**TRAINING IN FINANCIAL AND BUSINESS MANAGEMENT FOR ROAD CONTRACTORS**

**MODULE TWO SESSION SIX PARTICIPANTS’ NOTES**

**SCENARIO ANALYSIS 5**

Deferring purchase of land and equipment and hiring it at an extra 6m per month.

Implication: Land costing shs 500m and machinery costing shs 350m will not be bought. Machine hire will increase by shs 6m to shs 30m per month but depreciation will reduce to shs 708,334 per month.

**Income (12 months):**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Jan | Feb | Mar | Apr | May | June | Jul | Aug | Sept | Oct | Nov | Dec | Total |
| Net profit |  |  **75,725**  |  **75,725**  |  **75,725**  |  **75,725**  |  **75,725**  |  **75,725**  |  **75,725**  |  **75,725**  |  **75,725**  |  **75,725**  |  **75,725**  |  **75,725**  |  **908,700**  |
| Provision for taxation 30% |  |  22,718  |  22,718  |  22,718  |  22,718  |  22,718  |  22,718  |  22,718  |  22,718  |  22,718  |  22,718  |  22,718  |  22,718  |  272,610  |
| Profit after Taxation |  |  **53,008**  |  **53,008**  |  **53,008**  |  **53,008**  |  **53,008**  |  **53,008**  |  **53,008**  |  **53,008**  |  **53,008**  |  **53,008**  |  **53,008**  |  **53,008**  |  **636,090**  |

Impact on 12 months Income:

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | Jan | Feb | Mar | Apr | May | June | Jul | Aug | Sept | Oct | Nov | Dec | Total |
| Net profit |  |  **73,892**  |  **73,892**  |  **73,892**  |  **73,892**  |  **73,892**  |  **73,892**  |  **73,892**  |  **73,892**  |  **73,892**  |  **73,892**  |  **73,892**  |  **73,892**  |  **886,700**  |
| Taxation 30% |  |  22,167  | 22,167 |  22,167  |  22,167  |  22,167  |  22,167  |  22,167  |  22,167  |  22,167  |  22,167  |  22,167  |  22,167  |  266,010  |
| Profit after Taxation |  |  **51,724**  |  **51,724**  |  **51,724**  |  **51,724**  |  **51,724**  |  **51,724**  |  **51,724**  |  **51,724**  |  **51,724**  |  **51,724**  |  **51,724**  |  **51,724**  |  **620,690**  |

The impact an increase in hire of equipment and reduced depreciation is to reduce the annual profit by shs. 15.4million.

**Projected cash flow (12 months):**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **June** | **July** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
| **Net cash** |  |  **(1,945,400)** |  **(835,400)** |  **(835,400)** |  **964,600**  |  **(835,400)** |  **964,600**  |  **(835,400)** |  **964,600**  |  **(835,400)** |  **964,600**  |  **(835,400)** |  **964,600**  |
| Opening balance |  |  (999,000) |  (2,944,400) |  (3,779,800) |  (4,615,200) |  (3,650,600) |  (4,486,000) |  (3,521,400) |  (4,356,800) |  (3,392,200) |  (4,227,600) |  (3,263,000) |  (4,098,400) |
| **Closing balance** |  |  **(2,944,400)** |  **(3,779,800)** |  **(4,615,200)** |  **(3,650,600)** |  **(4,486,000)** |  **(3,521,400)** |  **(4,356,800)** |  **(3,392,200)** |  **(4,227,600)** |  **(3,263,000)** |  **(4,098,400)** |  **(3,133,800)** |

**Impact on 12 months cash flow:**

|  |  |  |  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
|  |  | **Jan** | **Feb** | **Mar** | **Apr** | **May** | **June** | **July** | **Aug** | **Sep** | **Oct** | **Nov** | **Dec** |
| **Net cash** |  |  **(1,101,400)** |  **(841,400)** |  **(841,400)** |  **958,600**  |  **(841,400)** |  **958,600**  |  **(841,400)** |  **958,600**  |  **(841,400)** |  **958,600**  |  **(841,400)** |  **958,600**  |
| Opening balance |  |  (999,000) |  (2,100,400) |  (2,941,800) |  (3,783,200) |  (2,824,600) |  (3,666,000) |  (2,707,400) |  (3,548,800) |  (2,590,200) |  (3,431,600) |  (2,473,000) |  (3,314,400) |
| **Closing balance** |  |  **(2,100,400)** |  **(2,941,800)** |  **(3,783,200)** |  **(2,824,600)** |  **(3,666,000)** |  **(2,707,400)** |  **(3,548,800)** |  **(2,590,200)** |  **(3,431,600)** |  **(2,473,000)** |  **(3,314,400)** |  **(2,355,800)** |

Although profits reduced by only shs 15.4 million, year end cash deficit reduced by shs 778 million, while maximum cash deficit reduced from shs 4.6billion to shs 3.7billion.

**Projected Income (5 years):**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | One | Two | Three | Four | Five | Total |
| Total cost | 9,891,300 | 9,852,900 | 9,814,500 | 9,747,900 | 9,730,500 | 49,037,100 |
| Net profit | 908,700 | 947,100 | 985,500 | 1,052,100 | 1,069,500 | 4,962,900 |
| Provision for taxation 30% | 272,610 | 284,130 | 295,650 | 315,630 | 320,850 | 1,488,870 |
| Profit after Taxation | **636,090** | **662,970** | **689,850** | **736,470** | **748,650** | **3,474,030** |

**Impact on 5 years income:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | One | Two | Three | Four | Five | Total |
| Total cost |  9,913,300  |  9,874,900  |  9,836,500  |  9,769,900  |  9,752,500  |  49,147,100  |
| Net profit |  886,700  |  925,100  |  963,500  |  1,030,100  |  1,047,500  |  4,852,900  |
| Provision for taxation 30% |  266,010  |  277,530  |  289,050  |  309,030  |  314,250  |  1,455,870  |
| Profit after Taxation |  **620,690**  |  **647,570**  |  **674,450**  |  **721,070**  |  **733,250**  |  **3,397,030**  |

**Net Income has reduced by shs 77million over five years%, a reduction of 2.2%**

**Projected cash flow (5years):**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | One | Two | Three | Four | Five | Net cash from Ops |
| Net cash  |  (2,134,800) |  540,990  |  567,870  |  610,950  |  782,370  |  367,380  |
| Opening balance |  (999,000) |  (3,133,800) |  (2,592,810) | (2,024,940) |  1,413,990) |  (999,000) |
| Closing balance |  (3,133,800) |  (2,592,810) |  (2,024,940) | (1,413,990) |  (631,620) |  (631,620) |

**Impact on 5 years cash flow:**

|  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- |
| Year | One | Two | Three | Four | Five | Net cash from Ops |
| Net cash  |  (1,356,800) |  475,590  |  502,470  |  545,550  |  716,970  |  883,780  |
| Opening balance |  (999,000) |  (2,355,800) |  (1,880,210) |  (1,377,740) |  (832,190) |  (999,000) |
| Closing balance |  (2,355,800) |  (1,880,210) |  (1,377,740) |  (832,190) |  (115,220) |  (115,220) |

Net cash generated from the business over the five years has improved from shs 367.38 million to shs 8683.78 million.