

Capital Budgeting Analysis to Assess the Karaoke Business Feasibility

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(Received: March-2019; Reviewed: April-2019; Accepted: Juny-2019;

Avalaibel Online: September-2019; Published: September -2019)



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ABSTRACT

One form of entertainment that is currently being developed and in demand by the people of Jakarta and its surroundings is karaoke. This study aims to determine the results of the investment assessment of Karaoke Taxi using Capital Budgeting techniques in knowing the level of investment feasibility. The results of calculations with the Net Present Value method value of Rp. 92,061,946,333 with an initial capital of Rp. 80,000,000,000. While based on the feasibility analysis using the Profitability Index, the Karaoke Taxi business project got a value of 2.15, this result exceeds the number 1. Based on the feasibility analysis using the Internal Rate of Return a value of 40.18 percent was obtained. For the feasibility analysis using the Discounted Payback Period, the result of the Karaoke Taxi business project will return in the year 3,872, the return of investment is faster than required by the company (4 years).

Keywords: Capital budgeting; investment feasibility; karaoke taxi business

INTRODUCTION

Jakarta, the capital of Indonesia, is the most populous city in Indonesia. So that many people in Jakarta feel bored with their busy daily routine and need entertainment. This is an opportunity to build a different entertainment place business in Jakarta. One form of entertainment that is currently developing and attracting people in Jakarta and its surroundings is karaoke. In some big cities, karaoke business began to emerge, both ordinary class and premium class (Rismayanti, 2017; Waryuni, Widyanti, & Aslie, 2016).

In connection with the problem of population density, Jakarta city traffic is also increasingly congested every year, so that people are quite reluctant to travel to places of entertainment far from where they live. But for commuters who are active in Jakarta every day, with the ineffectiveness of public transportation and other infrastructure facilities provided by the government, congestion is something that must be dealt with (Aloisius de Rozari & Yudi Hari Wibowo, 2015; Tahir, 2005; Tamin, 2000). Business opportunities to take advantage of congestion in Jakarta and surrounding areas by using the entertainment business (Sunarsi, Kustini, Lutfi, Fauzi, & Noryani, 2019)(Hariyono, Akib, & Rifdan, 2018; Ismail, Sular, Akib, & Salam, 2016; Rengifurwarin, Akib, & Salam, 2018; Saggaf, Akib, Salam, Baharuddin, & Kasmita, 2018; Wenda & Akib, 2015).

Financial statements are the results of the accounting process that can be used as a communication tool between financial data or activities of a company with interested parties who use the company's data or activities (Harahap, 2009, 2011; Kasmir, 2014; Munawir, 2010; Siegrist & Chambaz, 2012). These interested parties can be in the form of company management, company owners, creditors, investors, employees, government agencies and the general public.

A balance sheet is a financial statement that illustrates a company's financial condition at a certain time (Ericko, Santoso, & Setiawan, 2018; Hery, 2014). In reality, it could have been changed one day after the company's financial condition was prepared. The balance sheet is a report on the assets, liabilities, and equity of a company at a certain time, where the composition of assets in the balance sheet is arranged based on liquidity, while the preparation of liabilities in the balance sheet is arranged based on the maturity period. The statement of financial position must be balanced between total assets and the combined total of liabilities and equity (Bastian, 2019; Romney, 2013; Tjhen, Saleh, & Stinjak, 2012).

The income statement is a summary of the company's profitability over a certain period of time, which shows the income earned, costs incurred and other elements forming profit in a certain time period (Mahatmyo, 2014; Mulyadi, 2016; Sawitri & Arief Bachtiar, 2014). This report reflects the difference between income and costs so as to produce a net profit or loss of the company. For investors, the profit information can be used as a basis for assessing the rate of return on investment (return on investment - ROI), or how much income will be obtained from each share purchased by investors. But the income statement cannot describe the company's financial trends in the future, for this reason, it is necessary to compare the reports several years earlier in a sequential manner.

