

# 2109289

*by Zhivko Panev*

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**Submission date:** 29-Jul-2023 10:22PM (UTC+0100)

**Submission ID:** 210845934

**File name:** 32618\_Zhivko\_Panev\_2109289\_504309\_815295640.docx (65.67K)

**Word count:** 2837

**Character count:** 16984

## ASSESSMENT SPECIFICATION

# Essay



8

**Programme: BA Business Management**

**Module Code: LCBB5005**

**Module: Project Management**

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## Introduction

This essay will evaluate the aims of three different projects; the purpose is to apply financial and non-financial methods for appraisal projects. Discussing the limitations of each management methodology, we will try to determine the best techniques to use and how useful they could be in different situations.

The essay will include all the required calculations to apply three financial methods and will spread by rules for two non-financial ways.

After evaluating each project, one between all three should be selected. Applying the methodologies, we will lead to choosing the project with the most benefits and profit for the investors.

### Project A – “Culinary Spot” – Dining experiences

Culinary Spot is a restaurant project that aims to bring a fresh dining experience to the city of Liverpool. With a £700,000 first investment, we plan to create a dining experience that stands out for its delicious food and high-standard services. The project will last five years; during this time, we will focus on establishing a well-known destination.

The project's vision is to become a top culinary destination known for its excellent menu and expectational service, communicative environment, and quiet area for those who work.

Our vision is to make our customers find a place where every meal is a delightful journey.

### Project B – “QuickBite” Fast Food dining

QuickBite is a fast-food shop project that aims to enter the industry while keeping the remaining fast-food model and culture. Based in Liverpool, the store would offer each a vibrant atmosphere and health-food options. The investment for this project is £320,000.

Over five years, the project will strive to establish a reputable and profitable fast-food brand that positively impacts the local community and its clients.

The investors' vision is to become the go-to fast-food destination for people of all ages, promoting balanced and fulfilling lifestyle food. Quick Bite seeks to challenge the fast-food business sector by elevating its standards to the maximum. We aim to develop a strong community presence, reflecting our passion for taste and speed service.

With delivering of fast-food experience, our mission is to offer delicious meals to our customers. QuickBite aim to provide a high-quality fast-food option that satisfies cravings while maintaining focus on a diet or being vegetarian. The project would be committed to leaving every customer smiling and welcoming everyone open to experiencing our meals.

## Project C - Barber-cuts

Barber-cuts is a barber shop concept project to deliver traditional barbering with modern trends and techniques. The focus of the investors is quality and speed service with strong attention to detail. The store uses skilled barbers to provide precision haircuts, beard grooming, hot towel shaves, and other benefits with an investment of £450,000.

The store's vision is to become a top destination for men's grooming in the heart of Liverpool's town centre. The store would provide stylish design and high-tech equipment, planning to be recognised for expectational services and high standards.

With a 5-year term, Barber-cuts will focus on a mission to provide top-notch barbering services that merge the artistry of traditional barbering with last trend styles. The investors are dedicated to creating a welcoming and relaxing environment where skilled barbers meet the community's needs. The commitment to excellence ensures that every customer feels confident with their new look and grooming experience.

## Project Management methodologies

Organisations must view some business enterprise and non-financial factors when evaluating projects to make well-informed decisions. Employing capture project management methodologies for an appraisal is crucial in identifying viable projects and maximising the return on investments (Asana, 2022). This report discusses various techniques used in financial and non-financial estimates and highlights the importance of a balanced approach to project evaluation.

### Financial Methods:

In the first place, financial appraisal methods focus on quantifying the potency of economic benefits and costs associated with a project (Bloomenthal, 2023). <sup>9</sup> Net Present Value (NPV), intragroup <sup>5</sup> Rate of Return (IRR), and Payback Period are widely used techniques in this domain. NPV assesses the submitted <sup>5</sup> value of future cash flows, comparing them to the <sup>5</sup> initial investment. IRR measures the project's profitability by conniving the discount value <sup>16</sup> that equates the present value of cash inflows with outflows (Vipond, 2023). Retribution time determines the time <sup>16</sup> required to recover the initial investment.

