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

**MODULE TWO SESSION SIX PARTICIPANTS’ NOTES**

**SCENARIO ANALYSIS 1: COMPARISON OF PROFITS AND CASH FLOW.**

Assumption: Excluding the opening overdraft of shs. 999m.

**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** |

**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 |  | - | (1,945,400) | (2,780,800) | (3,616,200) | (2,651,600) | (3,487,000) | (2,522,400) | (3,357,800) | (2,393,200) | (3,228,600) | (2,264,000) | (3,099,400) |
| **Closing balance** |  | **(1,945,400)** | **(2,780,800)** | **(3,616,200)** | **(2,651,600)** | **(3,487,000)** | **(2,522,400)** | **(3,357,800)** | **(2,393,200)** | **(3,228,600)** | **(2,264,000)** | **(3,099,400)** | **(2,134,800)** |

NB. Net income generated during the year is shs 636.090 million but net cash deficit is shs 2,134.8 million!

**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** |

**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 | - | (2,134,800) | (1,593,810) | (1,025,940) | (414,990) | - |
| Closing balance | **(2,134,800)** | **(1,593,810)** | **(1,025,940)** | **(414,990)** | **367,380** | **367,380** |

Note that the net income generated over five years is shs 3,474.030 million whereas net cash saving over the five years is only shs 367.38 million! Whereas profits were being made, the business was swimming in overdraft for four and half years! This demonstrates that it is one thing making profit and another to have a health cash flow.