**Financial Modeling**

**June 2024 Examination**

**1. A project proposal has been received by RKD Ltd. To capture a new market segment which is expected to generate substantial revenue for the firm. The project requires machinery to be imported from France and the cost of machinery is $4.8 million. Based on the assessment of the marketing team of RKD Ltd., it is predicted that additional revenue generated from the project will be around $2.5 Million per year for the next five years and after that, the market will cease to exist. To have a conservative assessment, the proposal suggests using the SLN method of depreciation for the machinery over its five-year economic life to depreciate the asset to Zero Value. The cost of goods sold, and other operating expenses related to the project are predicted to be 25 % of sales. Additionally, the project would require a net working capital of $350,000 immediately which can be utilized in any other project after the current project ends. The machinery may be salvaged post-closure of the project for $500,000. Assuming the corporate tax @ 30% and the required rate of return/hurdle rate for RKD Ltd to take up the project as 20%, take a call if RKD can proceed with the project? Provide a holistic view of the project and rationale for accepting or rejecting the project proposal based on NPV, IRR, PBP, DPBP, and PI criteria. Make and state any necessary assumptions if required. Create a dynamic model using to evaluate the above problem. The model should use cell referencing to ensure changing of assumptions/input items and therefore automatically reflecting changes in the final decision. (10 Marks)**

**Ans 1.**

**Introduction**

RKD Ltd. faces a pivotal decision regarding a proposed project to enter a new market segment expected to yield significant revenues over a limited five-year period. The project involves the acquisition of machinery from France for $4.8 million, with anticipated additional annual revenues of $2.5 million. However, this machinery's value will depreciate to zero using the straight-line method over its economic life. Furthermore, the project incurs 25% sales-related operational costs and requires an initial investment in net working capital of $350,000, which is recoverable at the project's end. A potential salvage value of $500,000 for the machinery post-project adds to the financial considerations. This introduction sets the stage for a detailed

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**2. Using information presented below. Create a dynamic model to compute and compare (provide inferences and interpretation) the various depreciation approaches and present the final depreciation schedule on a Graph. The graph needs to be linked with the Input Details and, therefore, dynamic. (10 Marks)**

**User Input:**

|  |  |
| --- | --- |
| **Purchase price of Asset**  | **$240,000** |
| **Salvage value of Asset**  | **$4,000** |
| **Useful life of Asset**  | **10 years** |
| **Years Start year of Use of Asset**  | **2024** |

**The different depreciation approaches to be considered for the model:**

**1. Straight-Line**

**2. Fixed Declining**

**3. Double Declining**

**4. Sum-Of-The-Years-Digits**

**5. Variable Declining Balance**

**Ans 2.**

**Introduction**

Depreciation is a crucial financial concept used to allocate the cost of tangible assets over their useful lives. It represents the wear and tear on an asset, the reduction in value due to usage and technological advancements. Businesses use various depreciation methods to match the expense recognition with the revenue generated by the asset, which helps in achieving a fair representation of financial statements. This analysis explores five common depreciation methods: Straight-

**3.a. Create a Dynamic Loan Amortization Schedule by taking three user inputs.**

**Loan Amount: 50,00,000**

**Interest Rate: 9% per annum**

**Loan Tenure: 20 Years**

**The dynamic loan amortization schedule should provide a tabular response indicating Monthly EMI, Interest Component, Principal Component, Loan Outstanding after each EMI repayment. (5 Marks)**

**Ans 3a.**

**Introduction**

A loan amortization schedule is a detailed table of periodic loan payments, showing the allocation of each payment into principal and interest. Creating a dynamic amortization schedule for a specified loan amount, interest rate, and tenure can aid borrowers in understanding how their loan balance decreases over time. This setup helps in financial planning and assessing the cost of borrowing.

**Concept and**

**3b.Link the Dynamic Loan Amortization Schedule to create a Graphical Representation of Payment Breakup (Principal Paid & Interest Paid) as shown below. Also Present a Stacked Bar Chart representing Principal and Interest paid. (5 Marks)**

**Ans 3b.**

**Introduction**

Visualizing financial data can significantly enhance understanding and decision-making. A graphical representation of a loan amortization schedule, particularly through a stacked bar chart, offers a clear and immediate understanding of how each payment is divided between principal and interest over the loan's duration. This visualization aids borrowers in grasping the financial dynamics of