined. However, there had been a surge in liabilities compared to the proportion of assets, especially during the period of 2024 (**Appendix 3**). This, therefore, signals an enhanced financial risk. It is further witnessed that equity as a proportion of total assets had steadily weakened. This majorly reflects accumulated losses and the treasury stock impacts. In a nutshell, the balance sheet here elicits reduced asset strength and a higher value of leverage, despite liquidity having remained relatively strong owing to the dominance of current asset value.

Horizontal analysis

The horizontal analysis here reveals a significant contraction in the financial position of the company after the period 2022. It is witnessed that total assets had declined sharply, mainly due to reductions in inventories, cash balances, and property, plant, and equipment. This indicates and reflects on a certain lower operational scale and confined or limited capital investment. Moreover, it has to be comprehended that current assets have fallen significantly, reflecting tighter working capital management and reduced activity levels. Total liabilities had lessened after the period of 2022, thereby suggesting some nuances of repayment and deleveraging of short-term financing (**Appendix 4**). Shareholders' equity, as witnessed, had declined consistently. This was driven by falling retained earnings and enhanced treasury stock. This sheds light on the negative impact of sustained losses on overall financial strength.

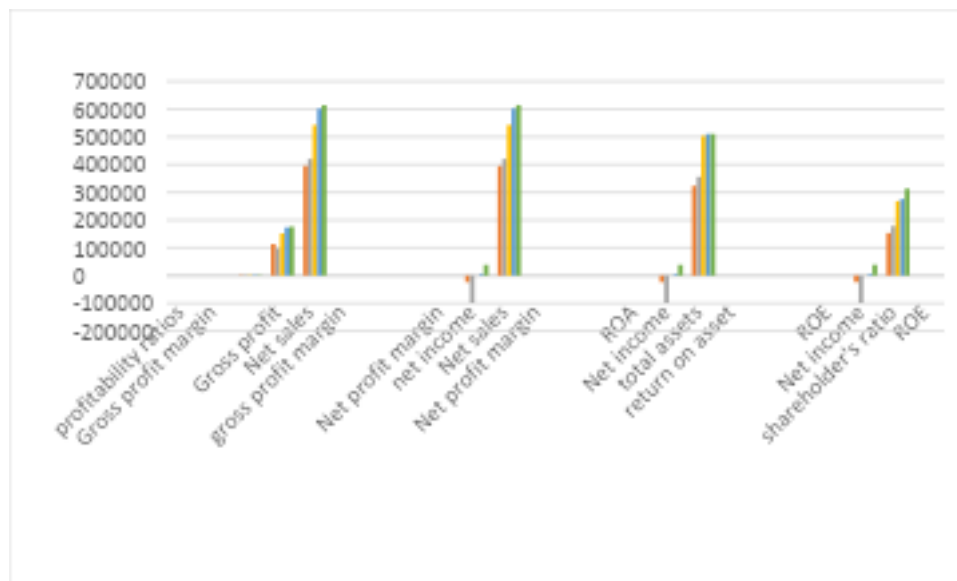
Ratio analysis

Liquidity ratio interpretation and identifying trends, strengths, and threats



Aspect	Current Ratio	Cash Ratio
Trend	The current ratio, as witnessed here, steadily declined from 1.82 (2020) to 1.53 (2024), indicating weakening short-term liquidity over time (Appendix 1).	Cash ratio has fallen sharply from 0.32 (2020) to 0.17 (2024), showing a consistent reduction in immediately available cash (Appendix 1).
Strengths	One of the strengths that has been identified is that it remains above 1 in all years, suggesting the firm can still cover current liabilities with current assets (Chairunisa <i>et al.</i> 2023).	As witnessed in the calculation in Appendix 1, the Cash ratio above 0.15 indicates some ability to meet urgent obligations without selling assets (Sunmola, 2021; Litvinenko, 2024).
Weaknesses	However, there had been one of the persistent weaknesses, as Downward trend signals increasing pressure on working capital and reduced margin of safety for creditors.	General electronics here witnesses the fact that cash coverage of liabilities is low and deteriorating, implying growing reliance on receivables and inventory.
Risk or Threats	There had been a persistent decline, which may lead to liquidity stress, especially if inventory or receivables become illiquid.	There had been instances of low cash buffers exposing the firm to short-term solvency risk, particularly during economic or revenue shocks.
Overall Assessment	Hence, for General Electronics liquidity position is adequate but weakening, requiring improved working capital management.	Immediate liquidity is fragile, raising concerns about the firm's ability to handle sudden cash demands.

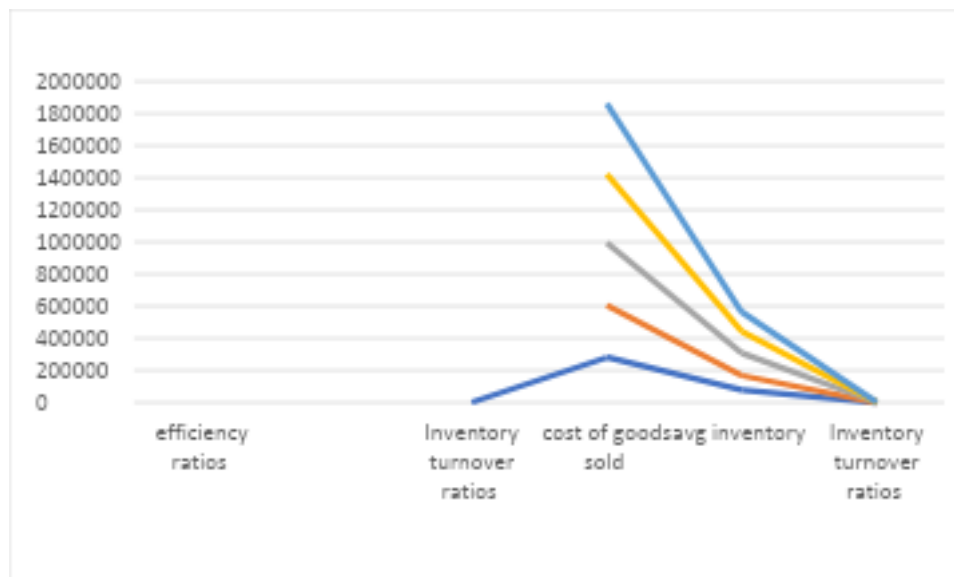
Profitability ratios



Ratio	Trend (2020 → 2024)	Strengths Identified	Threats that had been identified
Gross Profit Margin	Gross profit margin had been stable around 28–29% until 2022 sharp fall to 23.2% in 2023, recovery to 28.9% in 2024 (Appendix 6)	Witnessed that there happens to be strong core pricing and cost control, with recovery in 2024 showing operational resilience	The 2023 collapse highlights exposure to cost pressures and revenue decline, signalling margin volatility
Net Profit Margin	Net profit margin had been Strong 6.3% in 2020, near zero in 2021–22 there had been witnessed deep losses were witnessed in 2023 (–23.4%) partial recovery but still negative in 2024, which needs to be considered (Appendix 6).	There had been an instance of a return toward lower losses in 2024, suggesting initial turnaround efforts.	Persistent negative margins address structural profitability issues beyond gross margin (high operating costs, financing burden)
Return on Assets (ROA)	The ROA had been Healthy at 7.6% in 2020 declines sharply negative in 2023 (–27.6%) improves but remains negative in 2024 (Appendix 6)	It is witnessed that the asset base is still capable of generating returns in stable conditions.	Reflects on practices pertaining to inefficient asset utilisation, with assets failing to generate profits post-2022
Return on Equity (ROE)	ROE had been strong 12.3% in 2020 however, there had been severe deterioration	One here needs to witness that the equity recovery trend in 2024 suggests loss containment.	A major sustained negative ROE reflects value destruction for shareholders and weakened investor confidence.

