



Title: Financial Performance Evaluation, Working Capital Management, and Investment Appraisal: A Strategic Analysis of General Electronics.

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Introduction

General Electronics is a multinational consumer electronics company that has currently evolved into a financial crisis instead of profitability between the year 2020 and 2024. The level of revenues has decreased, operating losses have appeared, leverages have risen and cash flows have become weak (Indiraswari, Aulia and Sari, 2025). The task as the CFO is to find out the financial health of the firm, analyse the working capital management, offer a restructuring plan and choose the investments to create value under the conditions of capital rationing. The income statement, balance sheet and cash-flow statement presented in the brief are used to analyse the data with the help of standard financial ratios and discounted cash-flow method.

1. Financial Health Check

The financial health of General Electronics has been assessed using a systematic analysis of the profitability, liquidity, efficiency and solvency ratios with reference to cash-flow analysis and corporate-failure modelling. This multi-dimensional strategy offers a consolidated evaluation of the trading performance of the company, management of working-capital, and financial sustainability of the company in the next five years (2020-24). Financial health does not just show the capacity to make profit, but the stability of the firm to meet the obligations, fund operations and maintain shareholder value (Rodríguez, 2025). Independent deterioration of any of these dimensions is an indication of increased risk of bankruptcy.

1.1 Profitability Ratios

Profitability ratios are used to assess the efficiency of the conversion of revenues into profits at the operational and net levels as well as the effectiveness of shareholder equity in the generation of returns (Vipond, 2025). General Electronics can be seen to have a marked worsening in its profitability over the period of review.

1.1.1 Gross Profit Margin

$$\text{Gross Profit Margin} = \frac{\text{Gross Profit}}{\text{Revenue}} \times 100$$

Table 1 – Gross Profit Margin (stacked calculation style)

Year	Gross Profit (£m)	Revenue (£m)	Calculation	Gross Profit Margin (%)
2020	176,256	614,680	$\frac{176,256}{614,680} \times 100$	28.7
2021	173,016	601,602	$\frac{173,016}{601,602} \times 100$	28.8
2022	152,292	542,751	$\frac{152,292}{542,751} \times 100$	28.1
2023	97,560	420,457	$\frac{97,560}{420,457} \times 100$	23.2

2024	113,994	394,879	$\frac{113,994}{394,879} \times 100$	28.9
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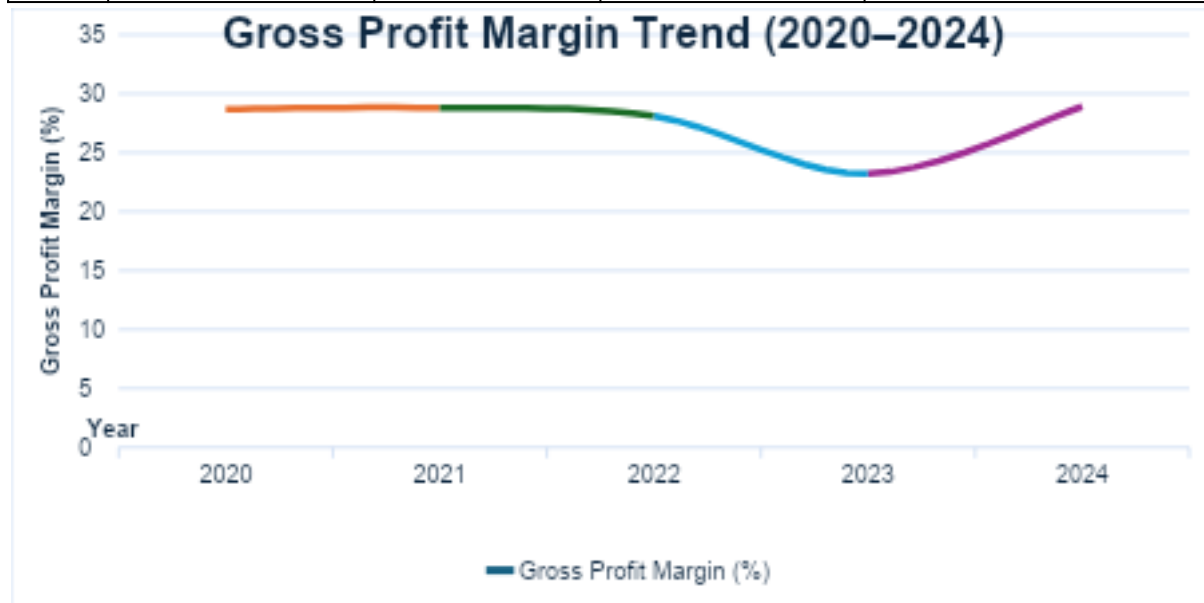


Figure 1: Gross Profit Margin

The gross margin was stable until 2022 and averaged approximately 28, which implies that the fundamental cost of manufacturing its products compared to its sales was under control. The steep drop in 2023 to 23.2 percent is an indication of increased pricing and inefficiency associated with declining sales volumes. The fact that cost of sales management improved, however, to 28.9 percent in 2024 proves that there was partial recovery, possibly caused by clearing inventories, renegotiation with its suppliers or reduced volumes of production. This small recovery also could not receive the overall corporate performance based on the gross profitability (Hafez, Ramadan and Adel, 2025).

1.1.2 Operating Profit Margin

Operating profit margin demonstrates the administrative, marketing and restructuring expenditure cost implication and is determined as:

$$\text{Operating Margin} = \frac{\text{Operating Profit}}{\text{Revenue}} \times 100$$

Table 2 – Operating Profit Margin

Year	Operating Profit (£m)	Revenue (£m)	Calculation	Operating Margin (%)
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2020	37,267	614,680	$\frac{37,267}{614,680} \times 100$	6.1
2021	23,253	601,602	$\frac{23,253}{601,602} \times 100$	3.9
2022	14,548	542,751	$\frac{14,548}{542,751} \times 100$	2.7
2023	-85,301	420,457	$\frac{-85,301}{420,457} \times 100$	-20.3
2024	-15,297	394,879	$\frac{-15,297}{394,879} \times 100$	-3.9



Figure 2: Operating Profit Margin

The operating margin between 2020 and 2022 was falling steadily as overheads were increasing and could not be refocused fast enough to keep pace with declining revenue. It was heavily exposed to fixed-costs in the operating model as exhibited by the dramatic fall in 2023 to -20.3% through significant impairment charges and restructuring expenses. In 2024, the company has not yet reached the breakeven of its operations as the margins were negative at -3.9 (Chacha, 2019). This implies structural inefficiency and lack of scale to absorb the general administrative costs and selling expenses.

1.1.3 Net Profit Margin

$$\text{Net Profit Margin} = \frac{\text{Net Income}}{\text{Revenue}} \times 100$$

Table 3 – Net Profit Margin

Net profitability also brings out the worsening position. Net margin incorporates the impacts of financing expenses and tax and can be determined as follows:

Year	Net Income (£m)	Revenue (£m)	Calculation	Net Profit Margin (%)
2020	38,572	614,680	$\frac{38,572}{614,680} \times 100$	6.3
2021	5,301	601,602	$\frac{5,301}{601,602} \times 100$	0.9
2022	407	542,751	$\frac{407}{542,751} \times 100$	0.1
2023	-98,238	420,457	$\frac{-98,238}{420,457} \times 100$	-23.4
2024	-24,029	394,879	$\frac{-24,029}{394,879} \times 100$	-6.1



Figure 3: Net Profit Margin

Net margin declined steadily between 6.3 in 2020 to close to zero in 2022, then proceeded to plunge into huge losses in 2023 and continued to be negative in 2024. The increasing interest payments because of escalating debt obligations also increased losses. Successive losses are an indication of shareholder value loss and limit access to internal financing (Fu et al., 2024).

