

FIT3134

ASSIGNMENT 3B

Financial Statements

Group members and Email

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Findings

A financial projection shows the expected revenues, expenses, and cash flows of a business over a forecast period (Bragg, 2022). Our team has generated a financial projection for our business based on our researched estimates, and the findings are as stated below. Our projected revenue for the first three years of running the business is RM240,500, RM436,000, and RM1,004,500 respectively. We are expecting our business to run moderately well in our first year, with good sales volume, despite being a new company. We are confident in that fact because we are tapping into a market with great potential as there aren't any similar services being offered in Malaysia currently. And our revenue will only grow as we continue to grow our user base through various methods such as promotions through influencers, and continuous improvements made on our platform through our investment into our research and development department. Our expenses, on the other hand, have been projected to be relatively low. We are expecting to be spending most of our funds on research and development, with a projection of RM239,385 spent every year. Meanwhile, our expenditure on fixed assets like office and furniture will be low since we will be renting our office that comes furnished, and therefore do not need to pay an upfront cost on acquiring a building, along with renovations and furnishing etc. Our operating costs will be low as well, only needing to pay the rent of the office, as well as only hiring the bare minimum employees to run the office. To start up, we have also secured a grant provided to us by the grandfather of one of our members. With a total of RM500,000 in starting capital, we are confident in our abilities to cover any costs required to start up the company. That is the general overview of our findings in our financial projection. We will then breakdown parts of our financial projection in the following sections.

Justifications of Calculation / Breakdown

The revenue for our business in our first year is only RM240,500 because our company is still new in the industry, and not a lot of people would trust us since this is a new business in Malaysia. In the subsequent years, there was a vast increase in our revenue because we started doing more marketing and gained more trust from our users.

For our research and development section (R&D), some items have not been considered because they are unnecessary expenditures to our company. We will be hiring R&D Software Engineers, Web Designers, and Web Engineers to create and maintain the website, which will incur web server and personal computer costs. The salary given is based on the average pay in Malaysia according to Payscale and Jobstreet (n.d). There will be a 3% increase in the pay every year (Hayes, 2022). We would also acquire an ISDN line connection for our customer support. The installation fee would cost approximately RM140, while the maintainance would cost approximately RM38 per month (What does an ISDN Line cost?, n.d). Besides that, software acquisitions such as software licensing to design the website and design tools such as an Adobe Creative Cloud Subscription is imperative in enabling our software developers' job.

For our fixed assets, we will be renting an office space for our daily operations which include fixtures and fittings such as tables and chairs. Besides that, we will be acquiring office equipment such as a laptop and a telephone for our human resources. We would not be acquiring any motor vehicles as we would outsource the delivery.

Our operational expenses include the human resource department, in the form of salaries, allowance, and bonuses. The salary given is based on the average pay in Malaysia according to Payscale (n.d), with a 3% increase per annum (Hayes, 2022). Besides that, we would set a budget of RM5000 every year for social media marketing. However, we would not have any tender fee as we would not have any shareholders. Finally, our company will be sponsored a grant total of RM500,000 to kickstart our business.

Recommendations to Improve to Get a Better Financial Statement

There are a few recommendations for our business to improve and get a better financial statement. One of the recommendations is to bring in more sponsors from other clothing brands. Sponsors can help beef up your credibility and provide you with gear and professional support for your required business (Swanston, 2018). As a result, our business will be more trustable and more people are willing to spend their money to rent the clothes in our business. Besides, with the increasing usage of AI, the implementation of augmented reality can be done. A virtual try-on is the way a customer can “try-on” a product through mobile devices equipped with a camera (Kwiecień, 2019). Since this feature is able to help customers receive additional assistance in decision-making, more customers will be willing to use our software as our software provide more convenience to customers. Furthermore, in order to get a better financial statement, we can improve our financial statement with the use of AI-based chatbots. According to Amos (2021), chatbots can utilize natural language processing to understand the client’s inquiries. As a result, a customer service representative can be redirected to other segments of the business, increasing efficiency and also saving the cost of the business. Last but not least, the implementation of AI will help to improve the security of our business software, which results in a decrease in the usage of IT specialists to help us maintain the security of our software.