### Non-Financial Methods:

Non-financial appraisal methods view qualitative aspects that may not have direct monetary values, only holding considerable importance (Moutinho, 2012). <sup>2</sup> Techniques such as SWOT (Strengths, Weaknesses, Opportunities, and Threats) analysis, risk assessment, and social

impact **assessment** fall under this category. SWOT analysis evaluates internal strengths and weaknesses while distinguishing external opportunities and threats (Team, 2023). Lay-on-the-line judgement identifies potential risks and evaluates their impact on fancy success. Sociable bear on assessment gauges a project's influence on the community, environment, and stakeholders.

Evaluating projects using financial and non-financial appraisal techniques is material for making informed decisions and achieving positive outcomes (guide, 2023). Financial techniques help assess the economic viability of a project, while non-financial methods address qualitative aspects and social implications. Organisations can select projects that align with their objectives, nurture sustainable development, and create lasting prescribed impacts on stakeholders and communities by employing an equal approach to project evaluation. Effective project management methodologies incorporating financial and non-financial appraisal techniques are critical to successful project selection and implementation.

## Financial Methods

### Payback

<sup>10</sup> The payback method is a financial estimate proficiency used to evaluate the time it takes for a project to recoup its first investment. <sup>6</sup> It focuses on the payback period, which represents the time required for the project's cumulative cash inflows to equal or top the first cash investment. To calculate the payback period, carve up the first investment funds by the annual cash in inflow. If there are uneven cash inflows, calculate the cumulative cash influx until it reaches or surpasses the first investment. The subsequent figure represents the payback period (AccountingTools, 2023).

However, it doesn't consider the project's profitability on the far side of the payback period and ignores the time price of money. As a result, it is much used in undefined with other fiscal appraisal methods to make more comprehensive investment decisions.

## Calculations for Payback Method:

Table 1

|                    | Project A | Project B | Project C |
|--------------------|-----------|-----------|-----------|
| Initial Investment | £700,000  | £320,000  | £450,000  |
| Project Cashflow   | £215,000  | £165,000  | £178,000  |
| Period             | 5 years   | 5 years   | 5 years   |

Source: Author's Own

Calculations for appraisal will identify the best project based on the payback financial method.

$$\text{Payback} = \frac{\text{Initial Investment}}{\text{Projected Cashflow}}$$

$$\text{Payback A} = \frac{£700,000}{£215,000} = 3.25 \text{ years}$$

$$\text{Payback B} = \frac{£320,000}{£165,000} = 1.9 \text{ years}$$

$$\text{Payback C} = \frac{£450,000}{£178,000} = 2.5 \text{ years}$$

$$\text{Rate of Return} = \frac{\text{Projected cashflow}}{\text{Initial Investment}} \times 100\%$$

$$\text{Rate of Return A} = \frac{£215,000}{£700,000} \times 100\% = 30.7\%$$

$$\text{Rate of Return B} = \frac{£165,000}{£320,000} \times 100\% = 51.5\%$$

$$\text{Rate of Return C} = \frac{£178,000}{£450,000} \times 100\% = 39.5\%$$

Results table 2

| Projects  | Payback Period | Rate of Return |
|-----------|----------------|----------------|
| Project A | 3.25 years     | 30.7 %         |
| Project B | 1.9 years      | 51.5%          |
| Project C | 2.5 years      | 39.9%          |

Source: Author's Own

After applying the payback method, the appraisal method shows that it is best to go with Project B, as it has the shortest payback and should be accepted. Measuring the time the project will recover its initial investment can eliminate the risk of long retribution and running out of operating cash. There are some limitations in this method as well, as it ignores the time value of money and does not consider cash flow after the beyond period used for calculations.