1.1.4 Return on Equity

$$ROE = \frac{\text{Net Income}}{\text{Shareholders' Equity}} \times 100$$

Table 4 – Return on Equity

Year	Net Income (£m)	Equity (£m)	Calculation	ROE (%)
2020	38,572	313,301	$\frac{38,572}{313,301} \times 100$	12.3
2021	5,301	275,949	$\frac{5,301}{275,949} \times 100$	1.9
2022	407	268,406	$\frac{407}{268,406} \times 100$	0.2
2023	-98,238	178,920	$\frac{-98,238}{178,920} \times 100$	-54.9
2024	-24,029	153,105	$\frac{-24,029}{153,105} \times 100$	-15.7

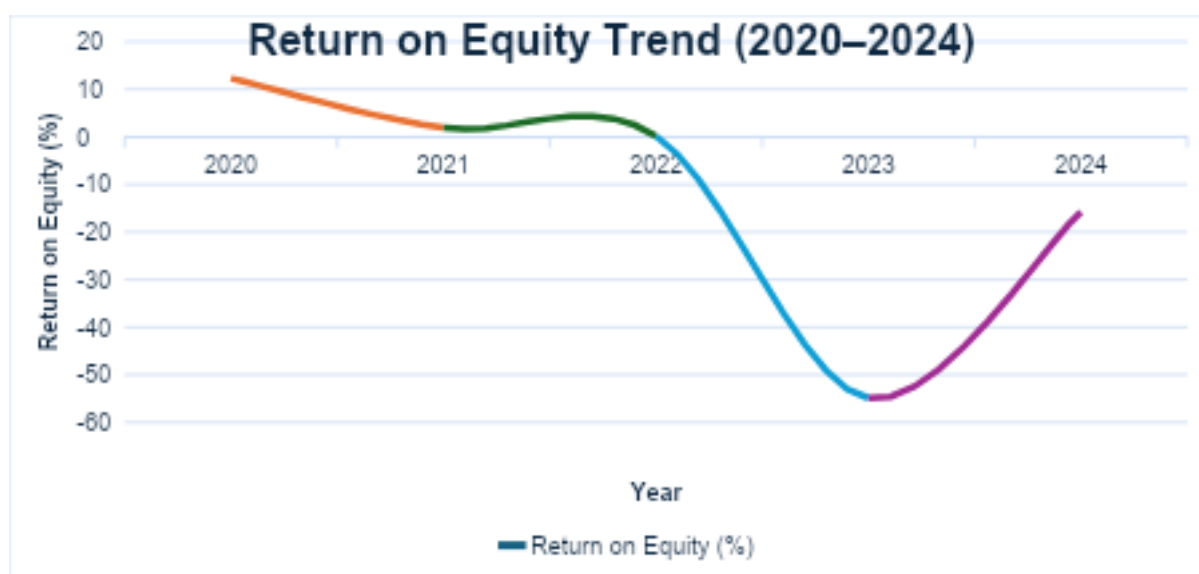


Figure 4: Return on Equity

The accumulated losses combined with decreasing equity balances caused ROE to collapse together with profitability. The negative ROE values of 2023 and 2024 are extremely negative which means that the shareholder capital has not only not been making any returns, but it has been devoured significantly. This degradation undermines investor confidence and raises the expense of raising new equity (Arhinful et al., 2025).

1.2 Liquidity Ratios

The liquidity ratios are used to evaluate short-term ability to fulfill the obligations of liquid resources.

The current and quick ratio are used to measure liquidity.

$$\text{Current Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \quad \text{Quick Ratio} = \frac{\text{Current Assets} - \text{Inventories}}{\text{Current Liabilities}}$$

Table 5 – Current Ratio

Year	Current Assets (£m)	Current Liabilities (£m)	Calculation	Current Ratio
2020	326,843	179,510	$\frac{326,843}{179,510}$	1.82
2021	337,146	216,787	$\frac{337,146}{216,787}$	1.56

2022	338,040	216,473	338,040 216,473	1.56
2023	258,851	161,148	258,851 161,148	1.61
2024	242,494	158,291	242,494 158,291	1.53

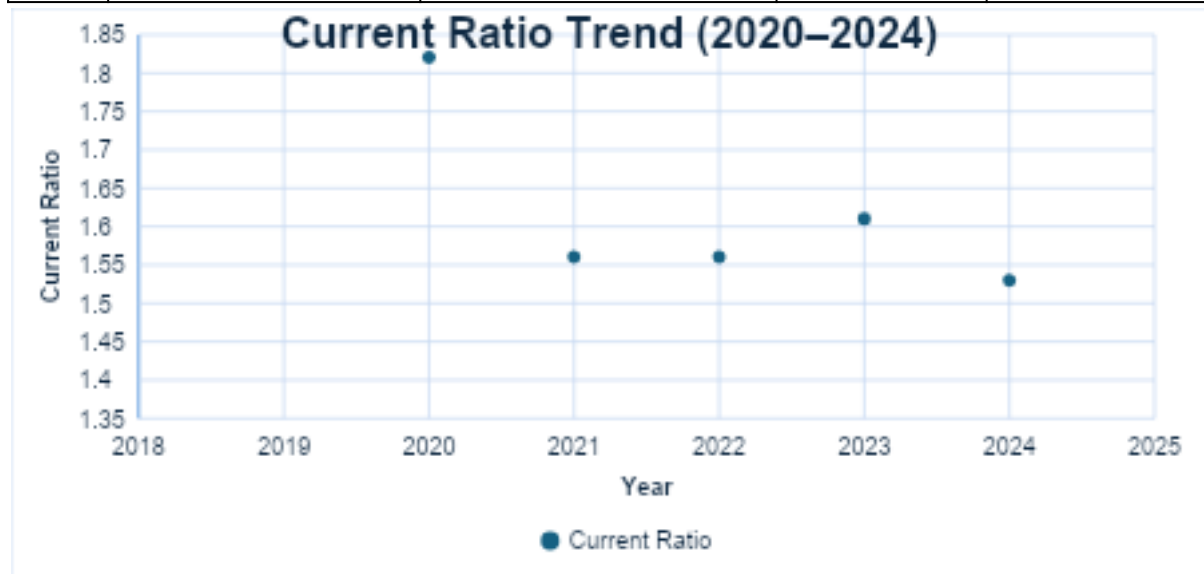


Figure 5: Current Ratio

The company has continued to stay slightly afloat during the time, with ratios being above unity. The downward trend is however indicative of falling balances of cash and decreasing current assets buffer. Where liquidity is lost in large amounts, the slightest deterioration of liquidity would create a payment pressure (Rama, Artur and Valderrama, 2020).

Table 6 – Quick Ratio

Year	Current Assets (£m)	Inventories (£m)	Current Liabilities (£m)	Calculation	Quick Ratio
2020	326,843	120,430	179,510	(326,843 – 120,430) 179,510	1.15
2021	337,146	134,469	216,787	(337,146 – 134,469) 216,787	0.93

2022	338,040	140,181	216,473	$\frac{(338,040 - 140,181)}{216,473}$	0.91
2023	258,851	88,273	161,148	$\frac{(258,851 - 88,273)}{161,148}$	1.06
2024	242,494	79,355	158,291	$\frac{(242,494 - 79,355)}{158,291}$	1.03

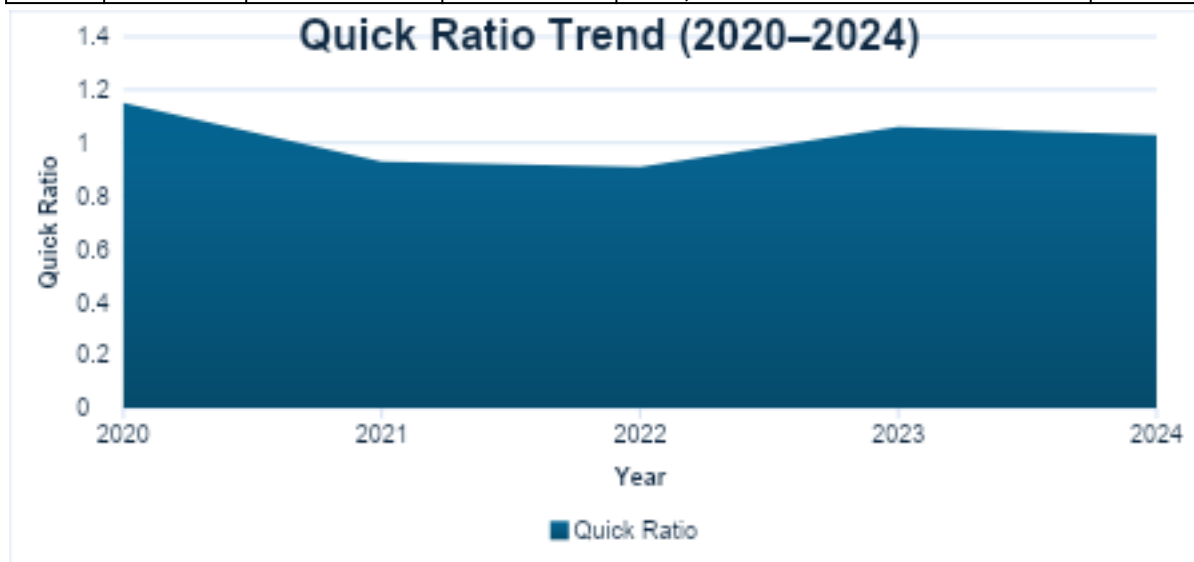


Figure 6: Quick Ratio

The fact that quick ratios were less than unity in 2021/2022 reflects a reliance on inventory to cover the obligations - a highly risky situation in technology, where the obsolescence rate is quick, reducing the value of inventory to liquidate (Naushin, 2025).

