

5. Financial plan

Key Assumptions

- 1. Tax Rate: Kenya’s 16% corporate tax applied to profits only (Year 2 onward).
- 2. Salaries: Reflect part-time staff and gig workers (e.g., Head of Web Dev: KES 80,000/month).
- 3. Client Growth: Year 1 (20 clients), Year 2 (50 clients), Year 3 (100 clients).
- 4. Pricing: Average KES 25,000/client/year.

Year 1 = 25,000 * 20 = Khs 500,000

Year 2 = 25,000 * 50 = Khs 1250,000

Year 2 = 25,000 * 100 = Khs 2,500,000

5.1 Pre-Operational Costs

Item	Amount(Khs)
Equipment (5 computers, software)	KSh155,000.00
Trading License	KSh20,000.00
Electricity Deposit	KSh2,000.00
Internet Deposit	KSh3,000.00
Professional Fees (Legal)	KSh10,000.00
Initial Advertising	KSh20,000.00
Miscellaneous	KSh10,000.00
Total	KSh220,000.00

5.2 Working Capital Requirement (First 3 Years)

Working capital Item	Year 1	Year 2	Year 3
Cash Reserves	KSh300,000.00	KSh500,000.00	KSh800,000.00
Debtors (30-day terms)	KSh50,000.00	KSh100,000.00	KSh200,000.00
Total	KSh350,000.00	KSh600,000.00	KSh1,000,000.00

5.3 Pro-Forma Income Statement

Item	Year 1	Year 2	Year 3
Sales	KSh500,000.00	KSh1,250,000.00	KSh2,500,000.00
Cost of Goods Sold	KSh150,000.00	KSh375,000.00	KSh750,000.00
Gross Profit	KSh350,000.00	KSh875,000.00	KSh1,750,000.00
Expenses			
- Salaries	KSh240,000.00	KSh360,000.00	KSh600,000.00
- Internet (Khs 3,000/month)	KSh36,000.00	KSh36,000.00	KSh36,000.00
- Electricity (Khs 2,000/month)	KSh24,000.00	KSh24,000.00	KSh24,000.00
- Advertising (10% of Sales)	KSh50,000.00	KSh125,000.00	KSh250,000.00
- Software/Hosting	KSh120,000.00	KSh180,000.00	KSh240,000.00
Total Expenses	KSh470,000.00	KSh725,000.00	KSh1,150,000.00
Net Profit Before Tax	-KSh120,000.00	KSh150,000.00	KSh600,000.00
Less Tax (16%)	(Loss year)	KSh24,000.00	KSh96,000.00
Net Profit After Tax	-KSh120,000.00	KSh126,000.00	KSh504,000.00

5.4 Pro-Forma Balance Sheet

Item	Year 1	Year 2	Year 3
Assets			
- Cash	KSh300,000.00	KSh500,000.00	KSh800,000.00
- Debtors	KSh50,000.00	KSh100,000.00	KSh200,000.00
Total Assets	KSh350,000.00	KSh600,000.00	KSh1,000,000.00
Liabilities			
- Loans (Family/Friends)	KSh190,000.00	KSh150,000.00	KSh100,000.00
Owner Equity	KSh160,000.00	KSh450,000.00	KSh900,000.00
Total Liabilities & Equity	KSh350,000.00	KSh600,000.00	KSh1,000,000.00

5.5 Projected Cash Flow Statement (Year 1)

	Jan	Feb	March	April	May	June	July	August	September	October	November	December	Total
Cash Inflows													
Cash Sales	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 500,000
Total Cash Inflows (1)	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 41,667	KSh 500,000
Cash Outflows													
Wages & Salaries	KSh 20,000	KSh 20,000	KSh 20,000	KSh 20,000	KSh 20,000	KSh 20,000	KSh 20,000	KSh 20,000	KSh 20,000	KSh 20,000	KSh 20,000	KSh 20,000	KSh 240,000
Telephone	KSh 3,000	KSh 3,000	KSh 3,000	KSh 3,000	KSh 3,000	KSh 3,000	KSh 3,000	KSh 3,000	KSh 3,000	KSh 3,000	KSh 3,000	KSh 3,000	KSh 36,000
Electricity	KSh 2,000	KSh 2,000	KSh 2,000	KSh 2,000	KSh 2,000	KSh 2,000	KSh 2,000	KSh 2,000	KSh 2,000	KSh 2,000	KSh 2,000	KSh 2,000	KSh 24,000
Advertising	KSh 4,167	KSh 4,167	KSh 4,167	KSh 4,167	KSh 4,167	KSh 4,167	KSh 4,167	KSh 4,167	KSh 4,167	KSh 4,167	KSh 4,167	KSh 4,167	KSh 50,000
Total Cash Outflows (2)	KSh 29,167	KSh 29,167	KSh 29,167	KSh 29,167	KSh 29,167	KSh 29,167	KSh 29,167	KSh 29,167	KSh 29,167	KSh 29,167	KSh 29,167	KSh 29,167	KSh 350,000
Net Cash for Month	KSh 12,500	KSh 12,500	KSh 12,500	KSh 12,500	KSh 12,500	KSh 12,500	KSh 12,500	KSh 12,500	KSh 12,500	KSh 12,500	KSh 12,500	KSh 12,500	KSh 150,000
Accumulative Cash (1-2)	KSh 12,500	KSh 25,000	KSh 37,500	KSh 50,000	KSh 62,500	KSh 75,000	KSh 87,500	KSh 100,000	KSh 112,500	KSh 125,000	KSh 137,500	KSh 150,000	KSh 150,000

5.6 Break-Even Analysis

1. **Contribution Margin:** Sales (KES 500,000) – Variable Costs (KES 150,000) = **KES 350,000**
2. **Contribution Margin %:** $(350,000 / 500,000) \times 100 = 70\%$
3. **Fixed Costs:** Salaries + Internet + Electricity = **300,000**
4. **Break-Even Sales:** $300,000 / 70\% = \text{KES } 428,571$

5.7 Desired Financing

Item	Amount
Pre-Operational Costs	KSh220,000.00
Working Capital	KSh350,000.00
Total Financing	KSh570,000.00

5.8 Proposed Capitalization

- **Total Investment:** KES 570,000
- **Owner's Contribution:** KES 30,000 (personal savings)
- **Borrowings:** KES 540,000 (KES 190,000 from family/friends + KES 350,000 loan)

5.9 Expected Profitability Ratios

1. **Gross Profit Margin:**

$\frac{\text{Gross profit} \times 100}{\text{Sales}}$

$$= (350,000 / 500,000) \times 100 = 70\%$$

2. **Return on Equity (Year 3):**

$\frac{\text{Net profit after tax} \times 100}{\text{Owner's Equity}}$

$$= (504,000 / 900,000) \times 100 = 56\%$$

3. **Return on investment:**

Return on Investment (**ROI**) = $\frac{\text{Net profit after tax} + \text{interest}}{\text{Total Investment}} \times 100$

Total investment

Assumptions:

- **Interest:** Annual interest on the **KES 350,000 loan** at **12%** = $350,000 \times 0.12 = \text{KES } 42,000/\text{year}$.
- **Total Investment:** KES 570,000 (from 5.8 Proposed Capitalization).

Year-by-Year ROI

Year	Net Profit After Tax (KES)	Interest (KES)	ROI Calculation	ROI
1	-120000	42000	$570,000 - 120,000 + 42,000 \times 100$	-0.14
2	126000	42000	$570,000 + 126,000 + 42,000 \times 100$	0.3
3	504000	42000	$570,000 + 504,000 + 42,000 \times 100$	0.96