## 1 Net Present Value

Net Present Value (NPV) is a commercial enterprise method used to judge the profitability of an investment or project. It considers the time value of money, that money received in the future is worth less than that received today. To calculate NPV, you estimate all expected cash inflows and outflows over the project's life and undefined them back to the present using a planned discount rate. Then, you subtract the initial investment from the total amount of cash in the inflows (Team, 2022).

### Advantages of NPV:

It considers the time value of money, providing a more accurate profitability assessment. NPV evaluates all cash flows throughout the project's life, allowing a comprehensive evaluation. It aligns to maximise stockholder wealth and provides a clear basis for accepting or rejecting investment opportunities.

### Disadvantages of NPV:

Estimating future cash inflows and selecting the appropriate discount rate can be challenging. It assumes entirely cash inflows are reinvested at the discount rate, which may only sometimes be realistic. Comparing NPVs of projects with different scales can be misleading, as large projects may have higher NPVs even if smaller ones have better returns on investment. NPV does not undefinedly describe project risk and may be unsuitable for evaluating highly ambivalent projects.

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Table 3

|                    | Project A                           | Project B                         | Project C                        |
|--------------------|-------------------------------------|-----------------------------------|----------------------------------|
| Initial Investment | £700,000                            | £320,000                          | £450,000                         |
| Projected Cashflow | £215,000 in 5 years<br>= £1,075,000 | £165,000 in 5 years<br>= £825,000 | £178,000 in 5 years=<br>£890,000 |
| Period             | 5 years                             | 5 years                           | 5 years                          |
| Discount Rate      | 4.5%                                | 4.5%                              | 4.5%                             |

Source: Author's Own

$$PV = S \left(1 + \frac{r}{100}\right)^{-t} \text{ or } \frac{s}{\left(1 + \frac{r}{100}\right)^t}$$

PV = present value

S = future value or cash flow

R = discount rate

T = periods in years

**Project A:**

$$Yr1: PV = \frac{£215,000}{\left(1 + \frac{4,5}{100}\right)^5} = \frac{£215,000}{1.045} = £205,741.62$$

$$Yr2: PV = \frac{£205,741.62}{1.045} = £196,881.93$$

$$Yr3: PV = \frac{£196,881.93}{1.045} = £188,403.76$$

$$Yr4: PV = \frac{£188,403.76}{1.045} = £180,290.67$$

$$Yr5: PV = \frac{£180,290.67}{1.045} = £172,526.95$$

$$Total PPV = £943,844.93$$

NPV= £943,844.93 - £700,000 = £243,844.93- Positive NPV worth doing

**Project B:**

$$Yr1: PV = \frac{£165,000}{\left(1 + \frac{4,5}{100}\right)^5} = \frac{£165,000}{1.045} = £157,894.74$$

$$Yr2: PV = \frac{£157,894.74}{1.045} = £151,095.44$$

$$Yr3: PV = \frac{£151,095.44}{1.045} = £144,588.94$$

$$Yr4: PV = \frac{£144,588.94}{1.045} = £138,362.62$$

$$Yr5: PV = \frac{£138,362.62}{1.045} = £132,404.42$$

$$Total PPV = £724,346.16$$

NPV= £724,346.16 - £320,000 = £404,346.16 Positive NPV after applying the discount rate

**Project C:**

$$Yr1: PV = \frac{£178,000}{\left(1 + \frac{4,5}{100}\right)^5} = \frac{£178,000}{1.045} = £170,334.93$$

$$Yr2: PV = \frac{£170,334.93}{1.045} = £162,999.93$$

$$Yr3: PV = \frac{£162,999.93}{1.045} = £155,980.80$$

$$Yr4: PV = \frac{£155,980.80}{1.045} = £149,263.92$$

$$Yr5: PV = \frac{£149,263.92}{1.045} = £142,836.29$$

$$Total PPV = £781,415.86$$

NPV= £781,415.86 - £450,000 = £331,415.86 Positive NPV after applying the discount rate

Table 4 results:

|                          | Project A   | Project B               | Project C   |
|--------------------------|-------------|-------------------------|-------------|
| <b>Total PPV</b>         | £943,844.93 | £724,346.16             | £781,415.86 |
| <b>NPV</b>               | £243,844.93 | £404,346.16             | £331,415.86 |
| <b>Project selection</b> | Rank 1      | <b>Project Selected</b> | Rank 2      |

Source: Author's Own

Project B was selected based on the profitability Index.

