Case Study 1

Introduction

The Antipodes Mineral Resources Company (AMR) is hiring for the post of assistant financial analyst. It is the final stage and it requires assessing the basic financial knowledge of the individual. The respondent needs to state about the investment projects that a minerals company can be expected to invest in. Also there is an assessment of expected activities to be carried out in a CEO's office. The company is listed on a recognized stock exchange. It needs to be specified as to how this fact would mark an impact on managing finances. Finally it specifies the accountabilities that AMR may have apart from the responsibilities it has towards the company owners.

Investment Projects in a Mineral Company

The mineral companies are engaged either in the process of mining and extracting out minerals and then selling them to the companies, governments and others in the need of those minerals or they hire a mining company for extraction and are merely engaged in sale. Their investment projects also typically relate to their area of service. The specific projects that they can invest in include –

- New Mining Spots identified – Humphreys identifies the movement in investment in Mining Industry in the past. (Humphreys, 2012) The research companies of mineral companies continuously carry out researches in different geographical locations to find out the possibility of the specific mineral in that location. When it is identified they invest there to extract the mineral out of the land. At times while the company makes investment in their own capital resources which are utilized to extract out minerals, at other times a specific mining company is granted investment. This specific company carries out the mining procedures and is provided finance by the mineral company. This investment in mining company is also done in two types; one when the mining company is engaged for carrying out mining and they are given all the resources and the other when the mining company is provided a specific sum and the process is outsourced.
- Infrastructure in Mining Activities – One new sector that has earned high relevance in the current era is investing in infrastructure for mining activities. Chew and Farrenburg recognize that today more and more companies are investing in the infrastructure of mining activities. (Chew and Farrenburg, 2012) In such a type of model there is a specific infrastructure providing company which delivers different drilling machines and equipment's to the small mining companies. These companies utilize them to extract out minerals.
- General Investments – Mineral companies also have the option to make general investments in bonds and shares of different companies. However they lack the criteria to be called a project unless the investment is quite high.

Work expected in CEOs office

CEO has the duty to ensure management in whole of the organization. The persons working in the CEO office are expected to work on the same things that a CEO is expected to do. On the same perception the list of works expected to be undertaken in a CEO's office are –

- Information collection – The CEO and other higher level management have the responsibility to decide the strategy of the company. For this strategy decision making they require information not only about their own organization but also about the environment. Therefore one of the works that is expected to be done in a CEO's office is collection of information which would include both qualitative as well as quantitative data.
- Advising and taking guidance – CEOs and Board of directors are expected to work together for the management of the entity in a proper manner. Heathfield specifies that this can involve both advising the BOD about certain matters and taking guidance from them about others. (Heathfield, 2016) Since the people working in CEO office have to help CEO coordinate and better carry out his work, another work expected from them would be support in these activities. When the CEO wishes to provide any advice to the BOD, the personnel's need to draft that advice in such a manner that it can be communicated to the BOD. And, when any guidance is received from BOD, its implications and relative implications need to be initially assessed before presentation of the same to CEO.
- Evaluation of success of the entity – CEO is responsible for the success of the entity along with other factors. He therefore also holds the responsibility to assess the level of success of the entity and its operations. Thus one of the works expected in CEO office is evaluation of the success of the entity.

Apart from these there can be other works which may include coordinating with middle management, liaison with outside entities and others which the people in CEO office are expected to do.

Impact of being listed on managing finances

When an entity is listed on a stock exchange, it needs to follow several of the requirements imposed by the stock exchange. While these requirements relate to management of business in a specific manner or complying with the aspects specified in proposals for listing, there are also requirements for financing. Further, listing also puts the entity at risk from the market forces. In aggregate the impact of getting listed in a stock exchange has following impact on financing management –

- Restrictions imposed by stock exchange – Chapter 9 of the rules of listing specified by Australian Stock exchange identifies the different restrictions imposed on listed companies. (ASX, 2016) Similarly every company that is listed on a stock exchange is required to maintain the instructions and restrictions identified by the stock exchange. Among the broad criteria the restrictions relate to maintenance of a ratio between the available debt and equity, payment of dividend and interest on them, etc.
- Risk Management – Stulz identifies that the entities are required to carry out risk management so that the value of benefits earned by the entity satisfy the risk involved. (Stulz, 1996) When an entity gets listed, the large group of public which subscribes to its share capital becomes its major stakeholder. Therefore the company needs to consider the

risk involved in every finance management decision with its potential impact on shareholder’s interest.

- Choice of financial decisions – Financial decisions usually offer choices to the companies. When the securities get listed on a stock exchange, and it becomes necessary for the entity to consider the interest of shareholders they choose that option which is considered aligned with entity interests as well as shareholders interest. For example even though debt may be a risky decision for the company, it may have to choose so after getting publicly listed as the shareholders may not like dilution of their controls. Similarly other choices get impacted on the basis of interests of shareholders.

AMR’s accountabilities apart from responsibilities to the firm’s owners

It is believed that firm’s owners are the sole parties towards which a company holds responsibilities. But that is not the case, as they are not the lone factors of production for the company. Therefore apart from the firm’s owners, AMR’s accountabilities include –

- Society – All of the factors of production that are utilized by AMR for its extraction and selling activities belong to society. Therefore it holds accountability towards society which is named as corporate social responsibility. Valor defines it as a manner in which an entity pays back to the society due to which it is able to operate. (Valor, 2005) Under the Corporate Social Responsibility, AMR can take several steps in the interest of the society. This can include building roads, organizing camps for old and weaker classes, etc.
- Environment – One of the factors which are the most negatively impacted due to the mineral operation is environment. Soutar, Christopher and Cullen highlight that mineral extraction itself and the processes employed in the process are one of the basic causes of environmental pollution. (Soutar, Christopher and Cullen, 1998) Since by being in the same business AMR is also negatively impacting the environment, it holds a responsibility that it carries out activities which support the environment. Example of these can be planting trees, reducing the utilization of equipment which produce high amount of toxic gases, etc.
- Others – AMR also needs to consider its responsibilities towards other factors of production. It needs to ensure that it provides a respectable life to its employees, it provides appropriate return to its management, it also helps the people around it, etc.

