



CAREER CLUSTER

Finance

CAREER PATHWAY

Corporate Finance

INSTRUCTIONAL AREA

Financial Analysis

BUSINESS FINANCE SERIES EVENT

PARTICIPANT INSTRUCTIONS

PROCEDURES

1. The event will be presented to you through your reading of these instructions, including the Performance Indicators and Event Situation. You will have up to 10 minutes to review this information to determine how you will handle the role-play situation and demonstrate the performance indicators of this event. During the preparation period, you may make notes to use during the role-play situation.
2. You will have up to 10 minutes to role-play your situation with a judge (you may have more than one judge).
3. You will be evaluated on how well you meet the performance indicators of this event.
4. Turn in all your notes and event materials when you have completed the role-play.

PERFORMANCE INDICATORS

1. Explain the nature of costing procedures
2. Discuss the nature of depreciation
3. Explain the time value of money
4. Explain the principles of data analysis
5. Make capital expenditure decisions

EVENT SITUATION

You are to assume the role of TREASURER at POINT PEN INC., a manufacturer of writing instruments. Mr./Ms. Hicken, the President (judge), has asked you to recommend whether the company should buy or lease production machinery to update the manufacturing facility.

Point Pen Inc. is a manufacturer and marketer of high quality writing instruments. Marketed under the brand name OnPoint, the company produces a complete line of pens and pencils. Sales revenue has been steadily increasing but the company has found that it has inadequate production capacity to meet the growing demand. Production engineers report that some machinery is subject to frequent breakdowns and is terribly out of date and needs to be replaced soon. The president (judge) has given approval to replace the obsolete machinery to increase production capacity.

The company can purchase the needed machinery at a cost of \$63,000, borrowing money over a five year period. The principle and interest payment will be \$14,450 per year. The machinery has a salvage value of \$18,000 and Point Pen Inc. will be able to depreciate the remainder over a five year useful life. Yearly maintenance costs are budgeted to be \$1900 a year.

Leasing the same machinery would cost Point Pen Inc. \$14,000 for each of the next five years. Lease payments would come from the company cash reserves; no financing will be necessary. Point Pen Inc. will have the option to purchase the machinery at a cost of \$12,000 at the end of the five year period.

The president (judge) has requested a meeting with you to obtain your analysis and recommendation regarding whether to buy or lease the machinery. Specifically:

- The five year costs associated with buying vs. leasing the machinery.
- The risks to Point Pen Inc. of buying vs. leasing.
- Do you recommend buying or leasing the machinery?

You will present your analysis to the president (judge) in a meeting to take place in the president's office. Mr./Ms. Hicken will begin the meeting by greeting you and asking to hear your ideas. After you have presented your analysis and have answered the president's questions, the president will conclude the meeting by thanking you for your work.

JUDGE'S INSTRUCTIONS

DIRECTIONS, PROCEDURES AND JUDGE'S ROLE

In preparation for this event, you should review the following information with your event manager and other judges:

1. Procedures
2. Performance Indicators
3. Event Situation
4. Judge Role-play Characterization
Participants may conduct a slightly different type of meeting and/or discussion with you each time; however, it is important that the information you provide and the questions you ask be uniform for every participant.
5. Judge's Evaluation Instructions
6. Judge's Evaluation Form
Please use a critical and consistent eye in rating each participant.

JUDGE ROLE-PLAY CHARACTERIZATION

You are to assume the role of PRESIDENT of POINT PEN INC., a manufacturer of writing instruments. You have asked your Treasurer (student) to recommend whether the company should buy or lease production machinery.

Point Pen Inc. is a manufacturer and marketer of high quality writing instruments. Marketed under the brand name OnPoint, the company produces a complete line of pens and pencils.

Sales revenue has been steadily increasing but the company has found that it has inadequate production capacity to meet the growing demand. Production engineers report that some machinery is subject to frequent breakdowns and is terribly out of date and needs to be replaced soon. You have given approval to replace the obsolete machinery to increase production capacity.

The company can purchase the needed machinery at a cost of \$63,000, borrowing money at 5% over a five year period. The loan would be paid back at \$14,450 per year. The machinery has a salvage value of \$18,000 and Point Pen Inc. will be able to depreciate the remainder over a five year useful life. Yearly maintenance costs are budgeted to be \$1900 a year.

Leasing the same machinery would cost Point Pen Inc. \$14,000 for each of the next five years. Lease payments would come from the company cash reserves; no financing will be necessary.

Point Pen Inc. will have the option to purchase the machinery at a cost of \$12,000 at the end of the five year period.

You have requested a meeting with the treasurer (participant) to obtain an analysis and recommendation regarding whether to buy or lease the machinery. Specifically:

- The five year costs associated with buying vs. leasing the machinery.
- The risks to Point Pen Inc. of buying vs. leasing.
- Do you recommend buying or leasing the machinery?

