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

**MODULE TWO SESSION SIX PARTICIPANTS’ NOTES**

**SCENARIO ANALYSIS 8**

A 20% margin on cost without the price limit of shs 450m, certification done monthly and paid for after 30 days, deferring purchase of land and equipment and hiring it at an extra 6m per month, taking no drawings and purchasing material and fuel at 30 days credit.

Implication: The price per kms changes to shs 488.025m, payable starting March. 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. Material of shs 384m and fuel of shs 63m will be paid for after 30 days.

**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 |  | **149,942** | **149,942** | **149,942** | **149,942** | **149,942** | **149,942** | **149,942** | **149,942** | **149,942** | **149,942** | **149,942** | **149,942** | **1,799,300** |
| Taxation 30% |  | 44,983 | 44,983 | 44,983 | 44,983 | 44,983 | 44,983 | 44,983 | 44,983 | 44,983 | 44,983 | 44,983 | 44,983 | 539,790 |
| Profit after Taxation |  | **104,959** | **104,959** | **104,959** | **104,959** | **104,959** | **104,959** | **104,959** | **104,959** | **104,959** | **104,959** | **104,959** | **104,959** | **1,259,510** |

The impact to increase price, increase in hire of equipment and reduction in depreciation is to improve the annual profit after tax by shs. 623.42million.

**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** |  | **(644,400)** | **(831,400)** | **144,650** | **144,650** | **144,650** | **144,650** | **144,650** | **144,650** | **144,650** | **144,650** | **144,650** | **144,650** |
| Opening balance |  | (999,000) | (1,643,400) | (2,474,800) | (2,330,150) | (2,185,500) | (2,040,850) | (1,896,200) | (1,751,550) | (1,606,900) | (1,462,250) | (1,317,600) | (1,172,950) |
| **Closing balance** |  | **(1,643,400)** | **(2,474,800)** | **(2,330,150)** | **(2,185,500)** | **(2,040,850)** | **(1,896,200)** | **(1,751,550)** | **(1,606,900)** | **(1,462,250)** | **(1,317,600)** | **(1,172,950)** | **(1,028,300)** |

Year end cash deficit has reduced by shs 2,105.5 million. Maximum cash shortage during the year has reduced from shs 4.6 billion to shs 3.3 billion during the year and is steadily decreasing. If the trend continues, Munaku will clear his deficit within the following year around August.(shs 1,028,300/144,650). Under such circumstance, he will not need to inject any cash, rather negotiate with his bank to increase his overdraft limit to say shs. 2.5billion. He may also consider a short term loan of say shs 1.0billion for two years with a grace period of six months with an overdraft limit of shs 1.5 billion.

**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 | 1,799,300 | 1,837,700 | 1,876,100 | 1,942,700 | 1,960,100 | 9,415,900 |
| Provision for taxation 30% | 539,790 | 551,310 | 562,830 | 582,810 | 588,030 | 2,824,770 |
| Profit after Taxation | **1,259,510** | **1,286,390** | **1,313,270** | **1,359,890** | **1,372,070** | **6,591,130** |

**Net Income after taxation has increased by shs 3,117.1 over five years.**

**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 | (29,300) | 1,233,114 | 1,259,994 | 1,303,074 | 1,474,494 | 5,241,376 |
| Opening balance | (999,000) | (1,028,300) | 204,814 | 1,464,808 | 2,767,882 | (999,000) |
| Closing balance | (1,028,300) | 204,814 | 1,464,808 | 2,767,882 | 4,242,376 | 4,242,376 |

Net cash generated from the business over the five years has improved from shs 367.38 million to shs 5,241.376 million. The cash deficit now only exists in the first and second year, and as explained earlier, the OD will be cleared by August the second year. A short term facility for the two years may suffice to deal with the situation. Notice that dealing with a forecasted cash deficit will require creativity and a combination of choices that will involve boosting profitability and the extent and timing of investment in long term assets and working capital as well as distributions (or drawings).