METHOD

Descriptive method research, allows researchers to make relationships between variables, test hypotheses, develop generalizations, and develop theories that have universal validity. The focus of research makes it easier for researchers to make clear and precise decisions regarding the data and information obtained and collected for further analysis. The focus of research in this study is: calculations using the Capital technique bBudgeting consisting of Net Present Value (NPV), Profitability Index (PI), Internal Rate of Return (IRR), and Discounted Payback Period

RESULT AND DISCUSSION

Capital Budgeting is an evaluation, selection, and determination of investment which is expected to provide results for a company in a period of more than one year

Net Present Value

Table 1.
Net Present Value

	Free Cash Flow	Present Value Faktor at 10%	Present Value
Year 1	Rp 25,597,989,977.09	0.909090909	Rp 23,270,899,979.17
Year 2	Rp 7,496,589,488.63	0.826446281	Rp 6,195,528,503.00
Year 3	Rp 49,294,802,823.44	0.751314801	Rp 37,035,914,968.77
Year 4	Rp 154,549,814,579.58	0.683013455	Rp 105,559,602,882.03
	Present value of free cash flow		Rp 172,061,946,332.98
	Initial outlay		Rp 80,000,000,000.00
	Net present value		Rp 92,061,946,332.98

In making Net Present Value, several assumptions are used, namely: 1) The required rate of return that I use is 10% because it refers to the inflation rate of the Indonesian economy every year which is in the range of 7 to 10 percent. 2) Free cash flow data obtained from forecasting sales for 4 years, 3) Initial Outlay is Rp. 80,000,000,000 is equal to capital derived from company equity.

Based on the assumptions above, the results obtained that with an initial capital of Rp. 80,000,000,000 for 4 years, the company was able to produce a Net Present Value of Rp. 92,061,946,333. Because the results are positive, then based on Net Present Value, this business project is feasible to run.

Profitability Index

Table 2.
Profitability Index

	Free Cash Flow	Present Value Faktor at 10%	Present Value
Year 1	Rp 25,597,989,977.09	0.909090909	Rp 23,270,899,979.17
Year 2	Rp 7,496,589,488.63	0.826446281	Rp 6,195,528,503.00
Year 3	Rp 49,294,802,823.44	0.751314801	Rp 37,035,914,968.77
Year 4	Rp 154,549,814,579.58	0.683013455	Rp 105,559,602,882.03
	Present value of free cash flow		Rp 172,061,946,332.98
	Initial outlay		Rp 80,000,000,000.00
	Profitability Index		2.150774329

In making the Profitability Index, several assumptions are used, namely: 1) The required rate of return that I use is 10% because it refers to the inflation rate of the Indonesian economy every year in the range of 7 to 10 percent, 2) Free cash flow data obtained from forecasting sales during 4 years, and 3) Initial Outlay is Rp. 80,000,000,000 is equal to capital derived from company equity.

Based on the assumptions above, the results for the profitability index of the Karaoke Taxi company are 2.15 because the results are greater than 1, so according to the profitability index calculation, the project to build a Karaoke Taxi company is feasible to run.

Internal Rate of Return

Table 3.
 Internal Rate of Return

	Free cash flow	Present value factor at 38%	Present value
Year 1	Rp 25,597,989,977.09	0.724637681	Rp 18,549,268,099.34
Year 2	Rp 7,496,589,488.63	0.525099769	Rp 3,936,457,408.44
Year 3	Rp 49,294,802,823.44	0.380507079	Rp 18,757,021,429.95
Year 4	Rp 154,549,814,579.58	0.275729767	Rp 42,613,984,419.21
	Present value of free cash flow		Rp 83,856,731,356.94
	Initial outlay		Rp 80,000,000,000.00

	Free cash flow	Present value factor at 42%	Present value
Year 1	Rp 25,597,989,977.09	0.704225352	Rp 18,026,753,504.99
Year 2	Rp 7,496,589,488.63	0.495933347	Rp 3,717,808,712.87
Year 3	Rp 49,294,802,823.44	0.349248836	Rp 17,216,152,487.43
Year 4	Rp 154,549,814,579.58	0.245949884	Rp 38,011,509,003.37
	Present value of free cash flow		Rp 76,972,223,708.67
	Initial outlay		Rp 80,000,000,000.00

