

AN IN-DEPTH ANALYSIS AND INTERPRETATION OF FINANCIAL INFORMATION ON INVESTMENT OPTIONS IN GLOBAL COMPETITIVE MARKET: A CASE OF ZEST SPA

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Abstract

Financial Statement Analysis and Interpretation is a very vital instrument of good management decision-making in business enterprise. Good decisions ensure business survival, profitability and growth. Without financial statement analysis in investment decisions, an enterprise is likely to make decisions, which could spell its doom. Poor or lack of qualitative financial statement analysis could lead to low investment returns, low profitability and even inability to identify viable investment opportunities. Every business concern wants to know the various financial aspects for effective decision making. More useful information is required from the financial statement to make the purposeful decision about the profitability and financial soundness of the concern. The quality of financial information is critical to the development of a high quality of global financial reporting structure. The objectives of the study are to examine the profitability, risk and liquidity position of

the Zest Spa in its three different airports (A, B and C) for investment option. The sources of data used for the study are both primary and secondary source of data. The secondary data are generated from the company's books of accounts and were analysed using the various financial ratio formula. In conclusion, it proven that Spa A is a low-risk, high profitability investment, Spa B, is a fairly low-risk, average to high profitability investment and Spa C, is a high-risk, low profitability investment. Base on findings, Zest Spa has enough resources, in terms of budget and manpower, to invest in Spa A and B as such it will increase shareholders' profit.

Key Words: *Investment option, Analysis, Interpretation, financial information, Profitability, Risk, Liquidity and competitive market.*

1. INTRODUCTION

The complex nature of today's business world and the transformation of the entire world into a global village have been of great concerns to managers of all forms of business organizations. According to Ojuigo (2001), the problems of managers are multi-varied because of inefficiency in management of poor decision outcomes of these organizations. Therefore, the managers are unable to achieve the organizational objective within a period of time.

As diverse as business is, its controllable and uncontrollable factors influence all decisions which ultimately lead to the realization of set objectives. To achieve this, management needs reliable, authentic and relevant information from the financial statements to efficiently facilitate decision making.

It must be noted that every business stores try to make at least from investments "sustainable profits" so as to stay afloat and continue in business. Therefore, profit being the concern of every manager is a factor in business. To achieve this, available information from the financial statements of organizations must be analysed, interpreted and used as a basis for decision making (Needham and Dransfield 1991). Financial statement analysis is often considered as a vital tool used in evaluating a company's performance and ensuring that decisions are based on facts rather than rule of thumb.

A financial analyst needs financial statements of companies to be able to identify operating and financial problems which may affect the companies (Mbat, 2001). Thus, any person who analyses the financial statements of firms should be able to identify the cause and effect of financial and operating problems of such firms.

The cause of any financial or operating problem is an event, which produces an effect (the problem). However, in order to identify the cause and effect, the system, which represents an indicator of the problem, should be observed. This process is referred to as interpretation (Pandey, 2005). According to (Mbat, 2001), it is the responsibility of the financial manager or analyst to enable them make better management decisions.

The identification of causes should also be important in order to appropriately evolve corrective measures. Financial analysis and interpretation assist in the:

- Identification of organizational performance through the use of analytical data.
- Identification of empirical relationships between operating results and those items which have influenced the achievement of the results.
- Identification of historical data order to determine which internal or external factors have exerted positive or negative influence on the operating results (Mbat 2001).

Categorically, there are three forms of financial analysis. These include: multivariate, univariate and ratio analysis (Welsh, 1987). Moreover, ratios are the end results of basis analysis. The ratio requires an interpretation on the basis of their trends and in the lights of what is known of the business as a young concern. It should be noted that financial statements represent the positions of a firm at a particular point in time. However, the success or failure of a business depends largely on the quality

of decisions made by management, which in turn depends on reality of accounting information available on them.

Research into this area is quite relevant given the apparent investment failures experienced by many business organizations. The collapse of many businesses either private or public is due to poor decision. The question is whether management has used information provided in the financial statement extensively to enable rational decision making?

1.2 Statement of the Problem

The principal aim of making investment decision is to get adequate returns from it. According to Needham and Dransfield (1991), “people as a rule will only tie up their money in a business if they are satisfied with the returns they get from it”.