Conclusion

The report studied the different aspects related to appointment of an assistant financial analyst in a CEO office. It provided a group of investments including mining and infrastructure in which a mineral company can invest in. Also it provided a list of activities that are expected to be done in a CEO office. Impact of getting listed on a stock exchange on financial management has also been assessed in relation to AMR. Finally the accountability of AMR towards others apart from the firm’s owners has been specified. It together provides the different things that an individual taking the job of assistant financial analyst may have to consider in his profile at AMR.

Case Study 2

(a) If RWE uses the discount rate at 10% to evaluate the proposed investment in new equipment the net present value would be as follows –

Year	Cash Flow	PV @ 10%	PV of Cash Flow
0	$ (3,000,000.00)	1.0000	$ (3,000,000.00)
1	$ 700,000.00	0.9091	$ 636,363.64
2	$ 700,000.00	0.8264	$ 578,512.40
3	$ 700,000.00	0.7513	$ 525,920.36
4	$ 700,000.00	0.6830	$ 478,109.42
5	$ (1,300,000.00)	0.6209	$ (807,197.72)
6	$ 700,000.00	0.5645	$ 395,131.75
7	$ 700,000.00	0.5132	$ 359,210.68
8	$ 700,000.00	0.4665	$ 326,555.17
9	$ 700,000.00	0.4241	$ 296,868.33
10	$ 900,000.00	0.3855	$ 346,988.96
		NPV	**$ 136,462.99**

Thus at discount rate of 10% the Net Present Value of the project would be $136, 462.99. A positive NPV is usually considered positive for the company. Thus this NPV indicates that RWE would be able to add up a value to this extent by purchasing the new production line. Hamel specifies that a positive NPV means that the project is financially viable for the entity. (Hamel, 2016) In other words, it can be stated that if the company today adopts this new product line on the basis of this NPV, in the future it would be at a better position than now. And therefore it is suggested that the company shall adopt the new production line and add value for its future.

(b) The payback period for the proposed investment has been calculated as follows –

Year	Cash Flow	Cumulative Cash flow
0	$ (3,000,000.00)	$ (3,000,000.00)
1	$ 700,000.00	$ (2,300,000.00)
2	$ 700,000.00	$ (1,600,000.00)
3	$ 700,000.00	$ (900,000.00)
4	$ 700,000.00	$ (200,000.00)
5	$ (1,300,000.00)	$ (1,500,000.00)
6	$ 700,000.00	$ (800,000.00)
7	$ 700,000.00	$ (100,000.00)
8	$ 700,000.00	$ 600,000.00
9	$ 700,000.00	$ 1,300,000.00
10	$ 900,000.00	$ 2,200,000.00
	Payback Period	**7.14285714285714 years**

The table provides that at the current expected cash flows, the company would be have a payback period of 7.14 years. Investopedia defines that payback period is the number of years or months, it takes a project takes to pay back the investment charged. (Investopedia.com) A payback period of 7.14 years means that it would take 7.14 years for RWE to recover back its initial and later investments. In other words that after a period of 7.14 years the benefits accruing from the new project would be free from any investment made and would be free cash flows. The company usually have a specified payback period; if the project pays back the investment in that specified time limit the company usually accepts the investment.

The discounted payback period for the proposed investment has been calculated as follows –

Year	**Discounted Cash Flow**	**Cumulative Discounted Cash Flow**
0	$ (3,000,000.00)	$ (3,000,000.00)
1	$ 636,363.64	$ (2,363,636.36)
2	$ 578,512.40	$ (1,785,123.97)
3	$ 525,920.36	$ (1,259,203.61)
4	$ 478,109.42	$ (781,094.19)
5	$ (807,197.72)	$ (1,588,291.91)
6	$ 395,131.75	$ (1,193,160.16)
7	$ 359,210.68	$ (833,949.47)
8	$ 326,555.17	$ (507,394.31)
9	$ 296,868.33	$ (210,525.97)
10	$ 346,988.96	$ 136,462.99
	Discounted Payback Period	**9.60672239955556 years**

Accounting explained provides that discounted payback period provides that with the impact of time value of money, how long the project would take to pay back the initial investment made. (Accounting explained.com) In the present case the project would provide back the investment in 9.61 years when the cash flows are considered in relation to time value of money. Thus if the company believes that it is sufficient that the project provides back the investment before the termination date, the project shall be accepted.

Interpretation

If both the parts of computation be considered, Net present value of the project is $136, 462. 99. This is the case when the company is investing $3,000,000 for the new production line. And that is not the sole investment a complete refurbishment of $2,000,000 is also required for the product line in its 5th year of operation. Comparing the NPV with the investment provides that the company though earning a positive NPV is getting a very low NPV in comparison to investment. Further if the payback period be considered, it is 7.14 years. With the project length to be of 10 years getting back the investment without considering the impact of degradation in time value of money means that the investment is not fetching its real worth. The same is proved by the discounted payback period which is next to the total period of the project. Therefore it is recommended that RWE shall not adopt the new product line.

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