(Possible solutions on next page)

The treasurer (participant) will present the analysis to you in a meeting to take place in your office. You will begin the role play by greeting the treasurer and asking to hear about his/her ideas.

Judge Questions/Possible Solutions

During the course of the meeting you are to ask the following questions of each participant:

1. How do interest rates impact a business's decision to spend money on capital investment?

Possible Solution: Students should reflect the lower interest rates will allow businesses to borrow without as much additional expenses; whereas, the business could invest the money into other investments/accounts over the course of the loan. If a business has the ability to purchase equipment without obtaining a loan there will be cost savings (in this example \$9,250 of interest expense)

2. How would you respond to employee criticism that the latest state of the art production machinery only serves to take away jobs?

Possible Solution: New technology will improve production and allow the business to re-allocate staffing into different roles/positions. The goal of implementing new machinery is NOT to replace or eliminate jobs; rather, to expand the business opportunities.

Once the treasurer (participant) has presented and has answered your questions, you will conclude the meeting by thanking them for the work.

You are not to make any comments after the event is over except to thank the participant.

Possible Solutions:

Buying Machinery

Interest Expense:

- \$14,450 annual payment x 5 years = \$72,250 Principal and Interest
- \$72,250-\$63,000 principal = \$9,250 Interest Expense

Five Year Depreciation Expense

- \$63,000-\$18,000 Salvage Value = \$45,000 Depreciation Expense

Five Year Maintenance Costs

- \$1,900 x 5 Years = \$9,500

Costs of Buying Machinery

Cost of Machinery	\$63,000
Interest Expense	\$9,250
Maintenance Costs	<u>\$9,500</u>
TOTAL COSTS	\$81,750

Leasing the Machinery

\$14,000 x 5 Years =	\$70,000
Option to purchase at the end of lease =	<u>\$12,000</u>
TOTAL COSTS	\$82,000

Impact on Taxes: (Some advanced participants may address the tax issue)

Point Pen Inc. taxable earnings and taxes paid would be reduced annually by interest expense, depreciation expense, and maintenance expense if the machinery is bought. If the leasing option is selected, lease expense would reduce taxable earnings and taxes paid.

JUDGE'S EVALUATION INSTRUCTIONS

Evaluation Form Information

The participants are to be evaluated on their ability to perform the specific performance indicators stated on the cover sheet of this event and restated on the Judge's Evaluation Form. Although you may see other performance indicators being demonstrated by the participants, those listed in the Performance Indicators section are the critical ones you are measuring for this particular event.

Evaluation Form Interpretation

The evaluation levels listed below and the evaluation rating procedures should be discussed thoroughly with your event chairperson and the other judges to ensure complete and common understanding for judging consistency.

Level of Evaluation	Interpretation Level
Exceeds Expectations	Participant demonstrated the performance indicator in an extremely professional manner; greatly exceeds business standards; would rank in the top 10% of business personnel performing this performance indicator.
Meets Expectations	Participant demonstrated the performance indicator in an acceptable and effective manner; meets at least minimal business standards; there would be no need for additional formalized training at this time; would rank in the 70-89 th percentile of business personnel performing this performance indicator.
Below Expectations	Participant demonstrated the performance indicator with limited effectiveness; performance generally fell below minimal business standards; additional training would be required to improve knowledge, attitude and/or skills; would rank in the 50-69 th percentile of business personnel performing this performance indicator.
Little/No Value	Participant demonstrated the performance indicator with little or no effectiveness; a great deal of formal training would be needed immediately; perhaps this person should seek other employment; would rank in the 0-49 th percentile of business personnel performing this performance indicator.



BUSINESS FINANCE, 2017

Participant: _____

JUDGE'S EVALUATION FORM
DISTRICT EVENT

I.D. Number: _____

INSTRUCTIONAL AREA: FINANCIAL ANALYSIS

Did the participant:

		Little/No Value	Below Expectations	Meets Expectations	Exceeds Expectations	Judged Score
PERFORMANCE INDICATORS						
1.	Explain the nature of costing procedures	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
2.	Discuss the nature of depreciation	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
3.	Discuss the financial planning process	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
4.	Discuss the relationship between risk management and business finance	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
5.	Make capital expenditure decisions	0-1-2-3-4	5-6-7-8	9-10-11	12-13-14	
21st CENTURY SKILLS						
6.	Reason effectively and use systems thinking?	0-1	2-3	4	5-6	
7.	Make judgments and decisions, and solve problems?	0-1	2-3	4	5-6	
8.	Communicate clearly?	0-1	2-3	4	5-6	
9.	Show evidence of creativity?	0-1	2-3	4	5-6	
10.	Overall impression and responses to the judge's questions	0-1	2-3	4	5-6	
TOTAL SCORE						