In an attempt to achieve maximum returns from investment in production, services shares or stock and/or other securities outside the firm, a comprehensive analysis of the company which is intended to be invested in should be carried out using the company’s financial statements to ascertain both its explicit and implicit investment opportunities. However, organizations that do not use financial statement analysis in making investment decisions could be ill formed.

As a result, the following problems may arise:

- (i) Inability to identify viable investment opportunities
- (ii) Decreasing returns from investments.
- (iii) Decline in organizational overall profitability.
- (iv) Increased investment risk: The organization might not achieve its corporate objective at the end of the period.

If the trend continues, it will likely lead to the failure of the organization. Therefore, there is a great need for individuals and organizations to consider and analyse company’s financial statements before investing in company.

1.3 Objectives of the Study

On noting that most investments made by firms end in failure, it is the overall objective of this study to determine how firms can use financial statement analysis and interpretation to aid management decisions. Specifically, the study is designed to:

- i) Find out how the use of financial statement analysis assists in identifying investment opportunities in Zest SPA.
- ii) Find out how increasing investment returns can be achieved using financial statement analysis in Zest SPA..
- iii) Find out how Zest SPA business failures can be curbed or minimized and corporate objective achieved through successful investment.

iv) Identify alternative ways of minimizing investment risk in Zest SPA.

LITERATURE REVIEW

2.1 Introduction

The use of financial statement analysis and interpretation in investment decision has been addressed by a series of authors in one way or the other. In some instances, the sue of this analysis to determine profitability of a company and specifically returns on investment and optimal management decisions have been stated.

According to Pandey (2005), profitability is the ability of an entity to earn income. It can be assessed by computing various relevant measures including the ratio of net sales to assets, the rate earned on total assets etc.

Meigs and Meigs (2003) stated that the rate of return on investment (ROI) is a test of management's efficiency in using available resources.

2.2 What is Financial Statement?

According to Meigs and Meigs (2003), financial statements are a structured representation of the financial position and financial performance of an entity. The objective of financial statements is to provide information about the financial position, financial performance and cash flows of an entity that is useful to a wide range of users in making economic decisions.

Financial statements also show the results of the management's stewardship of the resources entrusted to it. To meet these objectives, financial statements provide information about an entity's:

- i) Assets
- ii) Liabilities
- iii) Equity
- iv) Income and expenses, including gains and losses
- v) Contribution by and distribution to owners in their capacity as owners, and vi) cash flows

A complete set of financial statement comprises:

- 1) A statement of financial position as at the end of the period;
- 2) A statement of comprehensive income for the period;
- 3) A statement of changes in equity for the period;
- 4) A statement of cash flow for the period.
- 5) Notes of Account comprising a summary of significant accounting policies and other explanatory information; and
- 6) A statement of financial position as at the beginning of the earliest comparative period when an entity applies an accounting policy retrospectively or makes a retrospective restatement of items in its financial statements or when it reclassifies items in its financial statements.

2.2.1 Objective of a Financial Statement Analysis

Business decisions are made on the basis of the best available estimates of the outcome of such decisions. According to Meigs and Meigs (2003), the purpose of financial statement analysis is to provide information about a business unit for decision making purpose and such information need not to be limited to accounting data. While ratios and other relationships based on past performance may be helpful in predicting the future earnings performance and financial health of a company, we must be aware of the inherent limitations of such data.

According to Meigs and Meigs (2003), the key objectives of financial analysis are to determine the company's earnings performance and the soundness and liquidity of its financial position. We are essentially interested in financial analysis as a predictive tool.

Accordingly, the researchers want to examine both quantitative and qualitative data in order to ascertain the quality of earnings and the quality and protection of assets. In periods of recession when business failures are common, the balance sheet takes on increase importance because the question of liquidity is uppermost in the minds of many in the business community. However, when business conditions are good, the income statement receives more attention.