1.3 Gearing Ratios

$$\text{Debt-to-Assets} = \frac{\text{Total Liabilities}}{\text{Total Assets}} \times 100 \quad \text{Debt-to-Equity} = \frac{\text{Total Liabilities}}{\text{Equity}}$$

Table 7 – Gearing

Turnover ratios are used to measure how efficiently the working capital operates:

Year	Liabilities (£m)	Assets (£m)	Calculation (Debt/Assets)	Debt/Assets (%)	Equity (£m)	Calculation (Debt/Equity)	Debt/Equity
2020	196,989	510,290	$\frac{196,989}{510,290}$	38.6	313,301	$\frac{196,989}{313,301}$	0.63

			$\frac{- \times 100}{510,290}$			$\frac{-}{313,301}$	
2021	234,399	510,348	$\frac{234,399}{510,348}$	45.9	275,949	$\frac{234,399}{275,949}$	0.85
2022	235,757	504,163	$\frac{235,757}{504,163}$	46.8	268,406	$\frac{235,757}{268,406}$	0.88
2023	176,952	355,872	$\frac{176,952}{355,872}$	49.7	178,920	$\frac{176,952}{178,920}$	0.99
2024	170,249	323,354	$\frac{170,249}{323,354}$	52.6	153,105	$\frac{170,249}{153,105}$	1.11

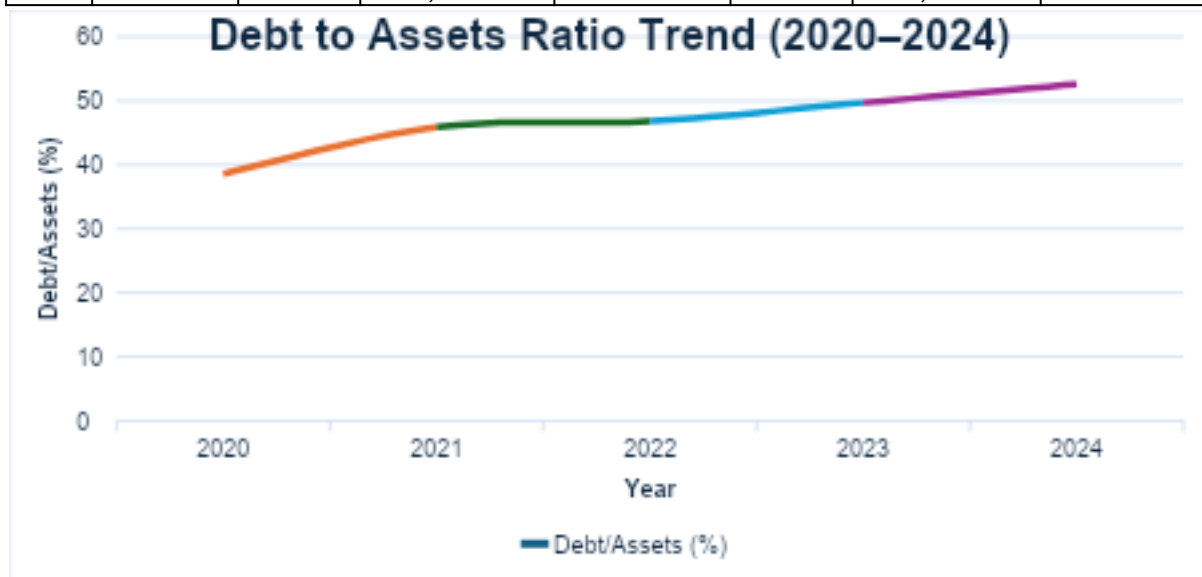


Figure 7: Gearing Ratios

The debts are larger than the equity and the debt-to-equity ratio is more than 1 by 2024, increasing the financial risk substantially.

1.4 Efficiency and Cash Conversion

Solvency refers to long-term financial stability.

$$\text{Inventory Days} = \frac{\text{Inventories}}{\text{Cost of Sales}} \times 365, \text{Receivable Days} = \frac{\text{Receivables}}{\text{Revenue}} \times 365, \text{Payable Days} = \frac{\text{Payables}}{\text{Cost of Sales}} \times 365$$

Table 8 – Working Capital Efficiency (2024)

Ratio	Figures	Calculation	Result (days)
Inventory Days	Inv 79,355; COS 280,885	$\frac{79,355}{\frac{365}{280,885}} \times$	103
Receivable Days	Rec 114,182; Sales 394,879	$\frac{114,182}{\frac{365}{394,879}} \times$	106
Payable Days	Pay 72,031; COS 280,885	$\frac{72,031}{\frac{365}{280,885}} \times$	94
Cash Conversion Cycle	–	$103 + 106 - 94$	115

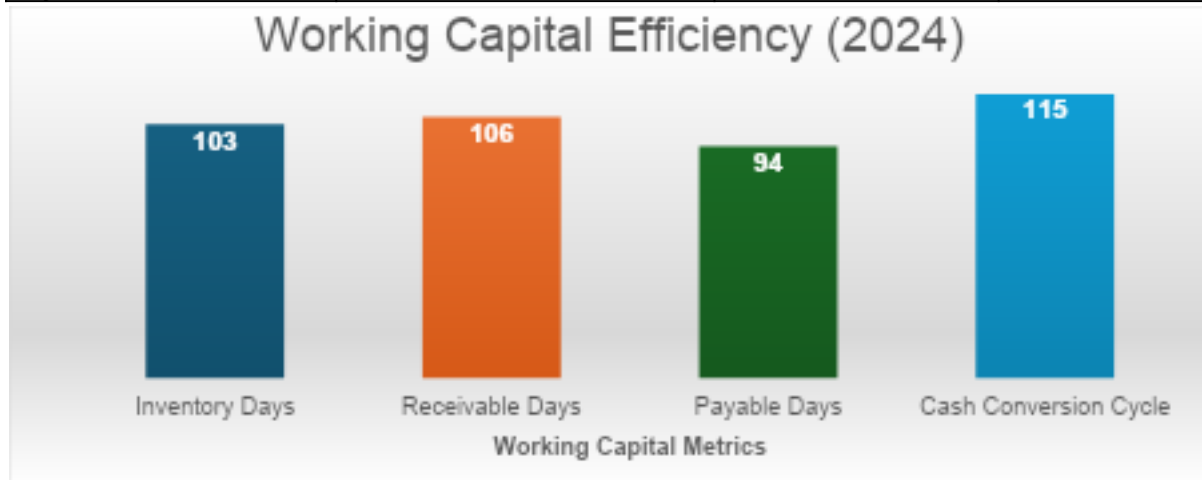


Figure 8: Working Capital Efficiency (2024)

The 115 days cash conversion cycle shows that it has a lot of cash in working capital. Debt has now surpassed equity, indicating it is a highly leveraged capital structure that restricts the ability to borrow funds and increases its insolvency risk (Mensah et al., 2025).

