

Principles of Business Information Systems

Hands-on activities – Chapter 11

1. Feasibility Analysis

A key step of the systems investigation phase is the feasibility analysis, which accesses technical, economic, legal, operational, and schedule feasibility. Schedule feasibility determines whether the project can be completed in a reasonable amount of time – a process that involves balancing the time and resource requirements of the project with other projects. Net present value is the preferred approach for ranking competing projects and for determining economic feasibility. Net present value represents the net amount by which project savings exceed project expenses, after allowing for the cost of capital and the passage of time. The cost of capital is the average cost of funds used to finance the operations of the business.

For example: You will make €20,000 for completing a project that will take 3 years to complete. What would be the value of this future payment of €20,000 today?

Use Microsoft Excel to create a spreadsheet using the Net Present Value function. The Net Present Value function requires the percentage rate, initial investment cost, and return over the years. Compute the net present value if you purchase equipment that costs €15,000 today. What will be the value of the equipment in Year 2, Year 3, Year 4, Year 5, etc? At what point will the equipment have no monetary value?

1. Open Microsoft Excel.
2. Search for help on 'Net Present Value' in Excel's help feature.
3. Click on Net Present Value Calculator (Templates > Calculators) (You need to have Internet access)
4. Scroll to the bottom of the screen, click on Page 2 (the calculator you need is on the second page of the calculators)
5. Scroll until you see the Net Present Value calculator.
6. Click on Net Present Value Calculator link.
7. Click on the Download Now button.
8. You can change the initial value of the equipment to any number.
9. You will see when the amounts in the Spreadsheet change to 0, the equipment has no value.