## ****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) × 100 = **70%**
3. **Fixed Costs**: Salaries + Internet + Electricity = **300,000**
4. **Break-Even Sales**: 300,000 / 70% = **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**:

Gross profit x 100

Sales

= (350,000 / 500,000) × 100 = **70%**

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

Net profit after tax x 100

Owner’s Equity

= (504,000 / 900,000) × 100 = **56%**

1. **Return on investment:**

**Return on Investment (ROI) =** Net profit after tax + interest x 100

**Total investment**

**Assumptions:**

* **Interest**: Annual interest on the **KES 350,000 loan** at **12%** = 350,000×0.12=KES 42,000/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​×100 | **-0.14** |
| 2 | 126000 | 42000 | 570,000126,000+42,000​×100 | **0.3** |
| **3** | **504000** | **42000** | **570,000504,000+42,000​×100** | **0.96** |