2.3 Uses and Users of Financial Statement

According to Akpan (2002), financial statement may be used by users for different purposes:

- a) **Owners and Managers:** Require financial statement to make important business decisions that affect its operations. Financial analysis is then performed on these statements to provide management with a more detailed understanding of the figures. These statement are also used as part of management's annual report to the stockholders.
- b) **Employers:** Also need these reports in making collective bargaining agreements (CBA) with the management, in the case of labour unions or for individuals in discussing their compensation promotion and rankings.
- c) **Prospective Investors:** They make use of financial statements to assess the viability of investing in a business. Financial analysis are often used by investors and are prepared by professionals (financial analyst), thus providing them with the basis for making investment decisions.
- d) **Financial Institutions:** Financial institutions (banks and other lending company) use them to decide whether to grant a company with fresh working capital or extend debt securities (such as a long term bank loan or debentures) to finance expansion and other significant expenditures.
- e) **Government Entities:** Government entities (Tax authorities) need financial statements to ascertain the property and accuracy of taxes and other duties declared and paid by a company.

3. DISCUSSION OF THE FINANCIAL TECHNIQUES USED.

3.1 Break-Even Point Analysis (BEP)

The break-even calculation does not take economies of scale into account, which is one of the many reasons why the break-even analysis is seldom a linear graph in real-life. Also, "all of the information used in the analysis is based on estimates of the future. As this information will inevitably be flawed, it seems pointless to be pedantic about the minor approximation of treating the

total cost and total revenue lines as straight when strictly this is not so” (Atrill and McLaney 2012 p. 77).

3.2 Cash Flow Statement (CFS)

Disadvantages of this technique are that the future cash flows are based on assumptions and therefore flawed; the revenues are based on an estimation of the sales which could be, again, incorrect. Furthermore, the CFS does not tell anything about the profitability of the enterprise since it only registers physical cash flows and consequently ignoring non-physical cash flows such as depreciation.

3.3 Simple Payback Period (PBP)

A disadvantage of this technique is that the simple Payback Period does not take the time value of money into account (Proctor et al 2012). It merely indicates when an investment is paid back, instead of measuring profitability. “It is therefore, more important to use the PB method more as a measure of project liquidity rather than project profitability” (Lefley 1996 p. 210). It is recommended to never use this technique in isolation and, apply a discount factor to the net incoming cash flow to incorporate the time value of money. Lastly, it measures the risk of a project ending prematurely coherently, its risk. An advantage is that it measures liquidity, in contrast to the NPV (McLaney 2011).

3.4 Internal Rate of Return (IRR)

Longbottom and Wiper (1977 p. 419) as cited by Lynden (2015) said that “The main arguments in favour of the IRR are that, as a rate, it is conceptually simple to understand and that it does not require the prior assessment of a discount rate. A disadvantage of IRR is that, under some circumstances, multiple rates of return for projects can occur.” The IRR also doesn’t take the initial investment into account, consequently it is impossible to compare different projects requiring different investments. The IRR provides the decision-maker with a rate, in contrast to the NPV, which “is an absolute measure giving monetary answers rather than percentages” (Proctor et al 2012 p. 191).

3.5 Net Present Value (NPV)

“With the NPV and the IRR, a specific minimum rate of return and a discount rate as set by financial strategy must be achieved by an investment to go forward” (Liesen, Figge and Hanh 2013 p. 179). It assumes that the discount rate stays constant during the project. Something that doesn’t happen often in real-life. “In practice, the analysis of the variability is then usually restricted to deterministic sensitivity analysis, such as ‘one-factor-at-a-time’ and scenario analysis” (van Groenendaal 1998 p. 202)

3.6 Assumptions relating to the data:

- Zest Spa will operate for 50 weeks per year.
- Market Research (\$15.000) is considered to be a sunk cost.
- The company’s assets (Spa equipment and Fittings and Fixtures) have a useful life of three years and have no residual value afterwards.

- The data provided by the market research are reflecting estimations and are therefore not correct.
- Zest Spa is currently financed by common stocks, issued by the company.

3.7 Assumptions about Zest Spa:

- Zest Spa is a globally operating company with several Express Spa Centres worldwide.
- Zest Spa is a company that has to take the goals of its shareholders into account i.e. shareholders' profit.
- Zest Spa is a company that has a budget to fund new projects.
- In order to keep the company's shareholders happy, Zest Spa is willing to invest time, people and money in order to achieve a higher profit in the coming years.

