

Financial plan

Business



Ltd estimates in the first year, the company would have a sale of \$694, 925 and a net profit of \$8, 115. As the business is newly established with no reputation in the market, not every clothing chain will be willing to spend a large amount of money on Reflections. Therefore, in the worst-case scenario, the business projected that only 5 clothing chains will purchase our product as a trial in Queensland stores.

The price set previously in the marketing plan (3. 2. 3) states that \$385 will be a reasonable price.

However, when wholesaling to companies, the price hooked be deducted to attract more buyers while also on the other hand provide an adequate profit for the company. The business will be giving out a 5% discount when wholesaling and the new unit price will be \$365. 75.

As shown in the table, the company is anticipated to sell 1900 Reflections, which provided \$694, 925 of sales. The business is projected to have a low profit of \$8115 due to the significant expense involved in operation as shown in the income statement.

In particular, it is noted that wages, superannuation are costing the most for the business. To reduce the cost of ages and superannuation, the company has already made an effort in hiring a minimum amount of staff. Also, the factory workers of the company are only working 4 days a week, which lessen the salary payable to them by \$25, 210 each year.

Furthermore, the company has also tried to reduce other expenses. Compare to the annual rental payment of \$35, 000 – \$100, 000 of some properties,

the rent of the factory chosen by the company is at low rate costing \$17, 784 per year.

The advertising cost is also lessened as big campaign of promotion will not be needed if the company is only selling the product to shops in the first year. The inventory turnover rate of the company is 2. 7 times in the first year. Comparing to the industry average of 6.

8 times, this might indicate that the company has a low level of sales by only selling the product to the shops in the first year. However, sales are expected to rise significantly in the next year when the product is sold to individuals.

It is acceptable for the business to hold this amount of stocks, as this will ensure that in the following year, the company will be able to satisfy the need of customers. However, the business are also aware that if the stock is sitting in the outrage for too long, it may increase the cost of storage and the risk of stoke becoming out superseded or damage which lead to a loss. In the future, opportunities will be taken to increase this ratio through implementing the Just in time TIT) and Economic Order Quantity (EGO) principle.

KIT is used to calculate the time of order, which allows the materials to be delivered on time while EGO is implemented to calculate the order size of the material.

Utilizing both principle will ensure the business is carrying the right amount of stock. [Http://survivalists. Wordless. Com/2007/02/06/kip-series-inventory-](http://survivalists.Wordless.Com/2007/02/06/kip-series-inventory-)

<https://assignbuster.com/financial-plan/>

turnover-ratio/ In the beginning, the owners will contribute \$30, 000 as capital of the business. \$103, 117 for the first month to start the business.

Due to this huge amount of cost, the company plans to obtain a business loan from Weakest, borrowing \$100, 000 for a period of 5 years.

Adding the current fixed term rates provided from the bank, 8. 06% per annual, it is projected that the total amount of repayment will be \$108, 060. This means that for each week, the business will need to repay around \$416. The company's ability to service the loan is shown through the long-term debt payment ratio (see Appendix). The ratio of the company calculated from the figure in the projected cash flow statement is 1.

8 times while comparing to the industry average of 3. 37 times, it shows a good sign as a low ratio indicates that the company will have the ability to make long-term contractual payments while still having a sufficient cash flow. To further improve this ratio, cash received from operating activities can be raised by increasing the turnover of account receivable. This can be done by offering an attractive discount for prompt payment which ensures money can be collected as soon as possible to minimize the chance of it converting to bad debts.