



## Riordan Manufacturing, Inc. Capital Budget Executive Summary FY 2005

### Financial Reporting Systems

As discussed in the Finance and Accounting section of the Riordan Intranet site, the financial reporting systems need a complete overhaul. Extensive research has revealed a state-of-the-art system that will resolve many of the issues discussed. The remaining issues will be resolved with internal policy changes and additional training.

The cost of this system is \$1,350,000. Riordan's CFO has agreed to make two cash payments of \$250,000 each in January and April. The remaining amount will be financed through the bank at an annual interest rate of 8%. The loan will be for a term of 60 months beginning on May 1<sup>st</sup> of 2005. The CFO has incorporated the \$250,000 payments into the cash flow forecast but has not had time to build in the interest expense to the financial forecasts.

### Manufacturing Equipment

The VP of Manufacturing has submitted a capital budget calling for \$1 million of new manufacturing equipment and supplies. He estimates that this equipment will result in annual operating savings of \$250,000 over the next six years. The equipment will be depreciated on a straight-line basis for internal reporting purposes. This project has not been incorporated into the company's financials at this time. The VP would like to place the equipment in service on June 30<sup>th</sup> of this year.

### Miscellaneous Capital Items

The CFO has placed \$350,000 into the cash budget as an outflow in July to cover other capital items that may be required.

### Cost of Capital

Riordan Manufacturing's holding company, Riordan Industries, is willing to fund projects as long as their hurdle rate of 12% is met or exceeded and a positive net present value can be

demonstrated. The CFO will propose that the manufacturing equipment discussed above be funded through Riordan Industries.