Free business plan on strategic risk

Business, Company

Business Plan

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- Risk Profile of the Company

Business risk:

Risk is an element which is always present in the business which ultimately results in loss of company's investment. This is a risk of exposure in the bottom lines of business. However, there are certain risks that found in business which are categorized under the following captions. There is a chance that ABC Company will have a significant amount of association of the business based risk. This particular risk is all about inventory management which is used in making cedar roofing and siding shingles. It may happen that, the company will not become able to utilize all of the raw materials accordingly which may become a significant problem for the company in their near future.

Direct results of strategic risk are usually lies in the operations of business within the industry at a definite time. Therefore, the transfer process of consumer preferences and emerging technologies to make the business products and services outdated, or other intense market forces, drag the business in risk. To offset the strategic risk, the business implement measures in place, constantly listening to feedback so that early detection of changes would be analyzed.

Significant risk is one of the most important risks from the standpoint of ABC Company, because the company has to adhere with the standards of consumers in order to become fragile and active in the industry. Obviously, companies which are more towards customer’s orientation are more productive and worthwhile as compared to those which have no or little attention towards the same. ABC Company will encounter such problems and risk during their move in the initial years but later on, they will cover these issues accordingly.

Adhering risk:

Risks that are affiliated with adhering are mainly connected with state laws or rules and regulation set by bureaucracy. In addition, this form of risk can also be associated for investment purposes related best practices. Adherence with the given standards of tax and other important provisions are extremely important for an organization while entering in a specific region. ABC Company has to comply with all of the given standards including the laws of taxation and other business based laws in order to decrease down the effects of such risk with the company.

Financial risk:

Financial risk refers to the stance of business to deal with their business funds. This will divulge that which customer that company has a firm trust to extend credit limit and extension in payback period. How much load of liabilities is held by business or couple of customers to whom the business has worked with but they are unable to pay? Interest rates can be also taken into the account of accounting risk.

Financial Risk is the most significant one from the viewpoint of an organization and ABC Company will encounter with this particular type of risk during their operation in the initial years of operations. It might happen that the company will not get their desired cash flow and net income. One of the major reasons behind high amount of financial risks is the current economic situation of the world. The current economic crisis bought some real horrible times for the companies all over the world and ABC Company may encounter with the same because the clouds of economic downturn is still on the head of the companies all over the world.

Operational Risks:

Operational risks are taken place in the case of internal collapse. However, it can also be occurred due to unexpected outdoor events such as transport system failure, or unforeseen delay of supplying goods.

Operational risk is also one of the major risks associated with ABC Company, as there is a probability that the employees of the company may surrender a mistake which may derail the position of the company heavily. ABC Company has to look over this particular issue in total merely to decrease or completely eradicate the risk of operations.

Positioning risk:

The fall in company's reputation or social status may lead to loss of product failures, litigation or adverse publicity. Reputation takes time to build, but you can lose this standing even in a day. ABC Company has to position itself with perfection, in order to take effective care of this particular type of risk.

- Company Current Cash Flow

An income or expense flows that is changing in a certain period of cash accounts. Cash inflows usually comes from three activities - financing, operations or investing one - although it also occurs in the case of personal finance, the result of donations or gifts. Cash outflows resulting expenses or investments. This also applies to business and personal finance. In other words, the statement of accounting can also be referred as cash flow statement which indicates that cash generated in a given period of time, the amount used by the company. It is calculated by dividing the non-cash expenses (such as depreciation), net income after tax. It can also be attributed to a specific project, or cash flows of the business as a whole. Cash flow can be used as a reference a company's financial strength.

- Cash Flow Statement
- Cash Flow Questions
- The statement of cash flow is showing that the net income of the company is 40% of 1. 2 million of revenue. Cash Flow from operations would be $ 480, 000. The variable cost of the product is $ 30; hence total cost of making 5000 units would be $ 150, 000.
- The company has to increase the level of its revenue in order to improve its cash flow bit further, also decreasing the variable cost is one of the effective things to improve the cash flow
- The project cost is $ 42, 000, and the operational cash flow of the company is $ 480, 000. Hence the company has enough capital to finance this project
- The company has to go with corporate debt because the company is not big enough to absorb large number of shareholders in it. The company could payback their debt easily to the bank in this particular provision, instead of asking to the shareholders.
- Product Cost

Costing is the most effective and important measures from the viewpoint of an organization. Cost should be placed at a lower place in order to increase the financial based competitiveness of the company. There are two parts of costing, which are absorption costing and variable costing. There is a major difference found among both of these types, like absorption costing would include fixed cost into it, while variable cost only deduct the vary amount.

