Question 1.

Delrose Associates is a full service digital marketing agency. The company offers a blend of consultancy and creativity, resulting in fully managed, highly successful online marketing campaigns. Delrose has clients in a variety of sectors including consumer, corporate, commercial, retail and not-for-profit. Their main work is developing targeted campaigns to drive quality traffic to websites using highly cost-effective methods.

In 2007 the managing director of the company recognised the need for a new computer system. She carried out some research into three new systems and put together the financial information shown in Table 5.

(a) Explain what is meant by 'expected net cash flow'.

(b) Calculate the payback period for each system and state which system Delrose Associates should select.

(c) Explain one reason why Delrose used the payback method of investment appraisal in this case.

Table 5: Capital costs and expected net cash flows from three new computer systems

£000

Computer system	Capital cost	2007	2008	2009	2010	2011	2012	Total
System A	24,000	6,000	6,000	6,000	6,000	6,000	6,000	36,000
System B	37,000	8,000	8,000	9,000	9,000	6,000	6,000	46,000
System C	12,000	4,000	4,000	4,000	2,000	1,000	1,000	16,000