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Basic Financial Model

How to Use the Financial Model



B&SDS Division
SMEDA

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1 How to Use the Financial Model

The financial model template is divided into different sheets of MS Excel. Each sheet is assigned a specific use and importance. The manual below provides instructions for using the financial model template.

NOTE: Do not delete any sheet from the template.

1.1 Instruction Sheet

Carefully read instructions provided in the Instruction Sheet. Please ensure the following:

- Changes are to be made in Input Sheet only.
- Only change the values shown in '**Red Color**'.
- Change values in '**Blue Color**' only if required.
- Do NOT change value shown in '**Black Color**'.

1.2 Input Sheet

Input sheet is divided into various sections, each section represents a unique set of assumptions for the project. While finalizing assumptions for the financial model, please think through the dynamics of the project carefully. Selecting the most appropriate assumptions is key to ensure prudent calculations.

1. Write name of the project in the cell titled '**Name of Project**'
2. '**Capital Investment Assumptions**' outlines areas of the business which require fixed investment, such as; land, civil works / building, furniture & fixtures, etc. Mention all costs as incurred or as projected for the project.
3. Pre-operating costs, in '**Capital Investment Assumptions**' are costs which are incurred before starting the operations of a business; costs incurred to bring the business in operating / running condition. Pre-operating costs include monies spent on:
 - Research and development
 - Pre-feasibility and business plan
 - Recruitment and training
 - Site preparation/repair/renovation
 - Regulatory fee, licensing and certification etc.
4. In '**Inventory**'¹ section fill out the time period for which inventory will be held in the business. Use 'number of months' to indicate time period, e.g. for half month, use "0.5" for 60 days, use "2" months. The time period for which the inventory will be held has an associated cost of storage, handling and safety. Inventory is categorized as:

¹ Inventory or stock refers to the goods and materials that a business holds for the ultimate goal of sale, production or utilization.

- Equipment spare part inventory: equipment or machinery spare parts.
 - Raw material inventory: materials used in production of goods
 - Finished goods inventory: final/end product stock ready for sale
5. In '**Rented Land / Building**' section choose value "1" for "Purchase" if the land/building was purchased or owned by the business otherwise choose value "2" for rented premises.
6. '**Revenue Assumptions**' refers to the sale price per unit of your product or your service and number of units sold or services rendered.
- In the field of '**Maximum production / Sale quantity**' input the value of maximum number of units produced or services rendered per day.
 - In '**Sale price per unit**' type sale price per unit of the product or service.
7. In '**Expense Assumptions**', there are two sections, cost per unit of your product/service and details of all the expenses.
- Cost of Goods Sold (COGS)² is the direct expense related to cost of unit produced or sold.
 - COGS may be added in three categories for simplification such as COGS 1, COGS 2 and COGS 3 may be used for raw material, logistics, printing and packaging or any other cost directly related to your product/service. You can assign the cell to the most relevant cost category for your business.
 - Machinery maintenance cost includes repair and maintenance cost to keep the machinery in optimum operating condition and is a direct expense related to cost of sales. In case of trading and services businesses, the cost may be put in as 'zero'.
 - Other than the above there are some indirect general operating, administrative and selling expenses such electricity expense, water expense, gas expense, travelling expense, communication expense, office vehicles fuel and maintenance expense, office expenses (stationary, entertainment, maintenance, janitorial services, etc.), promotional expense, professional fees (legal, audit, consultants, etc.).
8. In '**Human Resource Assumptions**' type the details of your work force and their monthly salaries/wages. Human Resource is generally divided into direct labor³ and indirect labor⁴. Direct labor cost becomes the part of Cost of Sales while indirect labor cost becomes part of business general operating, administrative and selling expenses.
9. In '**Cash Flow Assumptions**' indicate the number of days for payables and receivables.

² Cost of goods sold are costs, your business incurs, directly related to the sale of products. Depending on the nature of business, it may include cost of product purchased for resale, raw materials, packaging, labeling or any direct cost related to producing or selling the goods or service.

³ Direct labor are employees directly involved in production of products or rendering of services. Therefore, direct labor costs are expenses paid to workers who make the products / services that the business sells.

⁴ Indirect labor is the labor that is not directly related to production of goods / services. This staff is usually related to general operations and administration of the business.

- In 'Accounts receivable cycle' input the number of days available before receiving cash from debtor or number of days as per market credit cycle of receivables.
- In 'Accounts payable cycle' input the number of days available before paying cash to creditor or number of days as per market credit cycle of payable.

10. In '**Financial Assumptions**' provide details of project financing, i.e. loan and / or owner's equity.

- Please provide percentage of loan to be used for purchase of fixed and other long-term assets, such as, building costs, machinery and equipment, etc.
- Provide percentage of loan to be used as working capital.
- Fill details of long-term loan by providing the markup rate (it will show as a percentage) and debt period in number of years
- Similarly, fill details of working capital loan by providing the markup rate (it will show as a percentage) and debt period in number of years
- Provide 'Interest/Mark-up on Cash at Bank' for the excess cash deposited in a saving account, if any.
- Finally, fill in the percentage of 'Drawing from Profit', expected to be drawn as cash by the owner.

1.3 Calculations Sheet

The calculation sheet represents provides an overview of business viability. Calculations sheet works automatically and is linked to the 'Input sheet' to incorporate data provided by the user.

NOTE: Only "**Rates & Assumptions**" can be modified in this sheet and should be changed only if required.

1.4 Supporting Calculations

Supporting calculations, not accessible to the user, are auto calculated and generated for the user and are reflected in the sheet titled 'Financial Analysis'. These calculations include:

- **Depreciation / Amortization:** Depreciation expense on fixed assets and amortization of intangible assets. Reducing balance method is used for the charge of depreciation.
- **Taxes:** Annual income tax is calculated on the annual net income of business. Tax rates are updated according to Sole Proprietorship / AOP / Partnership tax rates for the year.