1.5 Corporate Failure Risk

The simplified Altman Z-Score using working capital of 2024, retained earnings, operating income, equity market value proxy and total assets provide:

$$Z \approx 1.5$$

A Z-Score of less than 1.8 is a sign of financial distress and high level of bankruptcy risk. General Electronics is thus comfortably in the danger zone.

1.6 Overall Financial Diagnosis

The health check recognises the existence of an organisation experiencing combined profitability downfall, deteriorating liquidity reserves, ineffective working capital management and increasing debt. Even though the gross margins are relatively stable, the operating and net margins are negative, which makes them not recover. Liquidity is technically sufficient but reliant upon working-capital compression as opposed to profitability. The trapped capital is also shown by the long cash conversion cycle, and this condition justifies the reliance on credit lines (Stavropoulos and Zounta, 2025). The increase in gearing and poor Z-Scores support the fact that the financial stability has become significantly weak and an intervention is necessary.

2. Working Capital Management Analysis

2.1 Overview of Working Capital Structure

The structure of working capital is defined as the manner in which a company utilizes its current assets and current liabilities to meet its current liabilities and the business needs of its operations (Baker, 2017).<|human|>The overview of the working capital structure is the way in which a company employs its current assets and current liabilities to achieve its current liabilities as well as the business requirements of the business operations (Baker, 2017).

The working capital which is made up of the difference between current assets and current liabilities is critical to the financial stability of the short term of General Electronics. Between 2020 and 2024 current assets decreased considerably (326,843m to 242,494m) because of the decrease of cash and inventories. Cash balances in themselves fell by the amount of 57,153m to 26,783m thus demonstrating that the company has been progressively turning towards internal resources to maintain its operations and pay its debts off. In the meantime, trade receivables were relatively stable at approximately £112-114bn, even with a significant fall in revenue. This means that collecting time has increased and credit restrictions have been lax at a time when trading is in recession (Machokoto, Gyimah and Ibrahim, 2022).

During correctional stock changes, inventories went up to a peak of £140,181m in 2022 and dropped to 79,355m in 2024. The previous accumulation also indicates ineffective demand forecast and overproduction whereas the recent downturn indicates reduction and clearance of inventories. There are still high current liabilities. Trade payables were at 72,031m in 2024, and bank credit consumption increased significantly by 2022 compared to 2020 by 88,000m and then cut down to 36,960m in 2024. This trend shows the sign of high reliance on supplier credit and short-term borrowing to meet operational deficits (Fontaine and Zhao, 2021). Though this strategy maintains short-term liquidity, it exposes refinancing and interest-rate risk.

2.2 Cash Operating Cycle

The cash operating cycle determines the amount of time that is held back by cash on buying inputs and receiving customer payments. Using 2024 data:

Ratio	Figures	Calculation	Days
Inventory Days	Inventories 79,355; Cost of sales 280,885	$\frac{79,355}{\frac{365}{280,885}} \times$	103
Receivable Days	Receivables 114,182; Revenue 394,879	$\frac{114,182}{\frac{365}{394,879}} \times$	106
Payable Days	Payables 72,031; Cost of sales 280,885	$\frac{72,031}{\frac{365}{280,885}} \times$	94

The cash conversion cycle obtained is about 115 days (103 + 106 -94) which implies that it will take close to four months before the cash invested in the operations can be recovered. This is time-consuming to the electronics industry where quick production of products is a must. It is principally caused by long receivable days, as well as a high level of inventory holdings, but to a minor extent it is neutralized by long payables.

Sales have decreased by approximately 36 percent throughout the review period, but receivables have not decreased, which indicates the slower collection rates. The inventory levels rose significantly up to 2022 and thereafter there was reduction. Inventory rationalisation has contributed to the marginal improvements in the gross margins, but the cash cycle is still long since the current state of debtor inefficiencies remains unchanged (Alessandria et al., 2023).

2.3 Strategies to Improve Liquidity through Working Capital Reforms

The receivables management is a top priority area to strengthen. Customer credit limits must be reviewed on a regular basis depending on their payment history and their financial risk profile. The collection could be done faster through electronic invoicing, automated reminders and routine follow-demand procedures. Discounts on early payments could be given on early payments to customers of good standing. Risky or habitual late payers may be put on cash-on-delivery or shortened-term

credit, and some of the large clients may be eligible to non-recourse factoring to turn receivables into cash without raising a borrowing (Nacm, 2024).

Constant focus is also necessary in inventory optimisation. Better demand predictability that is associated with the real time sales information will be able to make production more responsive to the market. Periodic stock audits must also help with clearing obsolete or slow-moving goods using discount or other secondary re-selling channels even when at lower margins, to release stuck up cash and prevent further impairments (McCue, 2020). Just-in-time buying arrangements would be able to reduce significantly the safety-stock levels and storage expenses where the supply-chain association allows it.

The supplier management approach must be changed into collaborative negotiation rather than payment stretching. Placing payment schedules with workable cash-flow expectations and keeping volume promises would stabilise the supply chains and may open the door to favourable prices. Financing costs in other areas can also be compensated by taking advantage of early-payment discounts where possible (Allianz, 2024).

2.4 Short-Term versus Long-Term Financing Options

The existing working capital is largely dependent on revolving credit facilities and trade payables and subjected the firm to the refinancing risk and interest-rate volatility. Future access to short-term credit may become tighter given the losses and poor balance sheet of the company. Long-term funding sources, particularly the equity injection in the form of rights issue, are more stable as they result in an increase in liquidity ratios and a decrease in leverage. Cash flows could also be stabilised through the selective refinance short-term borrowings into long-term facilities, though more debt should be capped considering the current gearing ratios (Chala, 2018).

Lastly, General Electronics is under pressure of working capital due to slow collection of receivables, overstocking in the past, and overreliance on short term borrowing. An enhanced level of control over the provision of credit, a thinner inventory level, better negotiation with the suppliers, and the shift to more predictable long-term funding are needed to facilitate sustainable financial recovery.

3. Strategic Financial Restructuring Plan

3.1 Purpose and Strategic Context

General Electronics is experiencing protracted financial problems that have been characterised by the decreasing revenues, operating losses, accelerating leverage and overreliance on short-term financing. The financial ratio analysis is used to note declining profitability, restricted liquidity, and rising solvency risk. This restructuring plan is designed to stabilise the financial performance, rebuild investor confidence, protect the continuity of operations, and create a platform on which long-term long-term growth may be achieved (Kick Advisory, 2025). This involves a moderate approach that would involve the short-term liquidity needs and the more structural inefficiencies in terms of operational costs, capital allocation and geographical performance.

The restructuring plan is thus organized in three quasi pillars namely, the restructuring of the portfolio by divesting the non-core business, the restructuring of the capital structure enabling the changes in the solvency and liquidity and operational efficiency changes to raise the profit. All elements of the plan are based on ethical governance and international regulatory compliance.

3.2 Asset and Portfolio Restructuring

Disposing underperforming or non-strategic resources is a main aspect of recovery. Some of the foreign subsidiaries are in saturated or highly competitive markets and their margins have constantly remained at low or negative levels. They are a waste of cash, time and management focus in running these businesses without proper returns. Sale of these divisions would unleash short-term capital, which can be reinvested in other more promising areas like research in consumer electronics, energy-saving manufacturing technologies, and digital service structures (Issam A. R. Moghrabi et al., 2023).

The asset rationalisation is also to be aimed at excess plant capacity that has been developed in previous stages of expansion. Fixed overhead expenses associated with maintenance, utilities, and staffing can be minimized by streamlining manufacturing facilities by consolidating the locations. The sale-and-leaseback and real-estate divestiture deals are the openings to access the unproductive capital held

in property assets. Such measures offer cash flows and enduring cutting of operating expenses.

Parallel to that, there is a need to undertake product-line rationalisation. The company ought to re-emphasize on higher margin product lines as it drops low volume low-margin products that lead to inventory inefficiencies and complexity in operations. This form of concentrated portfolio makes procurement and logistics management easier, whereas brand positioning and customer clarity are enhanced (Fontes et al., 2025). These transformations must eventually improve the stability of the gross margins and decrease the risks of write-downs that are related to inventory.