	-54.9% in 2023 improves but still negative in 2024 (see Appendix 6)		
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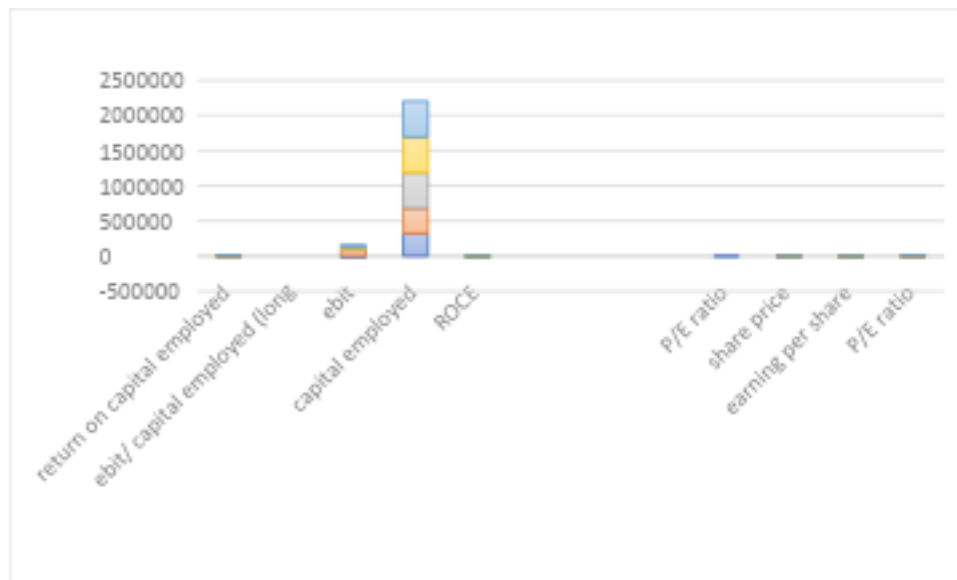
Efficiency ratios



Aspect	Trend (2020 → 2024)	Strengths Identified	Threats / Weaknesses Identified
Inventory Turnover	High in 2020 (3.64) → declines in 2021–2022 (3.19 → 2.79) → improves in 2023 (3.66) → slight fall in 2024 (3.54) (Appendix 7)	There had been a recovery after 2022, indicating better inventory management and demand alignment; turnover remains above 3, suggesting reasonable stock movement (Patki, 2021).	Volatility signals a certain unstable demand and supply chain adjustments. There had been a slight 2024 decline; this essentially reflects a slower sales or excess stock risk.
Operational Efficiency	Weakest in 2022	There had been an improvement or accentuation in 2023–24, which suggests learner inventory policies.	Efficiency is not consistently improving, reflecting the

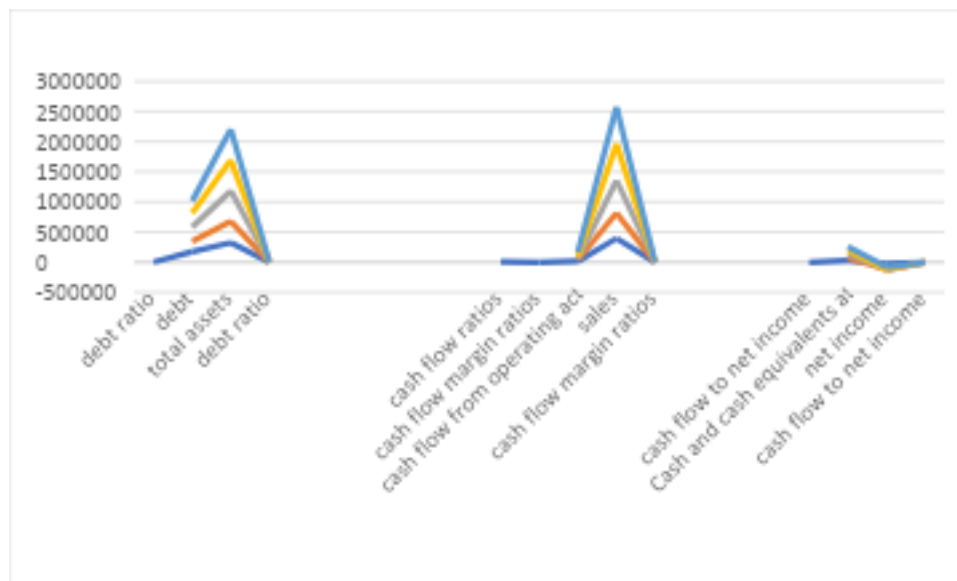
			ongoing operational uncertainty.
Overall Assessment	U-shaped trend	Inventory control capability exists	Efficiency gains are fragile and sensitive to market conditions

Investment ratios



Ratio	Trend (2020 → 2024)	Strengths Identified	Threats / Weaknesses Identified
ROCE	Strong 7.3% (2020) however, declines in 2021–22, increases in 2023 (24.0%), and turns negative in 2024 (–4.7%) (Appendix 8)	If one witnesses the year 2023, here essentially suggests a temporary efficient capital utilisation, possibly from strategies pertaining to cost reductions or asset contraction (Islam, 2025).	The witnessed ROCE in 2024 indicates that capital employed is not generating operating returns, signalling poor investment efficiency.
P/E Ratio	Reasonable 73.6 (2020), inflated in 2021–22, which happens to be negative in 2023–24 (Appendix 8)	It has been witnessed that the P/E in earlier years reflects strong market expectations	Negative P/E ratios reveal a certain loss-making position for general electronics, thereby making valuation unreliable and increasing investor risk
Investor Confidence	Weakening over time	One needs to comprehend that share price stability suggests some market resilience.	Persistent or consistent losses often undermine General Electronics' shareholder value and future investment appeal.

Gearing ratios



Interpretation	Explanation
Trend (2020–2024)	There had been a substantial, clear upward trend in the aspect of gearing. It is witnessed that the debt-to-equity ratio rises from 0.63 (2020) to 1.11 (2024) (Appendix 9) This highlights the increasing reliance on debt financing. Simultaneously, the equity ratio declines from 0.61 to 0.47, while the debt ratio increases from 0.39 to 0.53, thereby confirming a gradual shift toward higher leverage.
Strength Identified	One needs to comprehend that superior or higher leverage in recent years may reflect aggressive growth or expansion financing, which may potentially enhance returns if investments generate strong cash flows. The balanced structure until 2022 highlights the fact that the firm previously maintained reasonable financial stability and efficient capital utilisation.
Weakness Identified	The rising debt burden post-2022 had enhanced or increased financial risk and interest obligations. One could witness that a debt-to-equity ratio above 1 in 2024 reflects a greater dependence on creditors than shareholders, thereby potentially weakening solvency, reducing financial flexibility, and increasing vulnerability to the usual economic or interest rate shocks.

