



Technology Training that Works

Practical Financial Fundamentals & Project Investment Decision Making

Contents

1	Engineers, technicians and financial management	1
1.1	Introduction	1
1.2	The history of project finance	2
1.3	The aim of this course	3
2	Financial statements	5
2.1	Introduction	5
2.2	Costs and benefits	6
2.3	Recording of financial information	7
2.4	Basic concepts of accounting	8
2.5	Balance sheet	10
2.6	The income statement	18
2.7	The cash flow statement	21
3	Ratio analysis	25
3.1	The concept and application of ratios	25
3.2	Liquidity ratios	27
3.3	Leverage (gearing) ratios	28
3.4	Activity ratios	31
3.5	Profitability ratios	34
3.6	Investment ratios	36
3.7	Du Pont system of financial analysis	38
3.8	Conclusion	40
4	Investment decisions and profitability	41
4.1	Introduction	41
5	Economic considerations	45
5.1	Introduction	45
5.2	Supply and demand	47
5.3	Macro economics	57



Technology Training that Works

6	Cost estimation	71
6.1	Determining prime costs	71
6.2	Overhead allocation	74
6.3	Elements of overhead	75
6.4	Classification and collection of overhead	76
6.5	Overhead absorption	88
6.6	Methods of absorption	93
6.7	Labor allocation	95
6.8	Labor cost distribution	99
6.9	Costing principles	99
6.10	Job costing	100
6.11	Routines under job costing	100
6.12	Process costing	104
6.13	Activity based costing	108
6.14	Basic elements of ABC	109
6.15	Activity based costing	112
6.16	Backflush costing	114
6.17	Lifecycle costing	114
6.18	LCC calculation	115
6.19	Advantages of lifecycle costing	115
6.20	Marginal costing	116
6.21	Cost estimation	118
7	Cash flow concepts	129
7.1	Introduction	129
7.2	Cash flow for an industrial operation	129
7.3	Determination of depreciation allowances	134
7.4	Depreciation methods	135
7.5	Benefits of preparing a cash flow forecast	139
7.6	Cash budgeting	140
7.7	Determination of the cash flow related to a project	141
7.8	Undiscounted vs. discounted cumulative cash flows	145



Technology Training that Works

8	The time value of money and related concepts	147
8.1	Introduction	147
8.2	Basics concepts	148
8.3	The use of tables	164
8.4	The use of spreadsheets	167
9	Ranking of investment proposals	171
9.1	Introduction	171
9.2	Economic analysis process	172
9.3	Methods for ranking investment proposals	174
10	Capital management	187
10.1	Introduction	187
10.2	The capital management process	188
10.3	Profitability and rate-of-return	189
10.4	Capital rationing	189
11	The effects of inflation	193
11.1	Introduction	193
11.2	Effects of inflation in investments	194
11.3	Effects of inflation in economic evaluations	195
11.4	Inflation and net present value	195
12	Risk and uncertainties in economic evaluation	199
12.1	Introduction	199
12.2	Sensitivity analysis	200
12.3	Probabilistic sensitivity analysis	203



Technology Training that Works

Appendix A: Compounding and discounting tables	209
Appendix B: Depreciation schedules	231
Appendix C: Questions	235
Appendix D: Answers	245