3.3 Capital Structure Reorganisation

Too much leverage is still one of the worst problems that General Electronics is experiencing. The amount of debt surpasses the shareholder equity, limiting its flexibility in financing and exposing it to fluctuations in the cycle and fluctuations in interest rates (Sienatra et al., 2025). One of the main aims of restructuring, then, is a sustainable capital structure by the formulation of equity raising, restructuring of debt and selective refinancing.

Rights issue is the best short-term solution as it is an equity injection. A rights issue gives the existing shareholders a chance to retain ownership and inject new capital, which enhances liquidity, sustains working capital need and sends a positive signal to the lenders and credit rating bodies. The higher equity will decrease gearing, decrease pressure of interest coverage, and offer the flexibility of additional strategic activities (Arhinful and Radmehr, 2023).

Equity raising and debt restructuring should be applied simultaneously. The dependence of the firm on short-term revolving credit facilities is high exposing it to refinancing risk and uncertain interest rates. The bargaining with key lenders must seek to turn some of the short-term debts into long-term facilities of a fixed interest. The maturity profile extensions stabilize the cash flows and mitigate the rollover risk as well as ensure that the debt repayments are consistent with the future recovery pattern of the firm.

Hybrid instruments like convertible debt or preference shares can be used in a few instances. These mechanisms offer them capital at reduced initial cash servicing

costs with the investors having a potential upside participation in case the turnaround is successful. Nevertheless, the issuance should be kept to minimum in order to prevent the risks of dilution in future or increase in the deferred debt burden (Luca and Menatalla, 2019).

3.4 Operational Cost Restructuring

Although the equilibrium between the balance sheet and long-term recovery involves balance-sheet reform, which will provide financial breathing room, is not sustainable enough without operational profitability. The restructuring of the costs should thus aim at eliminating inefficiencies in the manufacturing operations, administration, logistics and procurement processes. A decrease in labor and utility expenses through automating the factories and energy-efficient upgrades will lead to improved precision of demand forecasting and lean stock policy, which are achieved by digital inventory management systems.

Concentration of suppliers provides the scope to have price negotiation and economies of scale. By creating strategic sourcing agreements and reducing the number of suppliers, but with higher quality, it will be possible to achieve better pricing of components and ensure the reliability of the supply. Strict review should also be done on the marketing and administrative overheads, duplication of roles in international subsidiaries should be done away with by consolidation of the organisations.

Restructuring of workforce is also a challenging but a musty part of the turnaround. In divestments or facility closing, the ethical redundancy process should be monitored, with compliance with the employment laws, open communication, retraining and equitable severance being the main considerations (Peninsula, 2025). The workforce optimisation losses will have to be reduced in the long run to maintain the operating margin and maintain the image of the company being a responsible employer.

3.5 Ethical and International Considerations

Restructuring of General Electronics cuts across various international jurisdictions and involves delicate social and ethical obligations. Adherence to the labour laws in the host country is of paramount importance during the restructuring processes

especially when it comes to dismissal of employees and closing of facilities. There must be clear communication with stakeholders to maintain the community relations, employee morale, and the confidence of the people.

The issue of environmental sustainability should continue to be incorporated in decision-making. The divestment and plant shutdowns should be in line with the environmental disposal laws, and our modernisation investments should focus on energy saving equipments and recycling programs. Supply chain management ethics are also important; the sourcing reforms ought to keep imposing the working conditions, child labour ban, and pollution limits on suppliers (Fritz, 2023).

Special attention must be paid to tax compliance and transfer pricing practices because the geographical presence is changing. Any change of production or operation centers should fully comply with international standards of tax reporting to exclude reputational risks and regulatory fines.

3.6 Risk Management and Implementation Control

Risk governance and managerial responsibility are necessary to achieve effective restructuring. The key financial risks are the lack of creditor support of debt restructuring, opposition of the equity market to fundraising efforts, unstable consumer demand and exposure to exchange rates in the foreign markets.

To control these uncertainties, institutional risk committees ought to have powers to control the execution of restructuring. The use of forward contracts in currency risk hedging must be increased to reduce the volatility of the earnings of the company on the basis of international trade flows. The contingency credit lines are to be negotiated to ensure the liquidity cover in the restructure phase (Zai and Mansur, 2024).

Implementation controls should involve performance milestones in terms of cost cuts, reduction in inventory turnover, gearing ratio goals and profitability revival schedules. Frequent financial reporting to internal stakeholders and investors develops a sense of transparency and boosts confidence in monitoring the progress.

3.7 Strategic Growth and Value Creation

Beyond stabilisation, restructuring should facilitate sustainable growth. The key focus of reinvestment should be on high-value innovation, especially in the smart-home

technology, energy-efficient devices, and integration of digital services. The regions have good long-term growth prospects and are in line with the changing consumer preferences and regulatory environmental goals (Majdi and Imen, 2024).

The possibility of partnership with software developers, component innovators can also help to differentiate the products further without incurring high capital investment. Growth plans must be capital disciplined where expansion plans must undergo stringent techniques of investment appraisals to prevent repeating similar errors of misallocation of the past.

4. Investment Appraisal and Capital Budgeting

4.1 Strategic Context and Objectives

Investment appraisal is a paramount exercise in the financial restoration plan of General Electronics. The organisation has seen several years of lost revenues, operating margins, and increased debt dependency that cumulatively put a strain on both liquidity and solvency. In a situation that is restrictive in this sense, then decisions to take capital expenditures should be guided by strict financial analysis to see to it that the limited funds can yield quantifiable financial returns. The business is now being run at a very stringent limit of capital rationing to 60 million pounds and is thus able to only engage in one major investment project within the period of planning. A lack of the effective allocation of such capital may hamper restructuring efforts and aggravate financial instability, and thus, capital budgeting will be at the heart of the turnaround plan of the company (Hariyani et al., 2024).

The capital budgeting methods enable the management to consider projects on a complementary basis. The Payback Period (PBP) is used to measure short-term liquidity risk, the Accounting Performance based on the Accounting Rate of Return (ARR) is used to measure accounting performance, Net Present Value (NPV) is used to identify changes in absolute shareholder wealth, Profitability Index (PI) is used to measure relative capital efficiency, and the IRR is used to measure performance, which is adjusted by the discount-rate. Combined, these instruments allow the management to strike the right balance between the investment risk, profitability potential, funding implications and long-term strategic alignment (Bagh et al., 2025).

Three mutually exclusive five-year projects A,B and C below are evaluated. Through a discount rate of 10 percent, the weighted average cost of capital of General Electronics is adjusted up to reflect a higher cost of doing business that may be attributed to high business risk, refinancing risk and market risk. Straight- line depreciation is used on all assets that do not have any terminal or salvage value. These assumptions are the same ones that warrant fair comparison of projects.

4.2 Discount Factors at 10%

Year	Discount Factor
------	-----------------

1	0.909
2	0.826
3	0.751
4	0.683
5	0.621

Discount factors are used to express the past nominal cashflows in the present-value terms so that investments can be judged on a similar money basis. The opportunity cost of capital, inflation, and risk in investments as well as financial uncertainty specific to a company since the current value of money is higher when compared to the future is discounted due to the discount factor. Since the operational instability of General electronics and its dependence on short-term borrowing, it is necessary to apply the realistic discount rate to avoid overstatement of future benefits (Khan and Silvio, 2025).

4.3 Project A – Financial Appraisal

Table 4.1: Project A – NPV Calculation

Initial investment: £40 million

Year	Cash Flow (£m)	Factor	Calculation	Present Value (£m)
1	10	0.909	10×0.909	9.09
2	12	0.826	12×0.826	9.91
3	14	0.751	14×0.751	10.51
4	10	0.683	10×0.683	6.83
5	8	0.621	8×0.621	4.97
Total PV of inflows				41.31
NPV			$41.31 - 40$	+1.31

Payback Period – Project A

Year	Cash Flow (£m)	Cumulative (£m)
1	10	10

2	12	22
3	14	36
4	10	46

Unrecovered investment after Year 3 = £4m

$$PBP = 3 + \frac{4}{10} = 3.4 \text{ years}$$

ARR – Project A

Annual depreciation:

$$40 \div 5 = 8m$$

Year	CF	Depreciation	Profit
1	10	8	2
2	12	8	4
3	14	8	6
4	10	8	2
5	8	8	0

Average profit = £2.8m

$$ARR = \frac{2.8}{40} \times 100 = 7\%$$

Project A offers a low financial acceptability. The positive NPV of 1.31 million pounds ensures the development of economic value that exceeds the cost of capital though the margin is slim. Even minor changes in the sales volume, operating costs or the schedule of implementation might soon eradicate the projected returns. The liquidity outlook is relatively favourable with a short payback period of 3.4 years making it possible to recover most of the capital invested in the project by the project midpoint. Nevertheless, the ARR of 7% is an indication of poor profit generation that fails to satisfy the risk-adjusted expected normal level of returns that investors normally require. In sum, Project A is a feasible project with high risk because of having a small value buffer.

