

Project-Based Capital Budgeting Report

Project Overview

Project Name	Expansion of Production Facility
Prepared By	Capital Projects Team
Date	June 18, 2024
Executive Summary	This report evaluates the financial viability of expanding the current production facility to increase manufacturing capacity and support projected sales growth.

Key Assumptions

- Project lifespan: 5 years
- Initial investment: \$1,300,000
- Expected annual revenue increase: \$600,000
- Operational cost increase: \$150,000/year
- Discount rate: 9%
- No residual value at end of project

Investment Breakdown

Description	Amount (\$)
New Equipment	800,000
Facility Upgrade	400,000
Working Capital	100,000
Total	1,300,000

Projected Cash Flows (Annual)

Year	Net Cash Flow (\$)
0	-1,300,000
1	450,000
2	450,000
3	450,000
4	450,000
5	450,000

Financial Evaluation

- **Net Present Value (NPV):** \$454,700
- **Internal Rate of Return (IRR):** 19.4%
- **Payback Period:** 2.89 Years

Risk Assessment

- Market demand may fluctuate, affecting ROI.
- Implementation delays may increase costs.
- Unforeseen operational risks could impact annual cash flows.

Recommendation

Based on the positive NPV and IRR above the required rate, the project is financially viable and recommended for approval, subject to final due diligence and risk mitigation strategies.

Important Notes

- Project-based capital budgeting reports are essential for evaluating major long-term investments.
- They provide a structured approach to assess the financial feasibility and risks of specific projects.
- Accurate and transparent assumptions are key for decision-making validity.
- This document often forms the basis for project funding decisions and board approvals.