Profitability Index- allows us to compare the cost and benefits of the projects to make better decisions for pursuing a project.

$$Profitability Index = \frac{Net Present Value}{Initial Capital Cost}$$

$$Project A Profitability Index = \frac{£243,844.93}{£700,000} = 0.34 > 34\%$$

$$Project B Profitability Index = \frac{£404,346.16}{£320,000} = 1.26 > 126\%$$

$$Project C Profitability Index = \frac{£331,415.86}{£450,000} = 0.73 > 73\%$$

## Return on Investment

<sup>3</sup> Return on Investment (ROI) is a financial appraisal method used to assess the profitability and efficiency of an investment. It measures the ratio of the net profit attained from an investment to the initial cost of the investment, expressed as a percentage (Birkent, 2023).

### Advantages of the ROI Method:

Simplicity: return on investment is a straightforward and easy-to-understand method, making it accessible for modest businesses and non-financial professionals. It evaluates an investment's potential returns, allowing decision-makers to prioritise and compare multiple investment opportunities efficiently. ROI focuses on net profit, highlighting the investment's potential to generate prescribed returns over time.

The method allows for easy comparison of different projects or investments, providing insights into which option will likely lead to high returns.

### Disadvantages of the ROI Method:

The ROI method acting does not account for the time duration of the investment. It treats all cash flows equally, which puts up the need to be more accurate when comparing projects with unusual timelines. By not considering the timing of cash flows, ROI may overlook that some projects, Crataegus oxycantha generate returns quickly, while others Crataegus oxycantha, take longer.

Disregards Risk-return on investment does not consider the level of risk associated with an acquisition. Projects with high ROI may postulate greater risk, making them less friendly. This method only describes the first investment and net profit, disregarding additional cash flows generated during the investment's life.

$$\text{Return on Investment} = \frac{\text{Average Annual Profit} \times 100\%}{\text{Initial Investment}}$$

<sup>2</sup>  
Table 5

|                        | Project A | Project B | Project C |
|------------------------|-----------|-----------|-----------|
| Initial Investment     | £700,000  | £320,000  | £450,000  |
| Total projected Profit | £215,000  | £165,000  | £178,000  |
| Average Annual Profit  | £43,000   | £33,000   | £35,600   |
| Period                 | 5 years   | 5 years   | 5 years   |

Source: Author's Own

Calculations:

$$\text{Return on Investment } \mathbf{Project\ A} = \frac{£43,000}{£700,000} \times 100 = 6.14\%$$

$$\text{Return on Investment } \mathbf{Project\ B} = \frac{£33,000}{£320,000} \times 100 = 10.31\%$$

$$\text{Return on Investment } \mathbf{Project\ C} = \frac{£35,600}{£450,000} \times 100 = 7.91\%$$

## Non-financial Methods

Non-financial appraisal methods evaluate projects-based n qualitative factors that do not have direct monetary values. These methods consider a project's broader implications and impacts beyond financial returns. Some examples of non-financial ways are the SWOT Analysis, the Multi-weighted scoring model, and others.

### Multi-Weighted Scoring Model

This model uses several weighted criteria by giving different ways to each of them. The scores can measure either the quantitative or the qualitative point of view. Scores are assigned to each standard and built based on their importance to the project organisations. After calculating the scores, projects can be compared based on their weighted and higher scores. We use the formula below to calculate the score for each criterion.

$$\text{Weight Criteria} = \frac{\text{Actual Score Given (AC)}}{\text{Total Weight Given (TW)}} \times \text{weight score (WS)}$$