4.4 Project B – Financial Appraisal

Table 4.2: Project B – NPV Calculation

Initial investment: £30 million

Year	Cash Flow (£m)	Factor	Calculation	Present Value (£m)
1–5	6 per year	Discounted	Combined	22.74

| NPV | | 22.74 – 30 | **-7.26** |

Payback – Project B

$$PBP = \frac{30}{6} = 5.0 \text{ years}$$

ARR – Project B

Annual depreciation:

$$30 \div 5 = 6m$$

Average profit ≈ 0

$$ARR = 0\%$$

Project B is the least financial offer. The negative NPV of -7.26 million is direct evidence of the loss of the shareholders' value. The five-year payback period implies that the investment funds will be left vulnerable in the whole life of the project without an initial cash back-up- which is not acceptable going by the current liquidity strains. More so, the ARR of 0 demonstrates that the value of the contribution of earnings of Project B after depreciation is meaningless. The revenue curve is not growing or resilient and it puts capital at a long-term risk. In this regard, the Project B should be unanimously dismissed (Alin et al., 2023).

4.5 Project C – Financial Appraisal

Table 4.3: Project C – NPV Calculation

Initial investment: £50 million

Year	Cash Flow (£m)	Factor	Calculation	Present Value (£m)
1	5	0.909	5×0.909	4.55
2	10	0.826	10×0.826	8.26

3	20	0.751	20×0.751	15.02
4	25	0.683	25×0.683	17.08
5	15	0.621	15×0.621	9.32
Total PV of inflows				54.23
NPV			$54.23 - 50$	+4.23

Payback – Project C

Year	CF (£m)	Cumulative (£m)
1	5	5
2	10	15
3	20	35
4	25	60

Outstanding after Year 3 = £15m

$$PBP = 3 + \frac{15}{25} = 3.6 \text{ years}$$

ARR – Project C

Annual depreciation:

$$50 \div 5 = 10m$$

Year	CF	Depreciation	Profit
1	5	10	-5
2	10	10	0
3	20	10	10
4	25	10	15
5	15	10	5

Average profit = £5m

$$ARR = \frac{5}{50} \times 100 = 10\%$$

Project C has the best overall financial performance. It has the highest NPV of 4.23m which means that it has created significant value, thrice the amount created by

Project A. The payback period is a bit longer (3.6 years) but the difference will be economically insignificant in comparison with better profitability and increased cash returns in long term. The ARR of 10 which is equal to the cost of capital indicates good accounting profitability, which enhances recovery of retained earnings. Increasing yearly cash flows increase financial strength and minimise the likelihood that market uncertainty would unleash performance anticipations (Bank, 2023). Project C is therefore the best balance of return, liquidity stability and economic longevity.

4.6 Profitability Index Analysis

$$PI = \frac{PV \text{ of inflows}}{Initial Investment}$$

Project	PV (£m)	Investment (£m)	PI
A	41.31	40	1.03
B	22.74	30	0.76
C	54.23	50	1.08

The PI ratio ensures that it identifies the project that gives the best value of the money invested. Project C has the highest PI of 1.08, which is the strongest, that is, every pound of investment comes back in the form of present value of £1.08. Project A has only marginal returns (1.03), whereas Project B kills value (0.76). Project C under capital rationing is obviously preferable to PI as the most efficient investment (Manos, Parker and Myddelton, 2023).

4.7 Internal Rate of Return

Project	Estimated IRR	Interpretation
A	≈ 11%	Acceptable but narrow risk premium
B	<10%	Falls below WACC – reject
C	13–14%	Strong most resilient return

IRR analysis is like that of NPV. Project C is slightly above the discount rate by an approximate of 3-4 percentage points and this offers a good safety margin against

risk. Project A is almost on the threshold of the hurdle rate, which puts it sensitive to adverse market fluctuations. Project B underperforms.

4.8 Capital Rationing Decision

The limit on the availability of capital generated has been put at 60 million pounds, therefore one cannot invest in more than one viable project at a time. Both Projects A and C are affordable though the choice of both is beyond financial capabilities. Considering the higher returns, the higher capital efficiency and the high levels of safety margins portrayed by Project C, it becomes the best investment option. Project B will not be taken back (Episcope, 2025).

Conclusion

The stacked-calculation ratio tables prove that General Electronics has shifted to the moderate profitability and conservative gearing to severe losses and high leverage. The liquidity is still reasonable but weak, and the cash conversion cycle is long, and the company relies on short-term funding. Based on Altman Z-Score, the firm falls within the zone of financial distress.

To turnaround it needs to have a tightening of working-capital controls, selling of non-core assets, equity recapitalisation to enhance solvency and ethical cost-cutting measures in global operations. Through the analysis of capital budgeting with a constraint of 60m, it becomes apparent that Project C provides the most favorable mix of positive NPV, good payback and high PI, and it should be chosen as the defining strategic investment in helping to recover in the long term.