3.8 Other assumptions:

- There is no indication that the international travel market will collapse within the next three years.

4. FINANCIAL ANALYSIS AND INTERPRETATION

4.1 Annual Profit before taxation

Calculating the forecast profit and turnover is the first step in identifying the most profitable airport for Zest Spa. It also provides the researcher and the reader with a basic understanding of the company's variable and fixed costs and the company's pricing. The forecast revenue sheet indicates that the demand for treatments vary per airport.

Revenue Forecast	<i>Airport A</i>	<i>Airport B</i>	<i>Airport C</i>
No. of treatments per week (x 50 weeks)	8750	7500	5000
Price per treatment	\$40	\$40	\$40
Revenue forecast	\$350.000	\$300.000	\$200.000

Table 1 Revenue Forecast

When estimating the annual profit, however, the researcher must deduct the costs Zest Spa will incur from providing customers with their services.

Cost of goods sold	<i>Airport A</i>	<i>Airport B</i>	<i>Airport C</i>
No. of treatments per week (x 50 weeks)	8750	7500	5000
Variable costs per treatment	\$12	\$12	\$12
Cost of goods sold	\$105.000	\$90.000	\$60.000

Table 2 Cost of goods sold

These tables, however, do not deduct the fixed costs and therefore do not provide an estimation of the annual profits before taxation.

Annual profit estimation	<i>Airport A</i>	<i>Airport B</i>	<i>Airport C</i>
<i>Sales</i>	\$350.000	\$300.000	\$200.000

<i>Costs of goods sold</i>	\$105.000 -	\$90.000 -	\$60.000 -
Gross profit	\$245.000	\$210.000	\$140.000
<i>Fixed costs</i>			
Rent of floor space	\$75.000 -	\$75.000 -	\$75.000 -
Administrative costs	\$15.000 -	\$15.000 -	\$15.000 -
EBIDTA	\$155.000	\$120.000	\$50.000
<i>Depreciation</i>			
Spa equipment	\$40.000 -	\$40.000 -	\$40.000 -
Fixtures and fittings	\$10.000 -	\$10.000 -	\$10.000 -
Annual profit before taxation	\$105.000	\$70.000	\$0

Table 3 Annual profit before taxation

These estimates indicate that airport C, after deducting all relevant costs the spa will incur, does not make any profit.

4.2 Break-even analysis (BEP)

Calculating the break-even point is a technique, used to identify the number of goods/services to sell in order to cover all the fixed and variable costs. The price of the product minus the variable costs is called the contribution margin, since it contributes to the fixed costs and the profit of the organisation. The Break-Even Point (BEP) is reached when the total contribution is equal to the total fixed costs.

In the case of Zest Spa, it is a perfect first step to evaluate the options of choosing for airport A, B or C. The fixed and variable costs are in all of the three scenarios equal. In order to break even, Zest Spa must sell 8571 units on any of the three locations. The airports have different sales forecasts; airport A would need 49 weeks to break even (8571/175 treatments per week), airport B would need 59 weeks (8751/150 treatments per week) and airport C would need 86 weeks (8751/100 treatments per week). The total production capacity of Zest Spa on airport A is 8750 per year; meaning that it would break even after selling the first treatment in the second year.

4.3 Annual cash flows and overall net annual cash inflow

“The budget is of particular importance to all organizations. If there is insufficient cash to pay all the bills due at a certain time, then the organization may be forced out of business even though it is trading profitably” (Proctor et al 2012 p. 346). “A cash flow statement (CFS) is a summary of all the cash that an entity has received for a period of account and all the cash payments that it has made during the same period” (Dyson 2010 p. 146). Zest Spa’s cash flow is assumed to be constant, which means that every year, the same amount of money flows into the organization and the money will be divided equally over the 50 operating weeks per year. The researcher has, based on these assumptions and the financial data provided, prepared a cash flow statement for each of the airports.

