Identification of relevant cash flows in investment appraisal

Hland Plc has bought a land from Colombo for Rs.150Mn in 2010. This land has been revalued to Rs.180Mn in 2018. The revaluation surplus has been accounted properly.

The company is now evaluating a hotel project. Initial architectural drawings have been prepared and Rs.1.5Mn was paid to architecture. In addition, Rs1Mn was paid to the CMC for the approval. Then the company entered in to agreement with the architecture for the detail drawings and the agreed professional charge is Rs10Mn in which Rs2.5Mn was paid as an advance payment.

There was a protest by the local people for the development of a project in that area, therefore the company had to spend Rs.3Mn to get the local people agree with the hotel project. Further the company agreed to local people that they will develop a gym for the local people in future spending Rs.1.5Mn if the project continues.

The company has estimated that cost of the development of the hotel is Rs.300Mn. Annual income is estimated as Rs.120Mn. The annual operating cost of the hotel is Rs.105Mn which includes depreciation of Rs.15Mn and the allocated head office expenses of Rs.5Mn.

If the hotel project is not accepted by the BOD, there is buyer to purchase the land for Rs.200Mn.

You are required to identify relevant and irrelevant cash flows with the reasons.