Cash flow ratios

Interpretation	Explanation and Nuances
Trend (2020–2024)	Cash flow exhibits a consequential declining and volatile trend, thereby falling sharply from 11.9% (2020) to 3.8% (2024). This further reflects on major weakening of operating cash generation relative to sales (Appendix 10). Cash flow to net income is highly unstable, as witnessed from Appendix 10, especially during loss-making years, as witnessed.
Strength Identified	The firm, as witnessed in the appendix, has further maintained positive operating cash flows in all years, which reflects its continued cash generation ability. Strong margins in 2020–2021 further reflect periods of efficient cash conversion.
Weakness Identified	Low and plummeting cash flow margins in recent years signal pressure on liquidity and operational efficiency. One needs to comprehend that negative net income in 2023–2024 distorts the cash flow–income relationship, sheds light on earnings quality concerns, and sustainability risks.

Application of corporate failure prediction models (e.g., Altman Z-Score) to assess default risk

If the Altman Z-score calculation of the company for the period 2020 to 2024 is witnessed, it indicates a certain moderate financial stability with varying levels of distress risk across the years. During the period of 2020-2021, the Z value was 2.6 (*Appendix 11*). It suggested that the firm operated in the safe-to-grey zone (Khawaja, 2023). This reflects a certain acceptable solvency and earnings capacity (). If witnessed in the appendix, the score had peaked during 2023 at 3.22, thereby placing the firm in the safe zone. This has been supported by substantial and sound liquidity and retained earnings (A and B components). There had been a dip in 2024; the Z score had declined to 2.28, thereby inching towards the grey zone. This signals a surge in financial pressure. Hence, for General Electronics, while the risks pertaining to bankruptcy remain low, there happens to be a certain downward shift during 2024. This stresses the need for tighter financial control and profitability improvement.

2: Working capital management analysis

working capital	2024	2023	2022	2021	2020
current asset	242494	258851	338040	337146	326843
current liabilities	158291	161148	216473	216787	179510
working capital	84203	97703	121567	120359	147333

Assessing the cash operating cycle.

The diagram below provides a brief insight into the trajectory that this paper will follow for assessing the company's cash conversion cycle. General electronics have experienced dwindling sales and a surge in its operating expenses; therefore, being the CFO, it is required to look into the management of its cash conversion cycle, abiding by the below-stated paradigm.

All three of these variables can be found using the following formula:

$DSO = \text{Account Receivable} / \text{Revenue} \times 365 \text{ days}$

$DIO = \text{Inventories} / \text{COGS} \times 365 \text{ days}$

$DPO = \text{Account Payable} / \text{COGS} \times 365 \text{ days}$

(Source: Asman *et al.* 2025)

Days sales outstanding: (all in £m)

Year	Accounts Receivable (Closing)	Accounts Receivable (Opening)	Average Accounts Receivable	Net Sales	DSO (Days)
2020	129,433	129,215	$\frac{(129,433 + 129,215)}{2} = 129,324$	614,680	77 days
2021	129,215	112,346	$\frac{(129,215 + 112,346)}{2} = 120,781$	601,602	73 days

2022	112,346	112,596	$\frac{(112,346 + 112,596)}{2} = 112,471$	542,751	76 days
2023	112,596	114,182	$\frac{(112,596 + 114,182)}{2} = 113,389$	420,457	99 days
2024	114,182	112,596	$\frac{(114,182 + 112,596)}{2} = 113,389$	394,879	105 days

DSO has declined, and it has deteriorated during the span between 2020 and 2024 company is taking longer to collect payments from its customers (Aljaaidi and Bagais, 2020). Hence, introspecting the above table would lead to an assessment that states a fundamental breakdown in receivables management and weakening revenue quality. If the above table is assessed, it is witnessed that DSO increased from approximately 77 days in 2020 to around 105 days in 2024.

This has occurred despite a sharp dip in net sales from £614.7bn to £394.9bn. This anomaly happens to be extremely concerning, as falling revenues should ordinarily lead to lower receivables (Aljaaidi and Bagais, 2020). Hence, in reality, the company's accounts receivable has remained persistently high. This, therefore, addresses slower customer payments or increasingly lenient credit terms. From the statement of financial position, as in the company's balance sheet, it is witnessed that receivables are no longer aligned with the company's financial operational performance. As witnessed from the balance sheet, the accounts receivable in 2024 (£114.2bn) remained unchanged from earlier years, even though sales have declined significantly. Hence, it is implied that the company may have been booking revenue that is not being converted into cash (Aljaaidi and Bagais, 2020). This further puts aspects like over-earnings quality and potential credit risk exposure into the limelight. The cash flow statement further exhibits certain negative movements in receivables and contract assets have repeatedly limited operating cash flows. This has therefore led to a decline or deterioration of cash generated from operations from £73.4bn in 2020 to just £14.8bn in 2024. As a result, the firm has increasingly relied on short-term borrowing to finance its operating cycle. Therefore, it can be stated that DSO here reflects structural inefficiencies, rather than any form of temporary disruption (Aljaaidi and Bagais, 2020). This addresses poor credit control, bargaining power of the customer, which has been declining, and could be called a certain business model that is increasingly detached from the cast reality.

Days Inventory Outstanding (all in £m)

Year	Inventory (Closing)	Inventory (Opening)	Average Inventory	Cost of Sales	DIO (Days)
2020	120,430	134,469	$(120,430 + 134,469)/2$ $= 127,450$	438,424	106
2021	134,469	140,181	137,325	428,586	117
2022	140,181	88,273	114,227	390,459	107
2023	88,273	79,355	83,814	322,897	95
2024	79,355	88,273	83,814	280,885	109

The structural inefficiency is further witnessed through DIO. It is witnessed that DIO does not improve consistently, remaining above 100 days in most years. Hence, the efficiency of inventory reduction has dipped, given that they are more reactive rather than strategic. Hence, it could be stated that this pursuit is mainly driven by demand weakness instead of operational optimisation (Boisjoly, Conine Jr, and McDonald, 2020). A high value of DIO in 2024, despite lower inventory balances, is concerning. It further reflects on slower turnover caused by reduced sales volumes, not improved efficiency. It is witnessed from the cash flow that inventory movements have periodically limited operating cash flows (Boisjoly, Conine Jr, and McDonald, 2020).

Days Payable outstanding (all in £m)

Year	Accounts Payable (Closing)	Accounts Payable (Opening)	Average Accounts Payable	Cost of Sales	DPO (Days)
2020	83,229	92,707	$(83,229 + 92,707)/2$ $= 87,968$	438,424	73
2021	92,707	71,373	82,040	428,586	70
2022	71,373	57,033	64,203	390,459	60
2023	57,033	72,031	64,532	322,897	73
2024	72,031	57,033	64,532	280,885	84

Similarly, as witnessed from the table, Days Payables Outstanding increases markedly in the later years, and the surge is **around 84 days in 2024**. This reflects the fact that the firm is increasingly **stretching payments to suppliers**. It could be stated that while the DPO can

temporarily support liquidity, for this company, this anomaly represents **financial strain rather than bargaining power**.