Inflow	<i>Airport A</i>	<i>Airport B</i>	<i>Airport C</i>
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Sales in \$	\$350.000	\$300.000	\$200.000
Total inflow in \$	\$350.000	\$300.000	\$200.000
Less outflow			
Costs of goods sold	\$105.000	\$90.000	\$60.000
Rent	\$75.000	\$75.000	\$75.000
Administrative costs	\$15.000	\$15.000	\$15.000
Total outflow in \$	\$195.000	\$180.000	\$150.000
Net annual cash flow in \$	\$155.000	\$120.000	\$50.000

Table 4 Net annual cash flow
In this CFS

depreciation has been ignored since it does not involve a physical cash flow. Also, market research (\$15.000) has been ignored because it has already been paid and is considered to be a sunk cost. Rent has been defined as committed costs and has been taken into account; it does involve a physical cash flow and has to be paid once every year.

A CFS is a mechanism that helps managers estimate their budgets for future expenses and revenues; consequently, the researcher will present a CFS for three years. By using that information, the researcher will estimate the Payback Period for each spa.

Table 5 CFS of the projects

This table shows the cash flows generated by these projects. In year 0, when the initial capital investment is made, there is a similar negative cash flow for each of the airports, the three following years all the airports will generate constant positive cash flows based on the assumed number of

Cash flow of the projects	<i>Airport A</i>	<i>Airport B</i>	<i>Airport C</i>
Year 0	-\$150.000	-\$150.000	-\$150.000
Year 1	\$155.000	\$120.000	\$50.000
Year 2	\$155.000	\$120.000	\$50.000
Year 3	\$155.000	\$120.000	\$50.000

sales and the assumed price less the

assumed costs.

4.4 Simple Payback Period (PBP)

“The PB method of financial appraisal, used to evaluate capital projects, calculates the return per year from the start of the project until the accumulated returns are equal to the cost of the investment, at which time the investment is said to have been paid back” (Lefley 1996 p. 208).

The payback period is a mechanism that aids managers understand the risks involved with investments. The payback period is a tool for analysing the investment risk. “If the investment decision was a choice between several alternative capital projects, the one with the shortest PBP would be recommended. Most people agree that uncertainty increases the further you go into the future” (Proctor et al 2012 p. 184). Using the CFS the researcher can calculate the payback period for each spa separately. The result of this calculation will show management how long it will take for the investment to pay itself out of the cash inflows that it is expected to generate. (McLaney 2011).

Due to the different sales forecasts, the payback period will differ per spa. The Payback Period is calculated by dividing the costs of the project by the annual cash flow. The cash flow varies per spa. The payback period for Spa A, B and C are as follows:

Payback Period	
Spa A	11,64 (12) months
Spa B	15 months
Spa C	36 months

Table 6 PBP per Spa

Businesses should decide for themselves what Payback Period they deem appropriate. In this case, the Zest Spa management has not decided on a PBP and therefore this analysis has no further use. It does indicate, however, that investing in airport A is less risky than investing in airport B or C, because the investment yields its own value within one year, consequently, the investment involves less risk.

4.4 Net Present Value (NPV)

“NPV and IRR are the most popular discounted cash flow (DCF) methods. While both methods are theoretically sound, each measures a different aspect of a capital project's profitability. NPV measures the change in the net worth of the firm due to the project while IRR measures the periodic rate of return for the project's required capital investment” (Agnes Cheng et al 1994 p. 11).

In order to establish the Discount Rate (DR), the researcher has applied the WACC (Weighted Average Cost of Capital) calculation. “Zest Spa is currently financed via a mix of common stock (equity) and long term borrowings (debt). Equity accounts for some 30% of the capital structure and the recent dividend paid has averaged 10%. The remaining 70% of the structure is debt with a fixed rate (post tax) of 13%” (Zest Spa 2015).

“The Net Present Value (NPV) of a project is equal to the present value of the cash inflows minus the present value of the cash outflows, all discounted at the cost of capital” (Weetman 2010 p. 273).

The discount rate is therefore 12%, meaning that the cost of capital for Zest Spa is 12%. Consequently, “future cash flows should be discounted to present values” (Proctor et al 2012 p. 186).