Table 6 Multi-Weight Method Table and Criteria

| Criteria         | Strategic Fit | Urgency | Product Sales | Customer Loyalty | Weighted Score        |
|------------------|---------------|---------|---------------|------------------|-----------------------|
| <b>Weight</b>    | 2.5           | 1.5     | 3.0           | 3.5              | -                     |
| <b>Project 1</b> | 1             | 1       | 2.1           | 3.1              | 52.5                  |
| <b>Project 2</b> | 1.3           | 1.5     | 2.6           | 3.5              | 60.8- <b>Selected</b> |
| <b>Project 3</b> | 1.2           | 0.6     | 2.0           | 2.4              | 39.9                  |

Source- Author's Own

$$\text{Strategic Fit Project 1} = \frac{1}{10.5} \times 2.5 = 0.2380 \times 100 = 23.80\%$$

$$\text{Urgency Project 1} = \frac{1}{10.5} \times 1.5 = 0.0952 \times 100 = 9.52\%$$

$$\text{Product Sales Project 1} = \frac{2.1}{10.5} \times 3.0 = 0.6000 \times 100 = 60.00\%$$

$$\text{Customer Loyalty Project 1} = \frac{3.1}{10.5} \times 3.5 = 1.1666 \times 100 = 116.66\%$$

### Checklist Model non-financial method for appraisal

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The checklist model is a non-financial method for project appraisal. It involves creating a structured checklist of in-question criteria and evaluating the scores against them to determine their viability and impact. This method is based on a systematic approach, where each bar is a precondition, a score, or a weight, depending on its importance.

In the checklist model, criteria tin wrap up various aspects, such as environmental, social, and proper considerations, stakeholder engagement, technological feasibility, and regulatory compliance. The checklist simulation offers a clear and organised way to evaluate projects beyond financial aspects. It ensures that all relevant factors are considered, promoting transparency and comprehensive decision-making. Moreover, by involving stakeholders in the creation of the checklist, it fosters Quislingism and inclusivity.

| Topic/Project         | Question                              |
|-----------------------|---------------------------------------|
| Success Metrics       | How does the project measure success? |
| Project 1             | Sales, Revenue, Profit                |
| Project 2             | Revenue, Gross Profit                 |
| Project 3             | Sales, Revenue                        |
| Objectives            | What are the targeted Objectives?     |
| Project 1             | Retain Customers                      |
| Project 2             | Generate maximum sales                |
| Project 3             | Retain Customers                      |
| Approach              | Build or by approach?                 |
| Project 1             | Build marketing strategy              |
| Project 2             | Build and by marketing strategies     |
| Project 3             | Paid campaign                         |
| 13 Training/Resources | Will staff training be required?      |
| Project 1             | Not Required                          |
| Project 2             | Not Required                          |
| Project 3             | Required                              |

## Conclusion

In conclusion, after applying several appraisal methods, it turns out Project B has the most benefits for its investors and would generate the highest profit. As sources for funding this project, there are three options.

1. Bank Loan- One of the most common funding sources for new projects.  
Entrepreneurs and businesses can approach commercial banks to secure loans based on their credit viability and projects. Bank loans offer structured repayment terms and can be used for various purposes, making them a flexible option for financing new ventures.
2. Venture Capital – For high-growth potential projects, venture capital can be a suitable funding source. <sup>12</sup> Venture capital firms invest in start-ups and early-stage companies. Here in exchange for funding, capitalist often takes a stake in the company and provide strategic guidance and expertise to support the projects.
3. Crowdfunding- those platforms enable entrepreneurs to raise funds from many individuals, each contributing a small amount. This democratised funding approach can find implications for a wide range of projects, allowing the creators to engage with their target audience directly. Crowdfunding is especially popular for creative and innovative ideas, as it helps gain market interest and validate the project concept before full-scale implementation.

Considering the NPV of Project B, the best suit for the investors is if they go with venture capital funding, as the project promises high revenue and profit return; capitalists could be attracted by the idea and support the successful application of the project plan.

In conclusion, this essay established the best option for the investors to choose and pursue with Project Plan B – Quickbite Fast Food Dining.

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