Recommend strategies to improve liquidity through working capital reforms

1st recommendation

The initial recommendation that is deconstructed from the 3 metrics explained above would be that receivables management must be tightened immediately. A below-par credit discipline and declining customer quality must be addressed through policies pertaining to stricter credit scoring, shorter payment terms, and automated collections, particularly for high-risk customers.

2nd recommendation

Inventory rationalisation is critical, which is further evidenced by high DIO. It essentially reflects weak demand forecasting and excess stock accumulation. Hence, it is advised for the firm to consider demand-driven inventory planning. This may aid in reducing low-turnover SKUs and renegotiating supplier delivery schedules to enable just-in-time practices.

3rd recommendation

It is further advised for the firm to pursue structured supplier financing solutions, such as supply-chain finance. This mainly preserves supplier relationships while smoothing cash outflows.

Comparing long-term and short-term financing options

The company here can address its growth and liquidity through both long-term and short-term financing options. From the context of the short term, it is advised to expand business lines of credit, since the firm already holds £36,960m in credit facilities, which is supported by £323,354m in assets (Greenwald, Krainer and Paul, 2025). Receivables financing could also be sound, given £114,182m in accounts receivable and rising DSO. This, however, reflects on delayed cash collection; factoring could accelerate inflows without materially increasing debt.

Long-term financing, if called for, its lessened liabilities (£170,249m) and strong equity (£153,105m) indicate solid creditworthiness. This would make the company eligible for bonds to fund fixed assets and reduce reliance on volatile short-term borrowing.

3: Strategic Financial Restructuring Plan

Recommend financial restructuring options (e.g., divestiture, merger, equity injection)

The financial statements and ratio analysis in the earlier segments address the fact that the company here confronts a scenario of structural liquidity and profitability challenges. The cash ratio here happens to be 0.17 during 2024. It is further witnessed that a certain declining operating cash flow of £14,822m sheds light on short-term liquidity stress. Moreover, net profit margin (-6.08%), declining ROA (-7.43%), and ROE (-15.69%) reflect the company's persistent operational inefficiencies. Cash is tied to the receivables, as witnessed high DSO (105 days) and elevated DIO (109 days).

- The first option would be to consider a certain divestiture of non-core or underperforming assets, as the company must contemplate the fact that its property, plant, and equipment (£34,207m) and certain intangible assets (£24,038m) could be sold to release cash and reduce operational burden.
- Another option that could be considered would be equity injection, as witnessed from the financial assessment, with the shareholders' equity of £153,105m and declining retained earnings. Raising capital through new equity would strengthen the balance sheet; hence, it would reduce the leverage that the company has considered (debt/equity 1.11) and support long-term investments.

Financial Restructuring Options when considered for the company's declining pursuits

Option	Target Assets / Area	Current Value (£m) from the financial statement	Expected Cash / Capital Raised (£m), which is assumed from the paper	Impact on Balance Sheet	Rationale behind the restructuring intent
Divestiture of non-core assets	Property, plant & equipment influenced by	34,207	10,000–15,000 (assume 30–45%)	Reduces total assets; increases cash; lowers	It has to be comprehended that this would aid in freeing cash,

	Mavis et al. (2020)		of book value)	depreciation burden	reduce operational costs, support short-term liquidity, and address CCC inefficiencies
	Intangible assets	24,038	5,000– 8,000 (assume 20–35% of book value)	Reduces intangible assets; increases cash; improves asset efficiency	This would aid in monetising underperforming assets without affecting core operations
Equity injection	Shareholders’ equity Harris et al. (2020)	153,105	15,000– 25,000 (targeted new equity)	Increases total equity; reduces debt/equity from 1.11 to ~0.9–1.0	Equity injection may solidify the balance sheet, reduce leverage, support long-term investment, and provide financing stability

The assumptions for divestiture happen to be conservative, as 30–45% of PP&E, 20–35% of intangibles were considered. It would reflect the realistic market valuations. Moreover, it is witnessed that the equity injection range happens to be illustrative. It would aid in reducing the fund growth and leveraging, while not diluting the existing shareholders excessively.

The restructuring paradigm here happens to be simple. One could see that divesting the non-core assets, such as the usual portion of plant, property, and equipment accounting for £34,207m and £24,038m in intangible assets, may enable immediate cash, reduce the basic operational burden, operational burden. This enhances asset efficiency. It would strengthen liquidity, allowing the company to meet short-term obligations and reduce reliance on credit lines. Moreover, equity injection may leverage the already existing value of £153,105m, which may reduce the debt-to-equity ratio and support forms of long-term investment.

Evaluate impact on shareholder value, debt structure, and operational flexibility.

The table below demonstrates the impact of these restructuring options on the company's value to shareholders, debt structure, and operational flexibility.

Options that had been considered from the loopholes of the company that had been identified from the financial statements	Shareholder Value Impact	Debt Structure, as witnessed in the format given below	Operational Flexibility, as it renders	Rationale behind the justification
Divestiture of non-core assets	The value could be increased by freeing cash and improving ROA/ROCE; potential one-time gains can enhance net income.	This aspect's impact is quite significant. This essentially reduces total assets, may allow partial debt repayment, and improves the debt-to-equity ratio slightly.	It further reduces operational burden, it further happens to be lower maintenance and depreciation costs, and frees cash for core operations.	It has to be comprehended that usually selling 30–45% of PP&E (£10,000–15,000m) and 20–35% of intangibles (£5,000–8,000m) It aids in releasing liquidity, strengthens working capital, and supports short-term flexibility.
Equity Injection	Equity injection could often strengthen the equity base,	This further enables a certain increase in	This would be in the form of a way of providing long-	It further aids in raising £15,000–25,000m strengthens the

	reduce financial risk. Hence, it is expected that this option may often be considered to dilute existing shareholders slightly if new shares are issued.	equity and reduces leverage It further reduces the debt-to-equity ratio could fall from 1.11 to ~0.9–1.0	term funding for investments, reducing reliance on short-term borrowing, and allowing strategic initiatives	balance sheet, improves creditworthiness, and supports sustainable growth; reduces
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It has to be considered that divesting the non-core assets of the company may include a certain proportion of property, plant, and equipment accounting to (£34,207m and intangible assets, valued at (£24,038m. This would generate a certain estimated £15,000–23,000 million in cash. This, therefore, would enhance the company's liquidity and working capital. Hence, operational flexibility is assessed, as it could be witnessed that cash here could be redeployed to fund core operations, reduce inventory levels, or accelerate receivable collections. This would increase the cash conversion cycle, which was DSO 105 days, DIO 109 days in 2024. Assessing from a debt perspective, the influx of cash may enable partial repayment of liabilities (£170,249m in 2024), slightly lowering the debt-to-equity ratio from 1.11 and reducing short-term refinancing risk.

A certain equity injection of major £15,000–25,000m may solidify shareholders' equity, which happens to be £153,105m in 2024, from 0.47 to approximately 0.52–0.55. This enhances creditworthiness and solvency. Hence, it lessens the average, often lowers the usual cost of capital, and provides funding for long-term investment. It may lead to upgrading property, plant, and intangible assets, without increasing short-term debt reliance. Hence, doing this would imply that shareholder value benefits would improve ROA (-7.43%) and ROCE (-4.73%) over time, while there could be an increase in operational flexibility, as the firm can make strategic investments and manage liquidity pressures more efficiently.