Net Present Value (NPV)	<i>Airport A</i>	<i>Airport B</i>	<i>Airport C</i>
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	<i>Cash flow</i>	<i>Cash flow</i>	<i>Cash flow</i>
Year 0	\$ -150.000,00	\$ -150.000,00	\$ -150.000,00
Year 1	\$ 155.000,00	\$ 120.000,00	\$ 50.000,00
Year 2	\$ 155.000,00	\$ 120.000,00	\$ 50.000,00
Year 3	\$ 155.000,00	\$ 120.000,00	\$ 50.000,00
	\$ 372.283,85	\$ 288.219,75	\$ 120.091,56
NPV	\$ 222.283,85	\$ 138.219,75	\$ -29.908,44

Table 7: NPV for the different airports

According to Pauline Weetman (2010), if a project has a positive NPV, management should accept the project. If multiple projects have a positive NPV, then choose the one with the highest NPV, in this case Airport A. Based on the table above, Spa A seems to be the most solid investment. Spa B also indicates a positive NPV and is therefore a profitable investment, assuming all of the provided data is accurate.

Internal Rate of Return (IRR)

“The internal rate of return (**IRR**) is generally considered inferior to the net present value (**NPV**) as a tool for evaluating and ranking projects, despite its inherently useful comparability to the cost of capital and the return of other investment opportunities” (Weber 2014 p. 25).

Internal Rate of Return	
Spa A	88%
Spa B	61%
Spa C	0%

Table 7 IRR per Spa

Zest Spa has not provided the researcher with a target internal rate of return and therefore these figures are more or less useless in terms of decision making. However, it does provide insights into the profitability of the investment options. Based on these figures it would be best to progress on Spa A and or Spa B. The internal rate of return indicates that both Spa A and Spa B will be profitable in the long term, lessened with the cost of capital during the three initial operating years.

5. CONCLUSION AND RECOMMENDATION

The project should also be evaluated in light of the external and internal business context factors. The revenue of the project, which is the most critical factor for the projects is affected by the number of individuals using air travel. The target customers are also those on ‘transit’. Tourism demand is affected by a wide array of factors, such as climate of the country (Goh, 2012). Tourism demand is also negatively affected by political unrest and economic recession (Narayan, 2004). Such factors are outside the control of Zest Spa and can negatively affect the financial wealth derived from the project.

Internal factors are more within the control of the organisation. The literature suggests that quality is a key factor for the success of a product or service. This is especially the case for services that lack tangibility (Dibb et al., 2012). Thus it is important that skilled employees are engaged who are able

to provide good Zest Spa treatments. There is the need to look at the market situation in relation to competition. Other risks elements to be considered include the institutional risks elements, for instance the issue of employee resistance to change as a; matching new projects with existing portfolio could be problematic as internal weaknesses could be exposed. It is also important that appropriate equipment is acquired by the organisation to provide good quality (Russell and Taylor, 2011). Cost efficiency should also be maintained in the firm's operations in order to limit costs. The literature suggested that budgeting and variance analysis are effective tools to identify inefficiencies (Atrill and McLaney, 2012). It is important that budgets are guided by the strategic plan of the project and these are not mixed together. Indeed, the long term aims of the project should be the guideline for the budgets set (Johnson et al., 2005). The project has to have the capacity to add value to the shareholders in line with the objective of wealth maximisation.

According to research, conducted by KPMG, Delhi airport's passenger throughput has declined, conversely though, the amount of passengers in transit at this particular airport is increasing (Business Standard New Dehli 2014). Furthermore, Greater Pacific Capital, an investment institution discovered that the amount of international passengers, departing from or landing at Indian airports will increase to 90 million passengers in 2020, coming from 14 million passengers in 2000 (GPC 2012).

