



Financial Management and Governance for Small, Medium and Micro- Enterprises in the Wholesale and Retail Sector

February 2019



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ABOUT THIS WORKBOOK

The Wholesale and Retail Sector Education and Training Authority (W&RSETA), a statutory body established in terms of the *Skills Development Act of 1998*, has commissioned its Retail Chair at the Durban University of Technology to develop a training intervention to capacitate small, medium and micro-enterprises (SMMEs) in the retail sector with basic financial management skills. These include businesses in the rural areas and townships and covers both the formal and informal retailing environment.

This workbook on *Financial Management and Governance for SMMEs* is the first step towards the training intervention which is expected to take the form of workshops.

The DUT Retail Chair has commissioned FR Research Services, who worked extensively in the wholesale and retail research space in South Africa, to develop this workbook.

HOW TO USE THIS WORKBOOK

This workbook enables small business owners and managers to improve their financial management skills. It focuses on topics such as budgeting, understanding financial statements, complying the laws and regulations, setting prices, tax, interest, depreciation, and other pertinent issues relating to sound financial management.

Each issue is presented as a training unit. You simply need to follow the instructions for each training unit. At the beginning of each training unit, you will find the outcomes that should be achieved. These outcomes highlight the main issues that you should understand and apply on completion of the unit.

All activities should be attempted as they are part of the training process. The icons below will indicate the required response or activity. The training units are about acquiring skills and applying them in a work setting. It is about understanding, engaging and learning.

Users are encouraged to discuss issues freely with the facilitator and fellow participants. This is not a test.

The facilitator might not be able to do justice with every training unit since time is limited and the workbook covers a wide range of topics. You will be expected to continue using the workbook after the programme. What you put in is what you will get out!

Participants are encouraged to share best practices, relate common problems, and form networks. The aim is to bring key issues to the learning situation to explore solutions and enrich the learning experience.

GLOSSARY

Asset	An <u>asset</u> is something owned by the business. Assets must be classified as current (within a year) or fixed (over a year), depending on the duration over which the business expects to derive economic benefit from its use.
Assumptions	The facts or conditions used to support a decision.
Balance Sheet	A statement of the financial position of a business at a given date.
Budget	Planned spending by items.
Business Plan	A plan to make the business a success.
Capital	The financial investment needed to start or operate a business.
Cash Flow	The flow of money moves in and out of a business.
Cash Flow Projection	A financial statement that shows how cash is expected to flow in and out of a business in the future.
Cash Flow Statement	A report that shows how cash flows through the business for a given period.
Depreciation	The loss of value of fixed assets over time.
Equity	The total business assets after liabilities are subtracted.
Income	Earnings from all sources including rents, sales and interest.
Income Statement	Revenue, expenses and profit/loss of the business for a given period.
Interest	The amount paid to the lender for borrowing money.
Liabilities	Liabilities are monies owed by the business and are broken down into current (under a year) and long-term liabilities (over a year).
Owners' equity	Owners' equity is what the business owes to its owners. Equity is derived by deducting total liabilities from the total assets.

Principal	The amount of the loan, not counting the interest.
Profit	Revenue minus costs.
Revenue	The amount of money that flows into the business – sales.

TRAINING UNIT 1: FINANCIAL MANAGEMENT

WHAT IS THIS TRAINING UNIT ABOUT?

This training unit discusses good financial management. The importance of managing the finances of a business cannot be over-emphasised. Money is the life-blood of a business.

Every entrepreneur must maintain proper records of financial transactions. If you are not managing finances effectively and efficiently, you are not managing the business enterprise.

Far too many small businesses fail because a good product or service is not managed. It is the responsibility of the owner manager of a small business to take a solid interest in the finances of the business. Without it, the business runs the risk of cash flow problems, wastage, and a poor application of resources.

OUTCOMES

At the end of this training unit, you will be able to:

- Understand the concept of financial management.
- Explain the importance of financial management.
- Identify vital financial management indicators.
- Assess how well your business is financially managed.

QUESTIONS

Try to answer the questions below. You can discuss it in groups.

What do you understand by the term “financial management”?