2. Investment Appraisal and Capital Budgeting

NPV

$$NPV = -CF_0 + \frac{CF_1}{(1+i)^1} + \frac{CF_2}{(1+i)^2} + \dots + \frac{CF_n}{(1+i)^n}$$

(Source: Shou, 2022)

Here, it is witnessed that the NPV assessment of projects A, B, and C reflects on differing segments of financial attractiveness based on the cash flows and the discounted present value. As witnessed, the project C happens to be financially more lucrative, with a net present value of **£4.20m**, significantly higher than Projects A (£1.31million) and B (-£7.27million) (**Appendix 2**). Hence, it could be implied that after accounting for the time value of money, Project C is expected to generate the greatest wealth for the firm. It has to be comprehended that NPV results from both larger cash inflows in later years (years 3–5) and a relatively substantial initial investment (£50m),

The next option would be that of project A, which essentially presents a positive NPV of **£1.31**. **It could be considered way less attractive, with more uniform cash inflow barely exceeding the initial investment of** (£30m. Despite remaining overall positive, a lower NPV value elicits limited value creation and lower priority for capital allocation, as compared to other projects. Hence, it is advised to consider **prioritising Project C**, followed by Project A, while treating Project B as a lower priority unless strategic or non-financial considerations justify its undertaking.

Profitability Index

Profitability Index (PI) is another investment assessment technique indicating the worth generated per unit of investment and it is determined by dividing the PV of future cash flows by the initial capital. When the calculated PI is more than 1; it shows a financially viable project. It has been calculated that Project C has the highest PI of 1.08, while Project A 's PI is 1.03 and Project B with the lowest PI of 0.76 (**Appendix 15**). Then, it may be articulated that the ranking of the projects should be Project C first, Project A second, and Project B rejected because only Projects A and C will yield positive returns.

Payback period

$$\text{PBP} = \text{Initial Investment} / \text{Annual Cash Flow}$$

(Source: Dai et al. 2022)

The payback period for Project A happens to be 3.4 years, which addresses the fact that the returns become positive between the 3rd and 4th years (**Appendix 14**). On the other hand, Project B' PBP is 5 years and C's PBP is 3 years 6 months. Project A happens to be the lowest amongst all the projects considered, hence project A is the most viable option here.

IRR

The formula used to determine IRR is as follows:

$$0 = \text{NPV} = \sum_{t=1}^T \frac{C_t}{(1 + \text{IRR})^t} - C_0$$

where:

C_t = Net cash inflow during the period t

C_0 = Total initial investment costs

IRR = The internal rate of return

t = The number of time periods

(Source: Magni, 2020)

It is clear that the Project C renders the superior return which happens to be 12.72 %, which is further followed by Project A, which is at 11.33 %, while Project B yields only 0 %, thereby reflecting on the fact that the project barely recovers the initial investment (**Appendix 13**).

Project C's usually higher IRR, that is to be combined with substantial cumulative cash flows in years 3–5. This aspect could demonstrate strong profitability and faster value creation. This has to be identified that Project A, with moderate IRR and steady cash flows, essentially remains financially viable but less attractive than Project C. One here could further witness that Project B's cumulative cash flows stagnate. This reflects on the usual poor returns and limited wealth creation. It is stated that the company General Electronics should prioritise **Project C**, consider Project A, and only invest in Project B for strategic, non-financial reasons.

ARR

Accounting Rate of Return (ARR) assists businesses in evaluating the profitability of investments conforming average accounting profit per year of investment and the average investment (Brief and Lawson, 2014). Project A is reporting an ARR of 27, which implies high profitability on a 40 million pound investment. B has reduced ARR of 20 indicating moderate returns and less financial appeal (**Appendix 16**). On a 50 million investment, Project C has the best ARR of 30 percent, showing better potential returns. Thus, according to ARR analysis, Project C is the most feasible project to invest in, next is Project A, and Project B is relatively less profitable.

Final investment recommendation assuming capital rationing (a maximum of £60 million can be invested)

Recommendation under Capital Rationing (therefore, Maximum £60 million)

Project Combination	Initial Investment (£m)	NPV (£m)	IRR (%)	Payback Period (Years)	Feasibility under £60m	Overall Assessment
Project A only	40	£1.31	11.33	3.4	Feasible	Moderate value creation, fastest payback
Project B only	30	-£7.27 m	0.00	Longer than A	Feasible	Low financial attractiveness
Project C only	50	£4.20 m	12.72	Longer than A	Feasible	Highest value creation and return
Project A + B	70		Mixed	—	Not feasible	Exceeds capital limit
Project A + C	90		Mixed	—	Not feasible	Exceeds capital limit
Project B + C	80		Mixed	—	Not feasible	Exceeds capital limit

Recommendation:

One could see that, given the usual capital rationing constraints of a limited £60 million, **Project C should be selected**. As a matter of fact, it happens to have the **highest Net Present Value (£4.20m)** and the **highest Internal Rate of Return (12.72%)**. This majorly reflects on superior wealth creation despite a longer payback period. As witnessed from the capital investment techniques, here, no combination of projects is feasible within the capital limit, and Project C alone clearly dominates Projects A and B on value-based appraisal criteria

Justification

justification Dimension	Evidence from General Electronics' Financial Performance, which would essentially support the investment decisions as provided	Implication for Investment Decision	Link to Project Risk Characteristics
Profitability Position	The company here, has essentially reported persistent losses in recent years, with negative net profit margin (−6.08% in 2024), ROA (−7.43%), and ROE (−15.69%), indicating weak value generation from existing operations.	Capital should always be allocated only to projects that maximise shareholder wealth and clearly exceed the cost of capital.	Project C renders the most valuable NPV (£54.98m) and IRR (12.72%) This provides the strongest profitability buffer to offset existing corporate losses.

Liquidity Constraints	The financial statement of the company has presented the fact that liquidity has weakened, with the current ratio declining to 1.53 and the cash ratio falling to 0.17 in 2024, reflecting limited immediate cash availability.	The firm here, essentially cannot afford to invest in low-return or slow value-creating projects under capital rationing.	Although Project C requires a higher initial outlay (£50m), its larger cash inflows in later years solidify future liquidity more effectively than Projects A or B.
Working Capital Pressure	The company has witnessed a major hurdle in the form of its Cash conversion cycle. The cash conversion cycle has deteriorated, with DSO increasing to 105 days and DIO remaining high at 109 days, constraining operating cash flows.	The usual investment decisions should prioritise projects that generate strong net cash inflows rather than marginal or flat returns.	Project C here, essentially generates significantly higher cumulative cash inflows in years 3–5, reducing long-term cash flow stress compared to uniform but weaker flows in Project B.
Capital Structure Risk	The usual gearing aspect of the file is seen and increased, with debt-to-equity rising to 1.11 in 2024, increasing financial risk and sensitivity to interest obligations.	Projects must deliver returns comfortably above the discount rate to justify additional capital commitment.	Project C's IRR of 12.72% would go beyond the 10% discount rate by a wider margin than Project A (11.33%), providing a stronger risk premium.
Earnings Stability	There could be instances of certain anomalies. As a matter of fact, the earnings volatility has increased, evidenced by sharp profit	The firm requires projects with strong wealth creation potential to	Project C exhibits back-loaded cash flows, the magnitude of inflows reduces downside risk

	deterioration in 2023 and only partial recovery in 2024.	stabilise future earnings.	relative to Project B's stagnant cash flows.
Cash Flow Volatility	The company's operating cash flows have declined significantly from £73.4bn (2020) to £14.8bn (2024), reflecting strained cash generation.	Projects with low or uncertain cash generation should be avoided.	Project B exhibits flat and low cash inflows, increasing reinvestment and liquidity risk Project C shows robust growth in cash inflows over time.