Discount rate	Present Value		
42%	Rp 76,972,223,708.67	Difference Rp 3,027,776,291	difference Rp. 6,884,507,648
IRR	Rp 80,000,000,000.00		
38%	Rp 83,856,731,356.94		

$$IRR = 38\% + (Rp\ 3,027,776,291 / Rp\ 6,884,507,648.27) \cdot 4\% = 40.18\%$$

In making Internal Rate of Return, several assumptions are used, namely: 1) Calculation using trial and error in the range of rates of 38 to 42 percent, 2) Free cash flow data obtained from forecasting sales for 4 years, and 3) Initial Outlay is Rp. 80,000,000,000 is equal to capital derived from company equity.

Based on the assumptions above, the results obtained for the Internal Rate of Return are 40.18% with an estimated interest rate in the range of 10%, then based on calculations using the Internal Rate of Return, the project for making a Karaoke Taxi business is feasible to run.

Discounted Payback Period

Table 4.
 Discounted Payback Period

	Undiscounted Free cash flows	PVIF 10%,n	Discounted Free cash flows	Comulative discounted Free cash flows
Year 0	Rp (80,000,000,000.00)	1.000	Rp (80,000,000,000.000)	Rp (80,000,000,000.000)
Year 1	Rp 25,597,989,977.09	0.909	Rp 23,268,572,889.176	Rp (56,731,427,110.824)
Year 2	Rp 7,496,589,488.63	0.826	Rp 6,192,182,917.608	Rp (50,539,244,193.216)
Year 3	Rp 49,294,802,823.44	0.751	Rp 37,020,396,920.403	Rp (13,518,847,272.813)
Year 4	Rp 154,549,814,579.58	0.683	Rp 105,557,523,357.853	Rp 92,038,676,085.040

$$\text{Discounted payback period} = 4 + \frac{Rp\ 13,518,847,273}{Rp\ 105,557,523,358} = \underline{\underline{3.872}}$$

In making Discounted Payback Period, several assumptions are used, namely: 1) Required rate of return that I use is 10% because it refers to the inflation rate of the Indonesian economy every year which is in the range of 7 to 10 percent, 2) Free cash flow data obtained from forecasting sales for 4 years, and 3) Initial Outlay is Rp. 80,000,000,000 is equal to capital derived from company equity.

The discounted payback period has made cash into present value. After that, the payback period is calculated so that this event is carried out in order to fix the weaknesses in the payback period. Based on calculations using the payback period, investments made by the Karaoke Taxi company will return in the year 3,872. The return of investment in the year 3,872 is considered good because the company is targeting the investment to return in the fourth year. This means that the project or business to establish a Karaoke Taxi company is feasible to run.

Based on an investment feasibility analysis using the Net present Value which has a value of Rp. 92,061,946,333, the Profitability Index has a value of 2.15, the Internal Rate of Return which has a value of 40.18 percent, and the Discounted Payback Period back in the year 3,872, all investment analyzes support that the project to run a Karaoke Taxi business is feasible to run.

CONCLUSION

Based on the feasibility analysis using Net present Value, with a required rate of return of 10%, the Karaoke Taxi company gets a value of Rp. 92,061,946,333 with an initial capital of Rp. 80,000,000,000. While based on the feasibility analysis using the Profitability Index, the Karaoke Taxi business project gets a value of 2.15, this result exceeds the number 1. Based on the feasibility analysis using the Internal Rate of Return, the value is 40.18 percent, the Internal Rate of Return is greater than the interest rate required by the company. For the feasibility analysis using the Discounted Payback Period, the result of the Karaoke Taxi business project will return in the year 3,872, the return of investment is faster than required by the company (4 years). The conclusion of all investment analysis tools above is, the effort in making the Karaoke Taxi business project is feasible to run.

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