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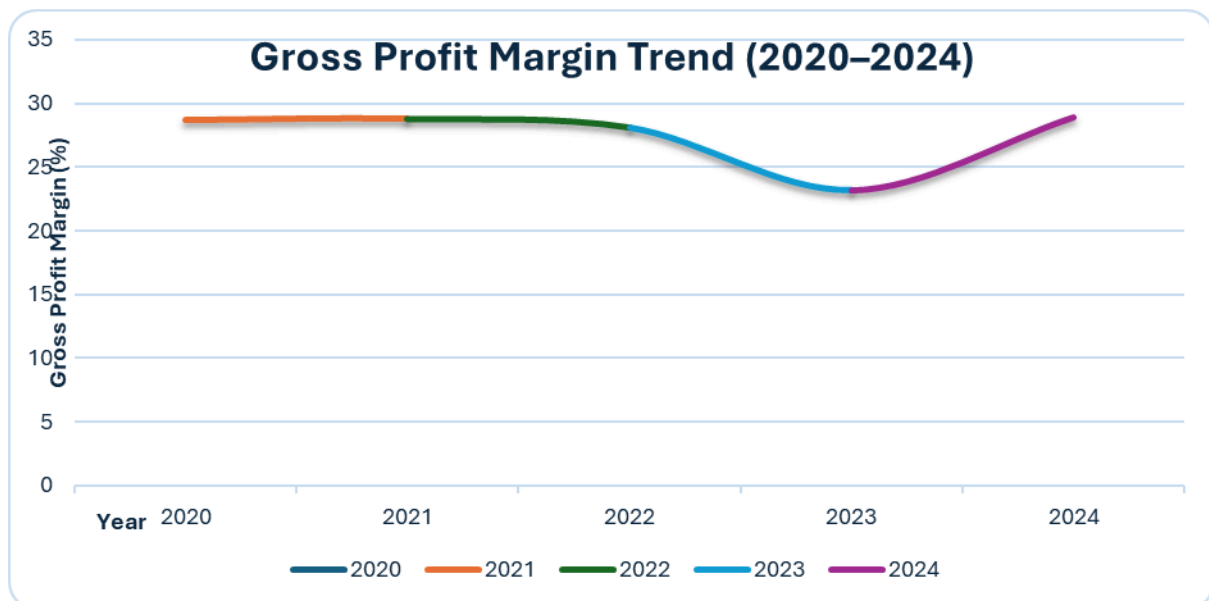
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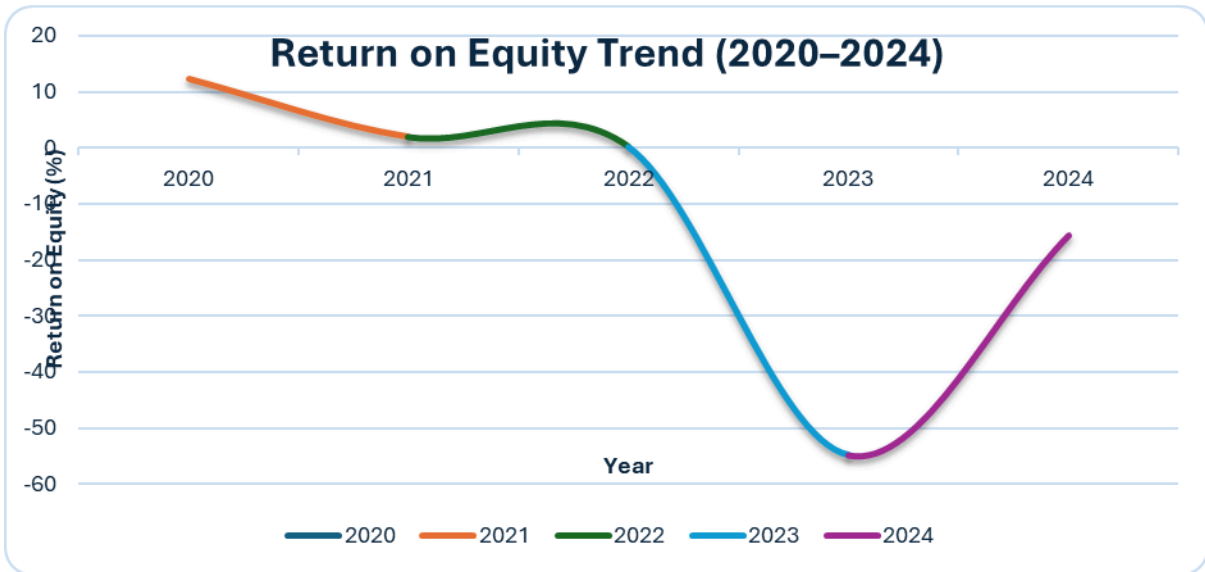
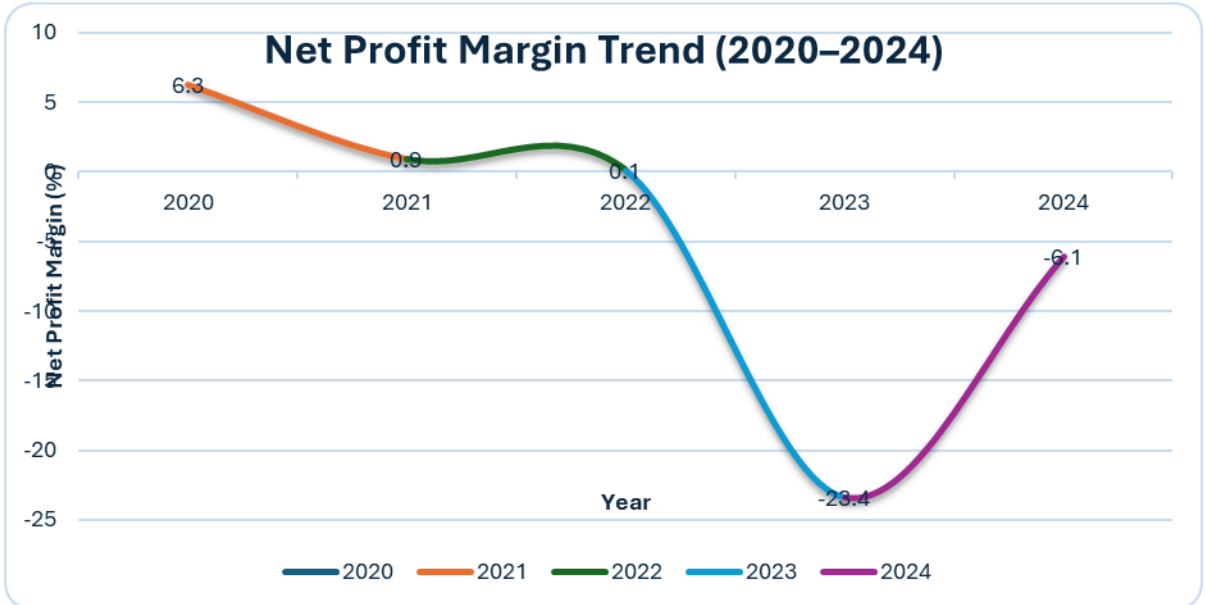
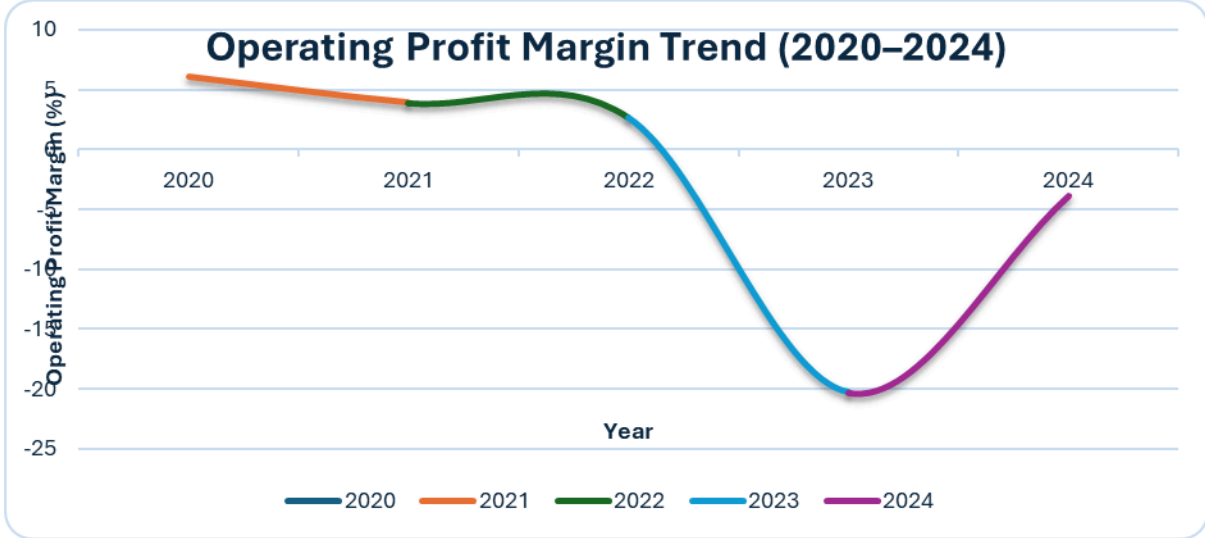
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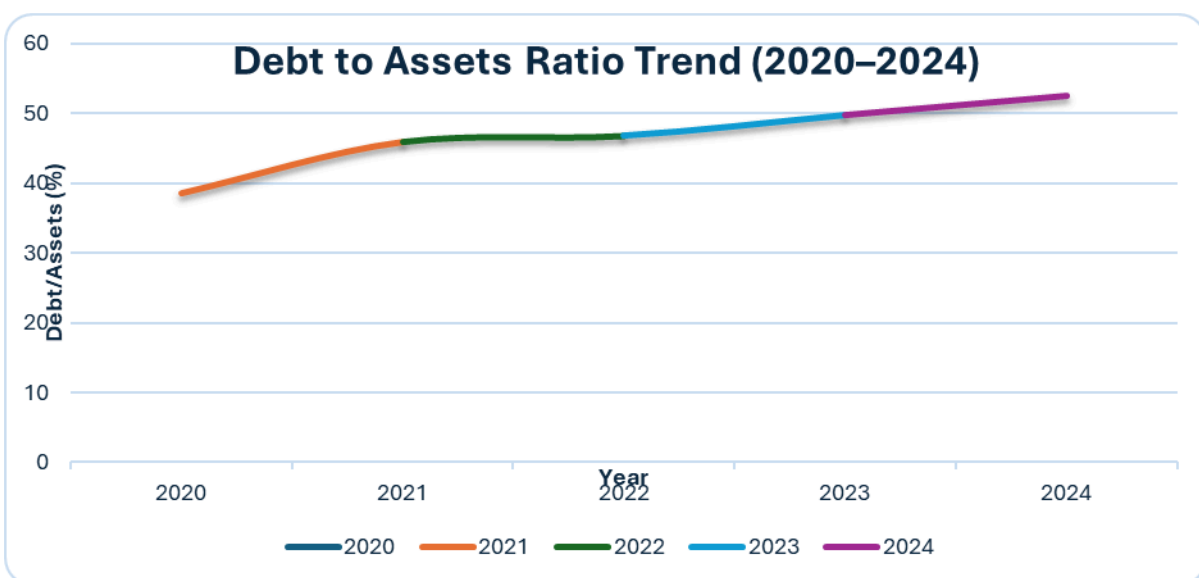
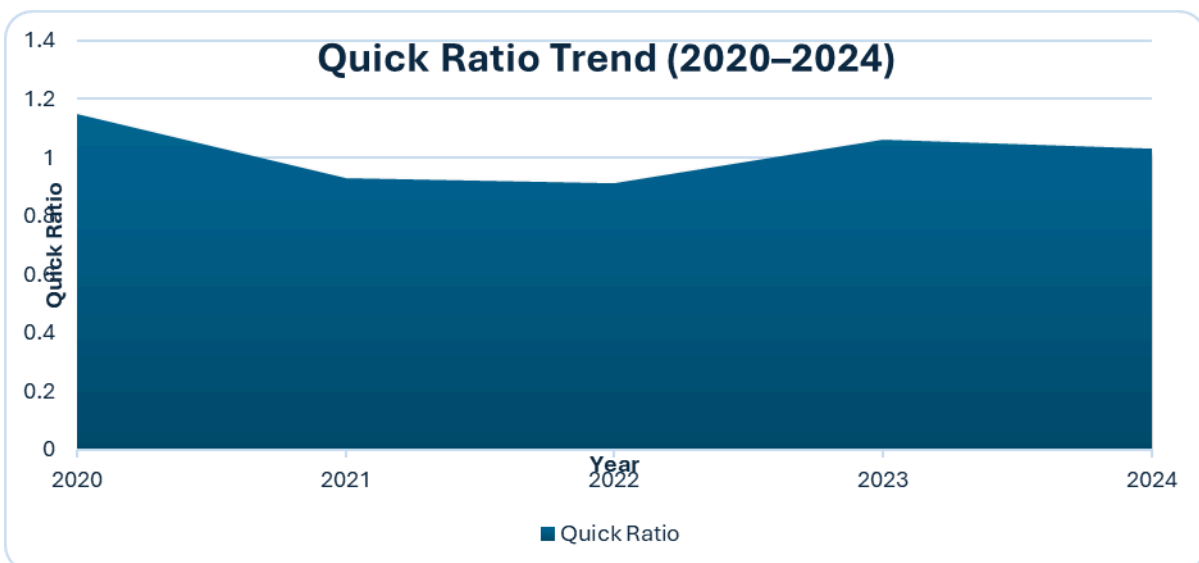
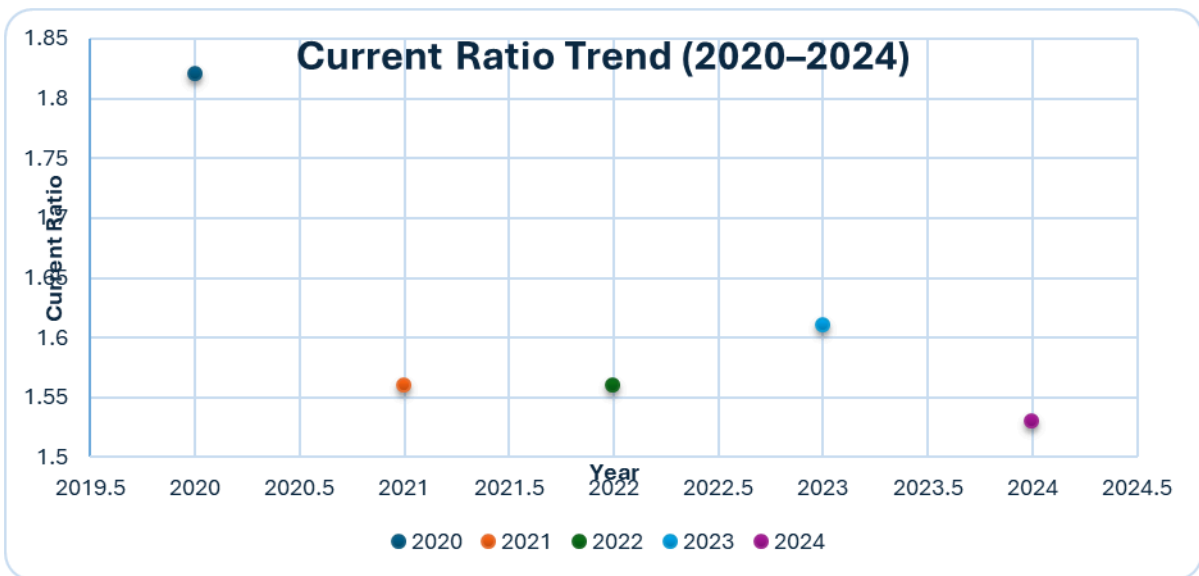
Appendices