3. Conclusion

The report here has presented a detailed ratio analysis and the ways the financial aspects of the company could be restricted. The paper has proceeded to present the cash conversion cycle of the company, which happens to be poor and seeks serious intervention. The last segment of the paper has presented the capital appraisal methods, which show which investment procedure will bear definite results.

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5. Appendices

Appendix 1

Vertical Analysis of Consolidated Income Statement (Net Sales = 100%)

2020

Item	Calculation	% of Net Sales
Net sales	$614,680 \div 614,680 \times 100$	100.0%
Cost of sales	$(438,424 \div 614,680) \times 100$	−71.3%
Gross profit	$176,256 \div 614,680 \times 100$	28.7%
Operating expenses	$138,989 \div 614,680 \times 100$	22.6%
Operating income	$37,267 \div 614,680 \times 100$	6.1%
Interest expenses	$(1,422 \div 614,680) \times 100$	−0.2%
Other income	$8,060 \div 614,680 \times 100$	1.3%
Income before tax	$43,905 \div 614,680 \times 100$	7.1%
Income taxes	$(5,333 \div 614,680) \times 100$	−0.9%
Net income	$38,572 \div 614,680 \times 100$	6.3%

2021

Item	Calculation	% of Net Sales
Net sales	$601,602 \div 601,602 \times 100$	100.0%
Cost of sales	$(428,586 \div 601,602) \times 100$	−71.2%
Gross profit	$173,016 \div 601,602 \times 100$	28.8%
Operating expenses	$149,763 \div 601,602 \times 100$	24.9%
Operating income	$23,253 \div 601,602 \times 100$	3.9%
Interest expenses	$(566 \div 601,602) \times 100$	−0.1%
Other expenses	$(6,607 \div 601,602) \times 100$	−1.1%
Income before tax	$16,080 \div 601,602 \times 100$	2.7%
Income taxes	$(10,779 \div 601,602) \times 100$	−1.8%
Net income	$5,301 \div 601,602 \times 100$	0.9%

2022

Item	Calculation	% of Net Sales
Net sales	$542,751 \div 542,751 \times 100$	100.0%
Cost of sales	$(390,459 \div 542,751) \times 100$	-72.0%
Gross profit	$152,292 \div 542,751 \times 100$	28.1%
Operating expenses	$137,744 \div 542,751 \times 100$	25.4%
Operating income	$14,548 \div 542,751 \times 100$	2.7%
Interest expenses	$(2,200 \div 542,751) \times 100$	-0.4%
Other expenses	$(955 \div 542,751) \times 100$	-0.2%
Income before tax	$11,393 \div 542,751 \times 100$	2.1%
Income taxes	$(10,986 \div 542,751) \times 100$	-2.0%
Net income	$407 \div 542,751 \times 100$	0.1%

2023

Item	Calculation	% of Net Sales
Net sales	$420,457 \div 420,457 \times 100$	100.0%
Cost of sales	$(322,897 \div 420,457) \times 100$	-76.8%
Gross profit	$97,560 \div 420,457 \times 100$	23.2%
Operating expenses	$182,861 \div 420,457 \times 100$	43.5%
Operating income (loss)	$(85,301 \div 420,457) \times 100$	-20.3%
Interest expenses	$(4,332 \div 420,457) \times 100$	-1.0%
Other expenses	$(2,621 \div 420,457) \times 100$	-0.6%
Income before tax	$(92,254 \div 420,457) \times 100$	-21.9%
Income taxes	$(5,984 \div 420,457) \times 100$	-1.4%
Net income (loss)	$(98,238 \div 420,457) \times 100$	-23.4%

2024

Item	Calculation	% of Net Sales
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Net sales	$394,879 \div 394,879 \times 100$	100.0%
Cost of sales	$(280,885 \div 394,879) \times 100$	−71.1%
Gross profit	$113,994 \div 394,879 \times 100$	28.9%
Operating expenses	$129,291 \div 394,879 \times 100$	32.7%
Operating income (loss)	$(15,297 \div 394,879) \times 100$	−3.9%
Interest expenses	$(3,361 \div 394,879) \times 100$	−0.9%
Other income	$60 \div 394,879 \times 100$	0.02%
Income before tax	$(18,598 \div 394,879) \times 100$	−4.7%
Income taxes	$(5,431 \div 394,879) \times 100$	−1.4%
Net income (loss)	$(24,029 \div 394,879) \times 100$	−6.1%

Appendix 2: Horizontal analysis of Income statement

Horizontal analysis (£m)

Item	2021 – 2020		2022 – 2021		2023 – 2022		2024 – 2023	
Net sales	601,602	–	542,751	–	420,457	–	394,879	–
	614,680	=	601,602	=	542,751	=	420,457	=
	–13,078		–58,851		–122,294		–25,578	
Cost of sales	(428,586)	–	(390,459)	–	(322,897)	–	(280,885)	–
	(438,424)	=	(428,586)	=	(390,459)	=	(322,897)	=
	+9,838		+38,127		+67,562		+42,012	
Gross profit	173,016	–	152,292	–	97,560	–	113,994	–
	176,256	=	173,016	=	152,292	=	97,560	=
	–3,240		–20,724		–54,732		+16,434	
Operating expenses	149,763	–	137,744	–	182,861	–	129,291	–
	138,989	=	149,763	=	137,744	=	182,861	=
	+10,774		–12,019		+45,117		–53,570	
Operating income (loss)	23,253	–	14,548	–	(85,301)	–	(15,297)	–
	37,267	=	23,253	=	14,548	=	(85,301)	=
	–14,014		–8,705		–99,849		+70,004	

Interest income (expenses)	(566) (1,422) +856	– = 	(2,200) (566) –1,634	– = 	(4,332) (2,200) –2,132	– = 	(3,361) (4,332) +971	– =
Other income (expenses)	(6,607) 8,060 –14,667	– = 	(955) (6,607) +5,652	– = 	(2,621) (955) –1,666	– = 	60 – (2,621) = +2,681	
Income before tax	16,080 43,905 –27,825	– = 	11,393 16,080 –4,687	– = 	(92,254) 11,393 –103,647	– = 	(18,598) (92,254) +73,656	– =
Income taxes	(10,779) (5,333) –5,446	– = 	(10,986) (10,779) –207	– = 	(5,984) (10,986) +5,002	– = 	(5,431) (5,984) +553	– =
Net income (loss)	5,301 38,572 –33,271	– = 	407 – 5,301 = –4,894	= 	(98,238) 407 –98,645	– = 	(24,029) (98,238) +74,209	– =

Appendix 3: Vertical analysis of balance sheet

2024 (Total Assets = £323,354m)

