

UNIVERSITI TEKNOLOGI MARA



**‘A REPORT ON THE PROPOSAL FOR USING CAPITAL
BUDGETING TO STUDY THE PERFORMANCE OF DIGICITY (M)
SDN.BHD’**

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Dear Madam

**A REPORT ON THE PROPOSAL FOR USING CAPITAL BUDGETING TO
STUDY THE PERFORMANCE OF DIGICITY (M) SDN.BHD'**

Attached is the project paper title: A REPORT ON THE PROPOSAL FOR USING CAPITAL BUDGETING TO STUDY THE PERFORMANCE OF DIGICITY (M) SDN.BHD' to fulfill the requirement as needed by the Faculty of Business Management, University Technology MARA

I hereby submit the report to hope that everything satisfactory.

Yours Faithfully

Noor Maslidaini Mohammad

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Bachelor of Business Administration (Hons) Finance.

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Abstract

Capital budgeting is a very useful managerial tool that financial analysts can use to support business making by using, thorough, contextual information about a potential capital investments. In his/her duty as a financial manager he/she is to choose investments with satisfactory cash flows and rates of return. Therefore, a financial manager must be able to decide whether an investment is worth undertaking and be able to choose intelligently between two or more alternatives. The focus of this study is to propose the usage of capital budgeting approaches to evaluate the performance of a company being studied i.e. DiGiCity (M) Sdn Bhd in term of its profit or loss. It uses two different methods namely, Net Present Value and Internal Rate of Return which had been widely accepted as accurate methods. For the purpose of the study, the researcher evaluate one of the project that the company has undertaken that lasted four years with a company called Formates Sdn Bhd from 2004 to 2008. Based on the data available the capital budgeting methods was used to calculate the NPV and IRR. Then for the same project, the researcher made a comparison of the profit margin obtained by using cost evaluation method. At the end of the study the advantages and disadvantages of the capital budgeting method was discussed, and the researcher believed that the usage of capital budgeting method would be a very useful decision making tool for a medium size company like DiGiCITY in carrying out its business.

1.0 Background of the study

The focus of this study is to propose the usage of capital budgeting approaches to evaluate the performance of a company in term of its profit or loss. The evaluation will be using two different methods namely, Net Present Value and Internal Rate of Return which had been widely accepted as accurate methods. For the purpose of the study, the researcher evaluate one of the project that the company has undertaken that lasted four years with a company called Formates Sdn Bhd from 2004 to 2008. Based on the data available, the capital budgeting methods was used to calculate the NPV and IRR. Then for the same project, the researcher made a comparison of the profit margin obtained by using cost evaluation method. At the end of the study the advantages and disadvantages of the capital budgeting method was discussed, before making some recommendations.

1.1 DIGICITY COMPANY PROFILE

1.1.2 Background of company.

DiGiCITY (M) Sdn Bhd was established on 10 May 1996 by En. Rozman Bin Hussin and Cik Norlidah Bt. Hussin, with an initial paid up capital of RM 2.00. In May 1997, the paid up capital was increased to RM 30,000.00 and later on was further increased to RM 100,000.00 in October 1997. Spurred by the encouraging development of its business, in September 2003 its paid up capital was further increased to RM 1 million and then to RM 1.5 million in September 2006.

The core business of the company is providing services in the field of ICT and its related activities. Based on its extensive experience in computer and ICT business, the