



Assignment 1: Cost Benefit Analysis (CBA)

INSTRUCTIONS:

Ensure you write your name and matric number on the first page of your submission. Submit the file by uploading via the e-learning or as required by the course lecturer.

Individual who are caught copying other work will be penalised by getting an 'F' grade for the concerned assignment. This includes committing plagiarism by copying resources from the Internet without any citation or direct copy with citation, which should be quoted where applicable. Individual that allow their work to be copied will be penalised too.

Read the questions carefully and answer all questions within the given time. Your answers could be typed or written or as required by the lecturer.

Question 1:

As a system analyst in Kriss Sdn Bhd, you are being assigned by top management to conduct economic feasibility in order to determine whether the company able to develop their new system called KriSys based on available time and money.

<u>Costs</u>		<u>Assumptions</u>	
Hardware	RM55,000	Discount rate	15%
Software	RM20,000	Sensitivity factor (cost)	1.5
Training	RM25,000	Sensitivity factor (benefits)	2.0
Consultation	RM75,000	Annual change in cost	5%
Upgrade	RM10,000 per year	Annual change in benefits	7%
Maintenance	RM2,000 per month	Notes:	1. Please use Appendix 1 to answer this question.
Support	RM700 per week		
<u>Benefits</u>			
Saving	RM100,000 per year	2. Assume one (1) year consist of 52 weeks.	
Sales	RM50,000 per year		

a) Based on the information given by the Chief of Technology (CTO) below, perform a Cost Benefit Analysis (CBA) for two (2) years to assess the economic feasibility from the budget that your company plans to invest. (15 marks)

b) What is the Profitability Index based on your calculation in (a)? (1 mark)

c) What is your recommendation to the top management? Justify your answer. (2 marks)

Total marks: 5/100

APPENDIX 1

NAME :

MATRIC NO. :

COSTS	YEAR 0	YEAR 1	YEAR 2
Development Costs			
hardware	82500		
software	30000		
training	37500		
consultation	112500		
Total Development Costs	262500		
Production Costs			
Upgrade/year		15000	15750
Maintenance/month		36000	37800
Support/week		54600	57330
Total Production Costs		105600	110880
Present Value		91826.09	83841.21
Accumulated Costs		354326.1	438167.3
Benefits			
savings/year		200000	214000
increase sales/year		100000	107000
Total Benefits		300000	321000
Present Value		260869.6	242722.1
Accumulated Benefits		260869.6	503591.7
Gain or Loss		-93456.5	65424.39
Profitability Index	0.619549		
Justification	*not a good investment because PI is less than 1		