EXPANSION EVALUATION

by First Name Last Name

Submission date: 27-Aug-2021 07:05PM (UTC+0700)
Submission ID: 1636810406
File name: 38603_EXPANSION_EVALUATION.docx (11.73K)
Word count: 1120
Character count: 6348

ZXY Expansion Evaluation

Name

Instructor's Name

Institution Name

Course

Date

Proposed Expansion

ZYX is a company that manufactures, markets, and sells food products, mainly the staples that have revealed a steady demand rating over the years. The company has recorded significant growth over the period it has been in operation based on the financial with an intended expansion project amounting to $7,000,000 on equipment that would help produce two new products and open a new production plant as part of the company's vision. The company would dispose of the equipment at $ 1,000,000 after the equipment lifetime of 10 years based on the expansion projection.

Evaluation On Reveneu

Financial analysis involves exploring the 10-years Pro-Forma income statement illustrating the estimated revenues for the two products and the corresponding corporate expenditures associated with producing the two product lines. From the financial statements, it is apparent that ZYX's product A would generate a constant amount of revenues over the period estimated at $ 3,900,000, from year 5 to year 10, with an anticipated revenue amount of $34,640,000. On the other hand, Product B would yield revenue from year 4, depicting a constant growth of the years, with expected total revenue of $ 22,200,000. Nonetheless, the total cost of goods has been on an upward trend over the years, illustrating a controlled increment resulting from an increase in some of the attributes associated with the cost of goods produced.

Evaluation on Cost of Goods Sold

From the proforma income statement, most of the factors in the cost of goods are constant costs, with others presenting a significant rise, such as the payroll expense assisted directly with the production process, explained by the growth in workers' salaries and corresponding hiring of new workers to help matching-up the production process. However, SQF FDA mandates illustrate a decline in year six from $90,000 to $30,000, which is a significant phenomenon in managing the expense attributed to product compliance with the FDA requirements. On the other hand, attributes such as Miscellaneous Equipment, building repairs, plant telephone remained constant throughout the ten years, with other significant COG expenses remaining constant after the first production year.

Evaluation of the Company Expenses and Net Income

The company expenses illustrate an oscillating amount with subsequent increases and declines, respectively, depending on the amount incurred as an expense by ZYX management and the production process. For instance, the third year depicted the highest expense amount of $658,777, influenced by a high cost of interest on debt that describes subsequent increase and decline over the years. However, most of the expenses remained constant over the years, such as the bank service charges, cellular phones, postage & delivery, employee food and beverages, and other costs. Nonetheless, the company made losses for the first three years. ZYX attained the break-even units and became profitable in the fourth year, after when the company recorded significant growth in profits to an aggregate of $ 17,339,027 in net profit at the end of ten years.

Investment Risks

The expansion process involves numerous forms of risks that would hinder the success of the expansion program. The primary risk entails the business risks attributed to instability and ineffective administration of financial losses. The second form of risk associated with the business expansion is the competitive risk attributed to unknown markets or aggressive competitors in a marketplace (Brigham & Houston, 2021). However, the ZYX expansion program has addressed the investment risk, for instance, by promoting the stability of the company, excellent financial position, and corresponding effective management. Besides, the company has been in operation for several years in the market, alleviating the risk associated with the unknown marketplace and aggressive competitors, which foster the attractiveness of implementing the suggested expansion programs.

Depreciation

Over the year, most of the fixed assets and other assets undergo a depreciation process marked by the loss of the fair value of the product. Tsamis and Liapis (2017) defined depreciation as the actual value decline for equipment and machinery throughout use, accounted for using different techniques employed by the respective company. Mainly, companies employ the straight-line depreciation technique while others adopt the MACRS technique in accounting for the depreciation of fixed assets. The primary difference between the depreciation techniques revolves around the amount incurred by a company as a tax deduction, where the MACRS method earns a more significant tax deduction on an asset at the early stages while still new. However, the deduction declines as the fixed asset/equipment gets older in the last lifetime. On one other hand, it is impossible to switch depreciation techniques, with the straight-line depreciation technique requiring that a company use the technique for all assets in the same class. Antoniuk and Zholnerchyk (2018) pointed out that most accountant prefers the straight-line depreciation technique because of the ease of use in determining the depreciation amount accounted for in the company's profit and loss statement.

In this case, the use of MARCS on depreciating the equipment is the better option in the asset evaluation. MARCS allows for the classification of equipment usage and efficiency while accounting for downtime hours and the corresponding effectiveness of the machine over a selected duration. Therefore, ZYX would benefit from MARCs technique of depreciation by enhancing the ability to evaluate the tax deduction in the company's long run.

Recommended Action

From evaluating the company's proforma income statement and considering different market conditions, ZYX management should pursue the expansion strategy to see the company investing in two new product lines and a different location. The rationale for the recommended action follows the apparent improvement in the company's revenues and profitability based on examining the corporate financial exploration. Notably, the income statement reflects a positive trend in the company's profitability, which supports the viability of the expansion program by ZYX to include two new food items, increasing the company's diversification in the marketplace. Besides, the company should apply the MARCS depreciation technique for the equipment purchased to help in revamped production, which although would have a higher tax deduction in the initial years, the amount of tax deduction would decline as the years progresses. Besides, the SQF FDA expenses attributed to compliance with the FDA requirement decreased with the production of the two food products, which is a good indicator toward employing the expansion program.

Work Cited

Antoniuk, V., & Zholnerchyk, H. (2018). The difference between Straight line method and Diminishing Balance method.

Brigham, E. F., & Houston, J. F. (2021). *Fundamentals of financial management: Concise*. Cengage Learning.

Kumar, V., Gaur, A. S., & Pattnaik, C. (2012). Product diversification and international expansion of business groups. *Management International Review*, *52*(2), 175-192.

Tsamis, A., & Liapis, K. J. (2017). Fair value and cost accounting, depreciation methods, recognition, and measurement for fixed assets.

EXPANSION EVALUATION

ORIGINALITY REPORT

2%	1%	0%	1%
SIMILARITY INDEX	INTERNET SOURCES	PUBLICATIONS	STUDENT PAPERS

PRIMARY SOURCES

1	Submitted to The Art Institute Online Student Paper	1%
2	www.coursehero.com Internet Source	1%

Exclude quotes	Off	Exclude matches	Off
Exclude bibliography	On		