1.1 Example of a planned investment

For the practical demonstration of the use of individual evaluation methods, we will use the assignment of the following exercise.

The company intends to make investment in an online store application. By evaluating the return, the company wants to find out whether or not the investment is effective for it.

Basic parameters of the company (listed only the data needed for individual assessments):

- ten administrative employees – each employee must have his/her own licence,
- foreign interest-bearing capital (CK) – CZK 270,000,
- total interest-bearing capital (K) – CZK 320,000,
- average interest rate paid using the foreign interest-bearing capital (i_{cK}) – 12%,
- estimated interest rate of the assets invested by the company – 4%,
- minimum required rate of return on investment (i_{VK}) – 5%,
- equity (VK) – CZK 390,000,
- income tax rate (d) – 19%.

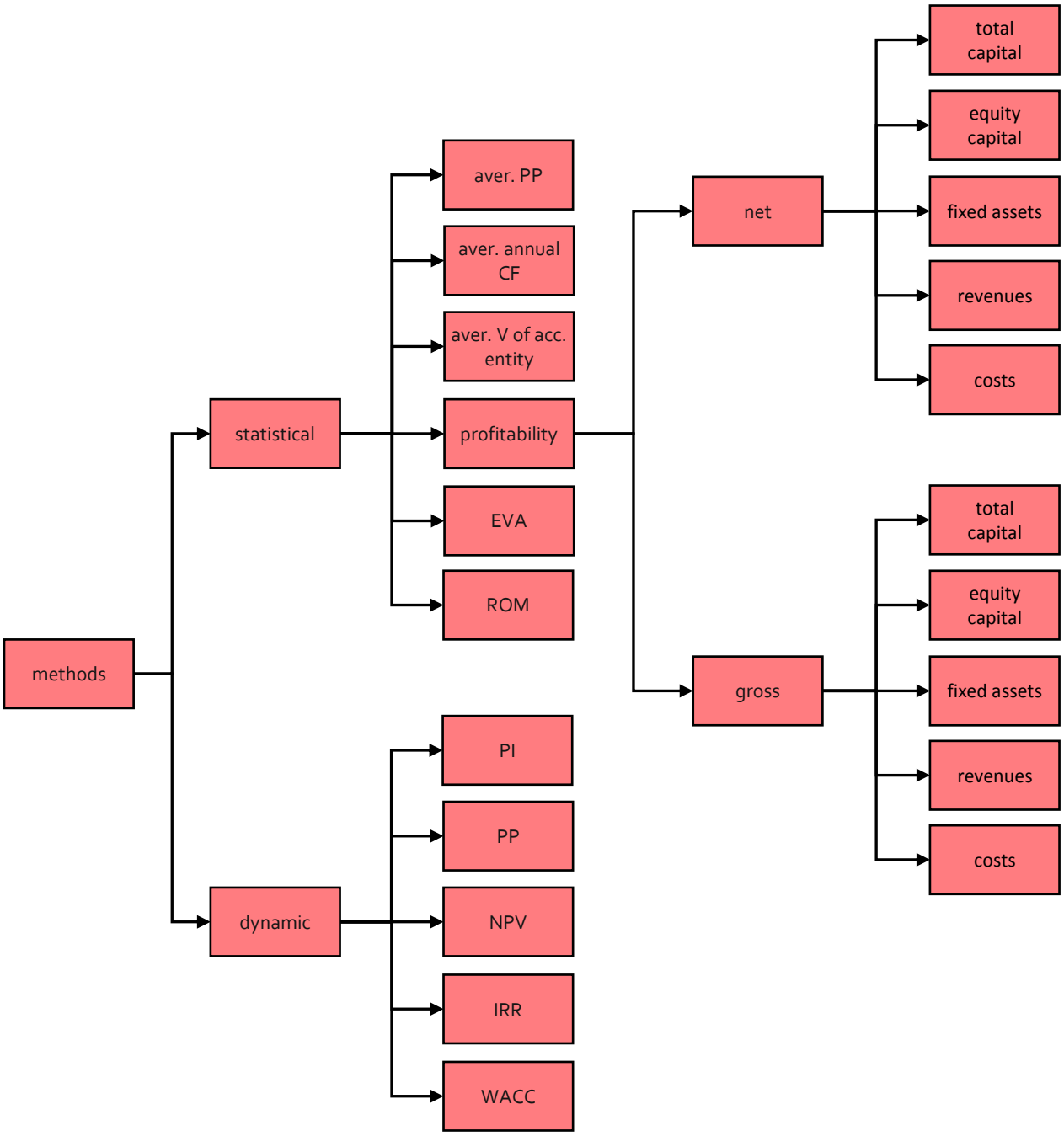

Figure 1 Indicators of investment return and assessment

Basic prerequisites of the online store:

- planned number of types of bouquets offered in the online store – 180 types,
- planned number of bouquets sold in the online store – 1,900 pcs,
- planned average price of one bouquet sold in the online store – CZK 330,
- planned average cost of one bouquet sold in the online store – CZK 220,
- the company owns the HW needed to install the application SW (not to be taken into account in the efficiency assessment).

Accounting point of view of the assessed SW application (the application is in the calculations referred to by the symbol "A"):

- purchased SW will be depreciated for tax purposes in accordance with the standard depreciation rules [Ryneš, 2008]

- SW with a price less than CZK 60,000 → part of the costs of the given year in full,
- SW with a price equal to or greater than CZK 60,000 → straight line depreciation for a period of 3 years,
- planned service life (N) – 4 years,
- liquidation price – CZK 0,
- estimated Cash-Flow on 1,800 flowers sold in the online store in CZK (CF): CF = 181,000.

Balance Sheet as of 01/01/20XX	
Total assets	**650.000**
Fixed assets	**400.000**
Intangible fixed assets	50.000
Tangible fixed assets	400.000
Long-term financial assets	50.000
Current assets	**150.000**
Inventory	100.000
Long-term receivables	0
Short-term receivables	0
Short-term financial assets	50.000
Liabilities	**650.000**
Equity	**300.000**
Registered capital	400.000
Profit/loss from previous years	100.000
Foreign resources	**250.000**
Long-term liabilities	250.000
Short-term liabilities	0

Table 1 Balance sheet of a hypothetical company

The purchased system "A" has the following sales and operating conditions:

- base price of the system – CZK 72,000,
- annual price per licence – CZK 4,000,
- the number of free bouquets displayed in the online store – 100 bouquets,
- the price for every additional 100 bouquets displayed in the online store – CZK 4,900 per year.

To simplify the practical demonstrations, let's assume that the number of bouquets sold is a net increase in sales (the sales in the online store do not affect the number of bouquets sold in the brick-and-mortar store). VAT is not dealt with in the exercise.

Values derived from the above assignment:

- total investment value in CZK (I): 72.000 + 4 x 9 x 4.000 + 4 x 4.900 = 235.600,
- amount of annual depreciation in CZK (O): $\frac{72.000}{4} = 18.000$
- profit on 1,800 flowers sold in the online store in CZK (Z): 1.900 X (330 - 220) = 209.000.