Item	Calculation	%
Total current assets	$242,494 \div 323,354 \times 100$	75.0%
Cash & cash equivalents	$26,783 \div 323,354 \times 100$	8.3%
Accounts receivable	$114,182 \div 323,354 \times 100$	35.3%
Inventories	$79,355 \div 323,354 \times 100$	24.5%
Non-current assets	$80,860 \div 323,354 \times 100$	25.0%
Total liabilities	$170,249 \div 323,354 \times 100$	52.7%
Total equity	$153,105 \div 323,354 \times 100$	47.3%

2023 (Total Assets = £355,872m)

Item	Calculation	%
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Total current assets	$258,851 \div 355,872 \times 100$	72.7%
Inventories	$88,273 \div 355,872 \times 100$	24.8%
Total liabilities	$176,952 \div 355,872 \times 100$	49.7%
Total equity	$178,920 \div 355,872 \times 100$	50.3%

2022 (Total Assets = £504,163m)

Item	Calculation	%
Total current assets	$338,040 \div 504,163 \times 100$	67.1%
Inventories	$140,181 \div 504,163 \times 100$	27.8%
Total liabilities	$235,757 \div 504,163 \times 100$	46.8%
Total equity	$268,406 \div 504,163 \times 100$	53.2%

Appendix 4: Horizontal analysis of balance sheet

(£m)

Item	2021 – 2020		2022 – 2021		2023 – 2022		2024 – 2023	
Cash & cash equivalents	60,813	–	66,740	–	42,751	–	26,783	–
	57,153	=	60,813	=	66,740	=	42,751	=
	+3,660		+5,927		–23,989		–15,968	
Accounts receivable	129,215	–	112,346	–	112,596	–	114,182	–
	129,433	=	129,215	=	112,346	=	112,596	=
	–218		–16,869		+250		+1,586	
Inventories	134,469	–	140,181	–	88,273	–	79,355	–
	120,430	=	134,469	=	140,181	=	88,273	=
	+14,039		+5,712		–51,908		–8,918	
Total current assets	337,146	–	338,040	–	258,851	–	242,494	–
	326,843	=	337,146	=	338,040	=	258,851	=
	+10,303		+894		–79,189		–16,357	

Property, plant & equipment	74,647 – 87,285 = –12,638	62,791 – 74,647 = –11,856	44,619 – 62,791 = –18,172	34,207 – 44,619 = –10,412
Total assets	510,348 – 510,290 = +58	504,163 – 510,348 = –6,185	355,872 – 504,163 = –148,291	323,354 – 355,872 = –32,518
Total current liabilities	216,787 – 179,510 = +37,277	216,473 – 216,787 = –314	161,148 – 216,473 = –55,325	158,291 – 161,148 = –2,857
Total liabilities	234,399 – 196,989 = +37,410	235,757 – 234,399 = +1,358	176,952 – 235,757 = –58,805	170,249 – 176,952 = –6,703
Total shareholders' equity	275,949 – 313,301 = –37,352	268,406 – 275,949 = –7,543	178,920 – 268,406 = –89,486	153,105 – 178,920 = –25,815

Appendix 5

liquidity ratio						
current ratio	(current asset/current liabilities)					
	2024	2023	2022	2021	2020	
current asset	242494	258851	338040	337146	326843	
current liabilities	158291	161148	216473	216787	179510	
current ratio	1.53195 1	1.60629 4	1.56158	1.55519 5	1.82075 1	
cash ratio	(cash or cash equivalents/current liabilities)					

cash or cash equivalent	26783	42751	66740	60813	57153	
current liabilities	158291	161148	216473	216787	179510	
	0.16920 1	0.26529	0.30830 6	0.28052	0.31838 3	

Appendix 6

profitability ratios						
Gross profit margin		(gross profit/net sales)				
		2024	2023	2022	2021	2020
Gross profit		113994	97560	152292	173016	176256
Net sales		394879	420457	542751	601602	614680
gross profit margin		0.28868 1	0.23203 3	0.28059 3	0.28759 2	0.28674 4
Net profit margin		(net profit/net sales)				
net income		-24029	-98238	407	5301	38572
Net sales		394879	420457	542751	601602	614680
Net profit margin		- 0.06085	- 0.23365	0.00075	0.00881 1	0.06275 1
ROA		Net income/average of total assets)				
Net income		-24029	-98238	407	5301	38572
total assets		323354	355872	504163	510348	510290
return on asset		- 0.07431	- 0.27605	0.00080 7	0.01038 7	0.07558 8
ROE						

Net income		-24029	-98238	407	5301	38572
shareholder's ratio		153105	178920	268406	275949	313301
ROE		- 0.15694	- 0.54906	0.00151 6	0.01921	0.12311 5

Appendix 7

efficiency ratios	2024	2023	2022	2021	2020
Inventory turnover ratios	(cost of goods sold/average inventory)				
cost of goods sold	280885	322897	390459	428586	438424
avg inventory	79335	88273	140181	134469	120430
Inventory turnover ratios	3.5404 93	3.6579 36	2.7853 92	3.1872 48	3.6404 88
Accounts Receivable Turnover Ratio	(Net credit sales/average accounts receivable)				
Net credit sales	36960	55000	88000	56000	20000
average account receivable	114812	112596	112346	129215	129433
Accounts Receivable Turnover Ratio	0.3219 18	0.4884 72	0.7832 94	0.4333 86	0.1545 2
. Accounts Payable Turnover Ratio	(Net credit purchases/average accounts payable)				
Net credit purchases	120000	111000	101000	76000	123000
average accounts payable and accrued liabilities	15733	-21379	-28670	870	-33543

. Accounts Payable Turnover Ratio	7.6272 8	- 5.1920 1	- 3.5228 5	87.356 32	- 3.6669 3
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Appendix 8

Investment ratios					
<i>return on capital employed</i>	2024	2023	2022	2021	2020
ebit/ capital employed (long term liabilities + shareholder's equity)					
ebit	- 1529 7				
capital employed	3233 54	85301 2	14548 3	23253 8	37267 0
ROCE	0.047 31	0.239 696	0.028 856	0.045 563	0.073 031
<i>P/E ratio</i>	share price/earning per share)				
share price	204.5 8	204.5 8	204.5 8	204.5 8	204.5 8
earning per share	-1.85	-7.64	0.03	0.39	2.78
P/E ratio	- 110.5 84	- 26.77 75	6819. 333	524.5 641	73.58 993

Appendix 9

gearing ratios	2024	2023	2022	2021	2020
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debt to equity ratios					
debt	170249	176952	235757	234399	196989
equity	153105	178920	268406	275949	313301
debt/equity ratios	1.111975	0.989001	0.87836	0.849429	0.628753
Year/Column	Total Shareholders' Equity	Total Liabilities & Equity	Debt (Liabilities)		
1	1,53,105	3,23,354	1,70,249		
2	1,78,920	3,55,872	1,76,952		
3	2,68,406	5,04,163	2,35,757		
4	2,75,949	5,10,348	2,34,399		
5	3,13,301	5,10,290	1,96,989		
equity ratio	(total shareholder equity/total asset)				
shareholder's equity	153105	178920	268406	275949	313301
total asset	323354	355872	504163	510348	510290
equity ratio	0.47349	0.502765	0.532379	0.540708	0.613967
debt ratio	(total debt/total assets)				
debt	170249	176952	235757	234399	196989
total assets	323354	355872	504163	510348	510290
debt ratio	0.52651	0.497235	0.467621	0.459292	0.386033