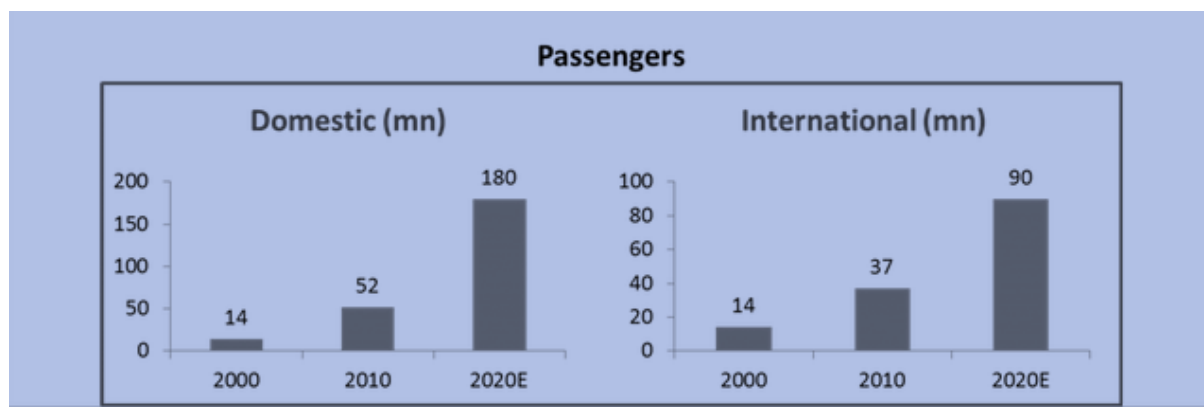


Figure 1 Forecasted growth in Indian aviation 2000-2020
(Source: www.Greaterpacificcapital.com)

Equally important is, that, according to the Financial Times (2007), more and more internationally operating carriers are securing flight routes from and to Bangalore. International business travel is responsible for “one third of the growth in global trade over the last decade” (Beaverstock and Budd 2013 p. 1). India's economy is booming (The Economist 2014) and therefore, India will play a bigger role in the world economy and consequently, business travel.

Resources, both in terms of money and in terms of people, are vital for Zest Spa's success. The budget available to Zest Spa., also, the human resources of the company should be taken into consideration. The researcher assumes that Zest Spa has enough in-house knowledge, motivation and capacity to open a new spa. Equally important, the researcher assumes that Zest Spa's budget allows the company to open one, or even two new spas. The company should be willing to invest time, money and manpower in new projects.

5.1 Net Present Value Sensitivity Analysis

The data provided to the researcher is based on reasonable assumptions, consequently, the investment appraisal tools, even though used correct, might not be veracious. Therefore the researcher will test the NPV's sensitivity by manipulating sales figures, the WACC and the price in order to provide the investors with a rather negative scenario and a positive scenario. The figures showed in this document so far, were all based on the data provided and therefore indicate a neutral scenario.

Zest Spa A

1. In order to achieve an NPV of 0, the project's costs should be \$222.283,85 higher than projected, which equals 148%.
2. The Cost of Capital (WACC) should be around 87,5% to achieve an NPV of \$0.
3. The average amount of sales per week should drop by 62,8% in order to achieve an NPV of \$0.
4. The average treatment price should drop by 25% to 26% to achieve an NPV of \$0.

The figures above indicate that the initial investment should be 148% above projected in order to achieve a zero NPV. Therefore, it can be stated that this is a solid investment that does not carry a huge amount of risk. It is also stated that the average amount of sales should drop 62,8% to obtain a zero NPV. Based on the assumption that the sales forecast was more or less correct, this does not pose a threat. It is safe to say that Spa A has the best projections.

Zest Spa B

1. In order to achieve an NPV of 0, the project's costs should be \$138.219,75 higher than projected, which equals 92%.
2. The Cost of Capital (WACC) should be around 61% to achieve an NPV of \$0.
3. The average amount of sales per week should drop to 27,3% in order to achieve an NPV of \$0.
4. The average treatment price should drop by 19% to achieve an NPV of \$0.

The figures above indicate that the initial investment should be 92% above projected in order to achieve a zero NPV. Therefore, it can be stated that this is a solid investment that does not carry a huge amount of risk. It is also stated that the average amount of sales should drop 27,3% to obtain a zero NPV. Based on the assumption that the sales forecast was more or less correct, this does not pose a threat. It is safe to say that Spa B has profitable projections, while not carrying too much risk.

Zest Spa C

Spa C has proven not to be profitable nor risk averse. Based on the figures in the analysis in this report, it is safe to say that Spa C is a very risky investment.

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