

## Bernard' Bugs

Mr Jones owns Bernard's Bugs, a retailer of high quality bugging devices. He is considering entering the surveillance camera market. He has two opportunities; First he could take over Colin's Cameras, an established business specializing in these types of cameras. The business is available for an investment of \$70,000. Second, he could set up his own camera shop. This is likely to be more risky and would require an initial investment of \$200,000.

Expected incomes from the two options are shown below;

| <b>All figures in \$</b> | <b>Set up own shop</b> | <b>Take over Colin's Cameras</b> |
|--------------------------|------------------------|----------------------------------|
| Year 1                   | -30,000                | 15,000                           |
| Year 2                   | -2,000                 | 18,000                           |
| Year 3                   | 76,000                 | 21,000                           |
| Year 4                   | 96,000                 | 24,000                           |
| Year 5                   | 150,000                | 30,000                           |

1. For each investment opportunity, using the information on expected incomes, calculate the
  - a. Payback period;
  - b. ARR.
2. Based on your calculations, and any other relevant factors, advise Bernard of the advantages and disadvantages of each investment opportunity.
3. Suggest qualitative factors that may influence Mr Jones' decision.