Appendix 10

cash flow ratios	2024	2023	2022	2021	2020
cash flow margin ratios	cash flow from operational activities / sales				
cash flow from operating activities	14822	25190	10926	40283	73392
sales	394879	420457	542751	601602	614680
	0.03753	0.05991	0.02013		0.11939
cash flow margin ratios	6	1	1	0.06696	9
cash flow to net income	total cash flow/net income				
Cash and cash equivalents at the end of period	26783	42751	66740	60813	57153
net income	-24029	-98238	407	5301	38572
	-	-	163.980	11.4719	1.48172
cash flow to net income	1.11461	0.43518	3	9	2

Appendix 11

A (Working Capital / Total Assets)						working capital	2024	2023		2022	2021	2020		
B (Retained Earnings / Total Assets)						current asset	2494	2588	3380	33	71	326		
C (Earnings Before Interest & Taxes / Total Assets)						current liabilities	1582	1611	2164	21	67	179		
D (Market Value of Equity / Book Value of Total Liabilities)						working capital	8420	9770	1215	1203		147		
							3	3	67	59	333			

E (Sales / Total Assets)																	
									total asset	32 33 54	35 58 72	5041 03 63	51 48 290				
Z = 1.2A + 1.4B + 3.3C + 0.6D + 1.0E									retained earnings	20 84 31	23 24 60	3306 02 98	33 91 990				
									ebit	- 15 29 7	85 30 1	1454 25 8	23 3 67				
									book value of total liabilities and equity	32 33 54	35 58 72	5041 03 63	51 48 290				
	20 24	20 23	20 22	20 21	20 20				sales	39 48 79	42 04 57	5427 51	60 16 02	614 680			
A	0.2 60 40 5	0.2 74 54 5	0.2 41 12 6	0.2 35 83 7	0.2 88 72 4				market value of equity	15 55 08 0	15 42 60 0	1524 80 3600	16 15 80 0	166 671 60			
B	0.6 44 59 1	0.6 53 21 2	0.6 55 93 5	0.6 47 18 8	0.6 36 87 3				MARKET VALUYE OF EQUITY = current share price *total shares outstanding								
C	- 0.0 47 31	0.2 39 69 6	0.0 28 85 6	0.0 45 56 3	0.0 73 03 1												

D	0.0 01 20 2	0.0 01 89 2	0.0 01 13 4	0.0 01 31 9	0.0 01 49 7																
	1.2 21 19 7	1.1 81 48 4	1.0 76 53 9	1.1 78 80 7	1.2 04 57																
Z	2.2 80 71 8	3.2 17 56 7	2.3 80 10 3	2.5 19 02 4	2.6 84 56 2																
										Market Value of Equity (£m) — ASSUMED											
										Ye ar	Sh ar e Pr ice D (£)	Out stan ding Sha res (mill ion)	M ar ke t Va lue of Eq uit y (£ m)								
										20 24	30	12.9 59	38 8.7 7								

										20 23	35	12.8 55	44 9.9 3			
										20 22	45	12.7 03	57 1.6 4			
										20 21	50	13.4 65	67 3.2 5			
										20 20	55	13.8 93	76 4.1 2			

Appendix 12

A	B	C	D
	Cash inflow (millions)	Rate of discount	PV
Year			
0	£40.00		
1	£10	0.909	£9.090
2	£12	0.826	£9.912
3	£14	0.751	£10.514
4	£10	0.683	£6.830
5	£8	0.62	£4.960
Investment			
£40.00			
Total PV			
£41.31			
Net Present Value			
£1.31			

B	Cash inflow (millions)	Rate of discount	PV
Year			
0	-£30.00		
1	£6	0.909	£5.454
2	£6	0.826	£4.956
3	£6	0.751	£4.506
4	£6	0.683	£4.098
5	£6	0.62	£3.720
Investment			
£30.00			
Total PV			4
£22.73			
Net Present Value			
-£7.27			

C	Cash inflow (millions)	Rate of discount	PV
Year			
0	-£50.00		
1	£5	0.909	£4.545
2	£10	0.826	£8.260
3	£20	0.751	£15.020
4	£25	0.683	£17.075
5	£15	0.62	£9.300
Investment			
£50.00			
Total PV			
£54.20			
Net Present Value			
£4.20			

Appendix 13

[illegible]

Appendix 14

Project Cash Flows (£m)													
Year	Project A	cumulative cash flow	Project B	cumulative cash flow	Project C	cumulative cash flow							
Initial	-40		-30		-50			Discount rate = 10%					
1	10	-30	6	-24	5	55		Project life = 5 years					
2	12	-18	6	12	10	5		Straight-line depreciation to zero					
3	14	-4	6	12	20	10							
4	10	6	6	12	25	5		Assume a discount rate of 10% and straight-line depreciation to zero.					
5	8	14	6	12	15	-10		No residual value					
payback period calculation								Cash inflows occur at year-end					

payback period calculation			Cash inflows occur at year-end		
project A					
Project A		Project B		Project C	
Initial investment = -40		Initial investment = -30		Initial investment = -50	
Cumulative cash flow:		Cumulative cash flow:		Cumulative cash flow:	
Year 1: -30		Year 1: -24		Year 1: -45	
Year 2: -18		Year 2: +12		Year 2: -35	
Year 3: -4		Payback occurs between Year 1 and Year 2		Year 3: -15	
Year 4: +6		Amount unrecovered at end of Year 1 = 24 Cash inflow in Year 2 = 6		Year 4: +10	
Payback occurs between Year 3 and Year 4.		Payback Period $B=1+24/6=5$ years		Payback occurs between Year 3 and Year 4.	
Amount unrecovered at end of Year 3 = 4				Amount unrecovered at end of Year 3 = 15	
Cash inflow in Year 4 = 10		⚠ Although cumulative turns positive in Year 2		Cash inflow in Year 4 = 25	
Payback Period $A=3+4/10=3.4$ years				Payback Period $C=3+15/25=3.6$ years	

Appendix 15

Profitability Index	
Initial investments / Sum of present value	
Rank 1	Project C
	Initial investments
	£50.00
	Sum of present value
	£54.20
	Profitability Index
	1.08
Rank 2	Project A
	Initial investments
	£40.00
	Sum of present value
	£41.31
	Profitability Index
	1.03
Rank 3	Project B
	Initial investments
	£30.00
	Sum of present value
	£22.73
	Profitability Index
	0.76

Appendix 16

A		B	
A			
Year	amounts are in millions		
	0	-£40.00	
	1	£10	
	2	£12	
	3	£14	
	4	£10	
	5	£8	
Avg cash in flow			
	£11		
Investment			
	£40.00		
ARR (A/B)			
	27%		

E	F	G
B		
Year	amounts are in millions	
0	-£30.00	
1	£6	
2	£6	
3	£6	
4	£6	
5	£6	
Avg cash in flow		
£6		
Investment		
£30.00		
ARR (A/B)		
20%		

I	J	K	
C			
Year	amounts are in millions		
0	-£50.00		
1	£5		
2	£10		
3	£20		
4	£25		
5	£15		
Avg cash in flow			
£15			
Investment			
£50.00			
ARR (A/B)			
30%			