



Institute for Management and
Business Research (IMBRE)
Universiti Utara Malaysia

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GEZ PETROL STATION: SPREADSHEET MODELLING FOR CAPITAL BUDGETING



Ku Nor Izah Ku Ismail, Wan Nordin Wan Hussin

This case was written by Ku Nor Izah Ku Ismail and Wan Nordin Wan Hussin, Universiti Utara Malaysia. It is intended to be used as the basis for class discussion rather than to illustrate either effective or ineffective handling of a management situation.

Disclaimer. This case is written solely for educational purposes and is not intended to represent successful or unsuccessful managerial decision making. The author/s may have disguised names, financial and other recognizable information to protect confidentiality.

Institute for Management and Business Research (IMBRE)
Universiti Utara Malaysia

Tel : +604 – 928 7607/7608/7609 | Fax: +604 – 928 7611

<http://www.imbre.uum.edu.my>

Abstract

Purpose – This case requires students to prepare a good financial model to find the net present value of the business and make a capital budgeting decision, using Excel spreadsheet. In order to prepare the capital budget, students need to prepare a cash flow statement by business segments. The financial model should be sufficiently flexible to allow various what if analysis to be performed. Students should be able to apply what if analysis tools in Excel such as Goal Seek and Data Tables.

Design/methodology/ approach - The operational and financial data are obtained from the owner of Baron Service Station. Other data are obtained through interviews with the area manager of GEZ Berhad and websites of the relevant institutions.

Findings – The case is suitable for Management Accounting, Financial Modelling, Integrated Case Study, Financial Management courses, both at the undergraduate and postgraduate levels, and Executive Development Programme on Entrepreneurship for business entrepreneurs and sole proprietors.

Value of the paper – This case is expected to enhance students' critical thinking and enable them to integrate IT in decision making decisions. This is one of the avenues where lecturers can integrate IT in teaching and learning, in line with the requirements of the accounting profession and Ministry of Education of Malaysia. Besides being able to design a financial model, students at the same time should be able to assume the role of a user and use the model in making business decisions.

Introduction

Mr Haris retired from the army in 2011 and was very motivated to venture into a business. It has been his interest to become a petrol service station dealer and planned to operate one in Selangor, one of the fast-growing states in Malaysia. He saw the potentials of the business upon gathering information about the industry and after several discussions with his good friend, who has been operating the station in the northern state of Malaysia. One of the dealership programmes that attracted him most is GEZ service station dealership. He was hoping that he would be appointed as a service station dealer under the concept of Company Owned Station (COS) concept, as he had no land and sufficient fund to finance the capital expenditure. With the retirement benefit that he received, he had sufficient fund to finance the DBS project. The project required a working capital of RM170,000 in the form of liquid assets such as savings and current account, fixed deposits, unit trust and shares traded on Bursa Malaysia. Other initial costs that he expected to incur would amount to RM30,000. Mr Haris required a 10% rate of return from the project. Successful applicants will be given an initial 5 year contract of dealership, and renewable after the initial contract. Despite being a stable business with increasing number of vehicles, often times petrol station operators faced the difficulty of sustaining the business, leading to the termination of the dealership license. Mr Haris was contemplating whether he should apply for the dealership and venture into the business.

Mr Haris sought the assistance of Mr Rizal, an accounting lecturer at a University nearby in making the decision. Mr Rizal was also an expert in building financial models, using spreadsheet programmes such

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- **04-928 7605 / 7609 (CDR Secretariat)**
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