Financial Capabilities of Our Start-Up

The financial capabilities of a company are defined as the management of money (*Financial Capability Definition*, n.d.), by essentially applying financial knowledge to handle financially difficult times (*What is Financial Capability?*, n.d.). Among the methods in managing our company’s financial health is to have a clear business plan that details our business activities. This helps us align with the vision and mission of our company, while consequently helping to establish where we are and where we want to progress in the future (*Ten Top Tips to Improve your Financial Management*, n.d.). Besides that, opening a business bank account is pivotal to managing our company’s finances as it separates the personal and business finances while preparing the company for tax season and offers legal protection (Green, 2021). Furthermore, cash flow management methods such as sending invoices, cutting unnecessary costs and debts, and inventory adjustments for cost efficiency are methods to ensure that our company stays financially healthy (Green, 2021). Not only that, we will ensure that our customers pay us on time. For example, we could keep track of customers’ accounts by implementing a credit management system (*Ten Top Tips to Improve your Financial Management*, n.d.). On the other hand, the utilization of experts for financial planning will significantly smoothen the process of maintaining our company’s financial health. Potential resources such as accountants or financial advisors may be hired to steer our company in the right direction (Green, 2021). Consequently, strong accounting practices are adhered to for our company’s finances (*Three Ways To Create More Financial Strength For Your Business*, n.d.).

Realization of whether the business is in its right direction and whether it is feasible financially

Essentially, having a clear business direction is the most effective business improvement tool for any organization. Without a clear and well thought out business direction, a business may only survive based on the enthusiasm for the short term (Advice 4 Business, 2022). Feld (2019) states that a business is in the right direction if its business strategies and executions are well aligned. In other words, it is crucial for an organization to work closely with their mission and vision as it is often used as a guide to achieving its goals and business objectives. Hence, as our organization specialises in renting clothes online, one of our visions is to constantly improve our renting services by integrating Artificial Intelligence (AI) into the system. As technology continues to advance, our team have identified places whereby AI can be used to ease any repetitive and time-consuming work. For instance, we realised that the integration of AI and Augmented Reality (AR) can automate our size measuring and categorization tool, such that renters would not have to manually key in the following details of the rental clothing. Besides that, AI is also used in our product recommendation system, thereby it filters the clothing selection to suit our customers' tastes. Thus, we can conclude that our organization is moving toward its business direction for now.

Additionally, we can also determine if our business is moving towards its business direction by measuring its Key Performance Indicator (KPI). Jakljevic (2017) states that KPI is a measurable value that determines how efficient an organization is at achieving its business objectives. As KPI either shows a positive or negative trend based on its past periods, it shows how our past activities have impacted the metric. Thus, our KPIs will include measuring our sales growth as well as customer acquisition and loyalty. Ultimately, Jakljevic (2017) claims that setting KPIs are pointless if we do not monitor them on a frequent basis. Therefore, our team plans to monitor and have weekly retrospective meetings regarding our KPIs whereby, reviews of past activities and its performance would be discussed as well as upcoming activities to improve the KPI will be further discussed too. With that, it is safe to say that our business is moving in its right direction.

Lastly, as finance is the pivot of any business, it is extremely critical for an organization to conduct a financial feasibility study (Bureau, 2020). This is because it ensures our business idea is logically sound from a financial perspective while allowing us to thoroughly evaluate our financial requirements and potential. Typically, organizations uses financial projections to help them realise their possible potential in the business. This is because a financial projection includes 3 types of financial statements such as, Profit and Loss Account, Cash Flow Statement and Balance Sheet (Finmark, 2021). Hence, with these information, organizations can estimate how much revenue can be generated while being accountable for their expenses (Finmark, 2021). Based on our financial projection statement, it is evident that our organization is able to make profit. As we are a startup company, we have tried to minimise any unnecessary expenses while trying to maximise our profit. Besides that, our revenue projection predicts that in 3 years time, our estimated revenue will be approximately one million ringgit. Hence, it is evident that our business is financially feasible.

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