- The expansion of the product under absorption and variable costing is mentioned below

Sales = 55 per unit

VC = 30 per Unit

Fixed Cost = $ 50, 000

- The product should buy be bought in cheaper price in order to become effective

- In the variable costing method, the company is achieving the net profit margin of 40%, but in fixed cost it is not. The selling price should be 67$ per unit. The new table would be like this,

- Contribution margin are mentioned above, however for the breakeven point mentioned below computation is highlighted

In variable costing, breakeven point would be Zero

- Potential Investment

- NPV:

NPV is an acronym of net present value which is used to observe the divergence among current value of inflows and the current value of cash outflows of a company. Cash inflows refer to the revenue or earnings generated by any plan or project whereas in contrast, cash outflows specify the investment that is held by any of the project. NPV is a frequently using financial tool which is generally applied in capital budgeting to evaluate either the project lies in the favor company's financial or not (H. Kent Baker, 2011). Net Present value can also be utilized to assess the present dollar value with the dollar value expected in future by considering both inflation of profit in view simultaneously. After the examination of any project, if net present value seems to be positive then the project is fruitful for company's financial prosperity. Contrary to this, if NPV lies against the positive value then it would be the indicator than concerned project is not favorable for the cash flows of an organization. This financial tool is consistent exercising to a wider extent as it accounts for the time value of money through using reduction in cash flows. In order to compute the net present value, the rate of return should be marked and positioned so as to reduce the net value of cash inflows coming from project.

Data Given

Initial Cost = $ 42, 000

WACC = 12%

The NPV in this particular scenario is in negative

IRR:

Internal Rate of Return (IRR) is a project valuation method that bring into play to analyze the present value of both cash flows incur in specified project which is equivalent to zero mark. In particular, weighted average cost of capital (WACC) is a measuring tool to find out the proportion of debt and equity of company's capital structure. Whereas, the rate which is applied to make the present value equal to zero must be higher than the rate of weighted average cost of capital in order to consider and undertake the concerned project (H. Kent Baker, 2011). Internal rate of return is also identified by different financial analyst as economic rate of return (ERR) rate to figure to observe and measure up the profitability outlays over capital investment. Therefore, internal rate of return can be used by few forward-looking companies for considering projects to be sorted. By keep in view, all possible factors are equal among the various projects, the probability of highest rate of return projects would be taken into consideration as superior option to set out investments at first.

The IRR of the project is 10%, which is lower than that of the company’s actual hurdle rate of 12%

- There would be no impact over the fixed cost for the depreciation cost, because it deals entirely with the variable cost for the next 5years in total. The variable cost would certainly increase in this particular scenario leads to lower down the net income and gross income of the company s a whole. It is an important provision which needs to be taken into account. However, it will impact on the cash flow of the company, because depreciation would always add back in the cash flows.

V. Conclusion

The case of ABC Company has been analyzed in this particular assignment and there are numerous facts which have been found and analyzed in this particular provision. According to the requirement the conclusion should be divided into three different sections.

- The major risks which have been associated with this particular project is the association of financial based risk. According to the computation of this particular research, it is clear that the project would not be worthwhile for the company and it will not bring any sort of synergy effect over the company in total.

- As a management accountant, my responsibility to identify all the loopholes of the project and also analyze the effects which may be encountered by the company while having this particular project. All of these things have been found in the area of Project Management and the recommendations related to mitigate the same are mentioned below
- There is only a single recommendation to the CEO, which is that increase the per year cash flow by decreasing the cost or increasing the revenue of the company, otherwise it is better for ABC company to not to undertake this project into consideration.

References

H. Kent Baker, P. E. (2011). Capital Budgeting Valuation: Financial Analysis for Today's Investment Projects. New York: John Wiley & Sons.