Appendix 1: Summary Ratio Table

Ratio	2020	2021	2022	2023	2024
Gross Profit Margin (%)	28.7	28.8	28.1	23.2	28.9
Operating Profit Margin (%)	6.1	3.9	2.7	−20.3	−3.9
Net Profit Margin (%)	6.3	0.9	0.1	−23.4	−6.1
Return on Equity (%)	12.3	1.9	0.2	−54.9	−15.7
Current Ratio (x)	1.82	1.56	1.56	1.61	1.53
Quick Ratio (x)	1.15	0.93	0.91	1.06	1.03
Debt to Assets (%)	38.6	45.9	46.8	49.7	52.6
Debt to Equity (x)	0.63	0.85	0.88	0.99	1.11







Appendix B: Investment Appraisal Calculations

	A	B	C	D	E	F	G	H
1								
2								
3								
4								
5								
6								
7								
8								
9								
10								
11								
12								
13								

[illegible]

**Payback Period –
Project A**

Year	Cash Flow (£m)	Cumulative (£m)
1	10	10
2	12	22
3	14	36
4	10	46

Unrecovered investment after Year 3 = £4m

$$PBP = 3 + \frac{4}{10} = 3.4 \text{ years}$$

ARR – Project A

Annual depreciation:

$$40 \div 5 = 8m$$

Year	CF	Depreciation	Profit
1	10	8	2
2	12	8	4
3	14	8	6
4	10	8	2
5	8	8	0

Average profit
= £2.8m

$$ARR = \frac{2.8}{40} \times 100 = 7\%$$

Project C – NPV Calculation

Initial investment: £50 million

Year	Cash Flow (£m)	Factor	Calculation	Present Value
1	5	0.909	5×0.909	4.55
2	10	0.826	10×0.826	8.26
3	20	0.751	20×0.751	15.02
4	25	0.683	25×0.683	17.08
5	15	0.621	15×0.621	9.32
Total PV of inflow				54.23
NPV			$54.23 - 50$	4.23

Payback – Project C

Year	CF (£m)	Cumulative (£m)
1	5	5
2	10	15
3	20	35
4	25	60

ending after Year 3

$$PBP = 3 + \frac{15}{25} = 3.6 \text{ years}$$

ARR – Project C

Annual depreciation

$$50 \div 5 = 10m$$

Year	CF	Depreciation	Profit
1	5	10	-5
2	10	10	0
3	20	10	10
4	25	10	15
5	15	10	5

Average profit = £5

$$ARR = \frac{5}{50} \times 100 = 10\%$$

Profitability Index Analysis

$$PI = \frac{PV \text{ of Inflows}}{\text{Initial Investment}}$$

Project	PV (£m)	Investment (£m)	PI
A	41.31	40	1.03
B	22.74	30	0.76
C	54.23	50	1.08

Internal Rate of Return

Project	Estimated IRR	Interpretation
A	≈ 11%	Acceptable but narrow risk premium
B	<10%	Falls below WACC – reject
C	13–14%	Strong most resilient return