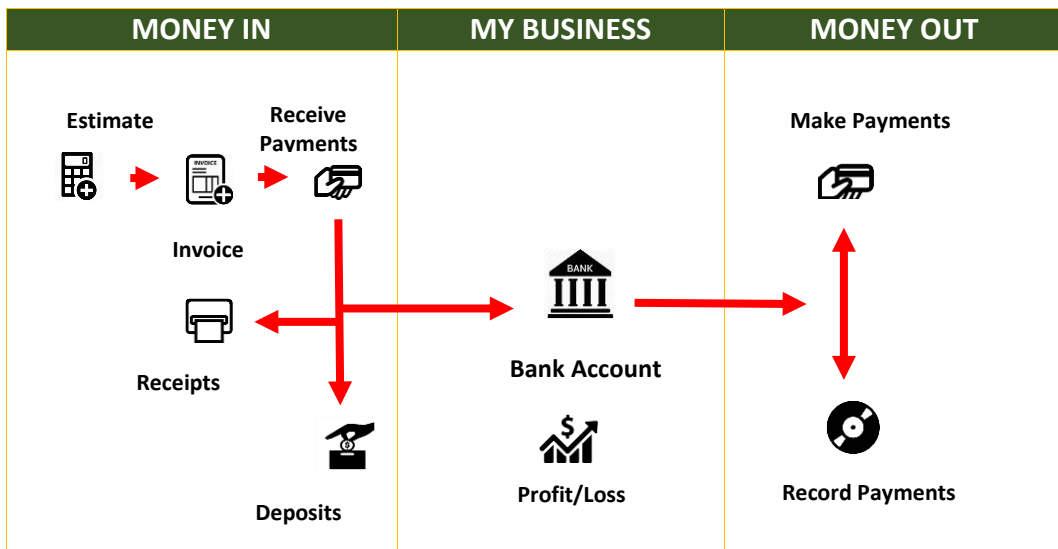
Is financial management necessary? Why?

What are the consequences of poor financial management?

How well are finances managed in your business? List good and bad financial management practices in your business.

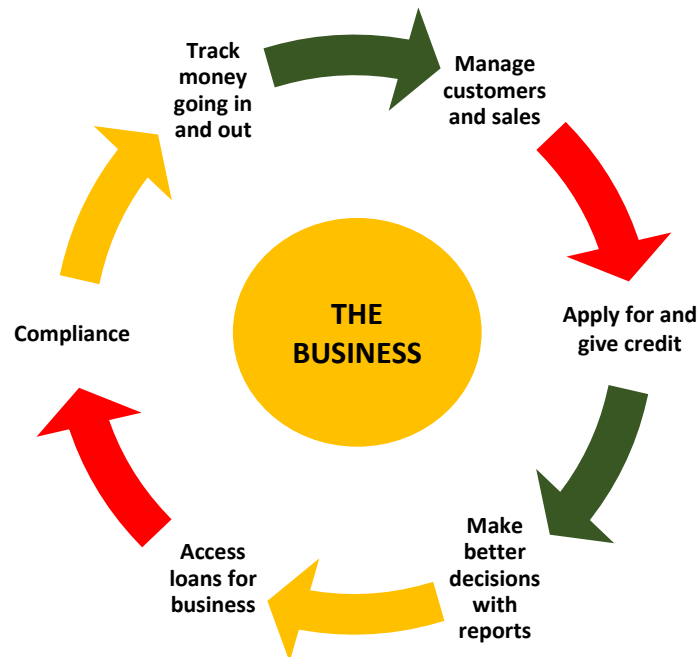
Financial management is a process of:

- Running a business efficiently and effectively.
- Recording money coming in and out.
- Using financial information to to:
 - Understand how your business is doing.
 - Making decisions.
- Exercising financial controls.



Explain the above diagram on financial management.

SIX WAYS FINANCIAL MANAGEMENT HELPS YOUR BUSINESS TO SUCCEED



FINANCIAL CONTROLS

Financial controls are the means by which an organisation's resources are directed, monitored, and measured. Financial controls play an important role in ensuring the accuracy of reporting, eliminating fraud and protecting the organisation's resources, both physical and intangible.

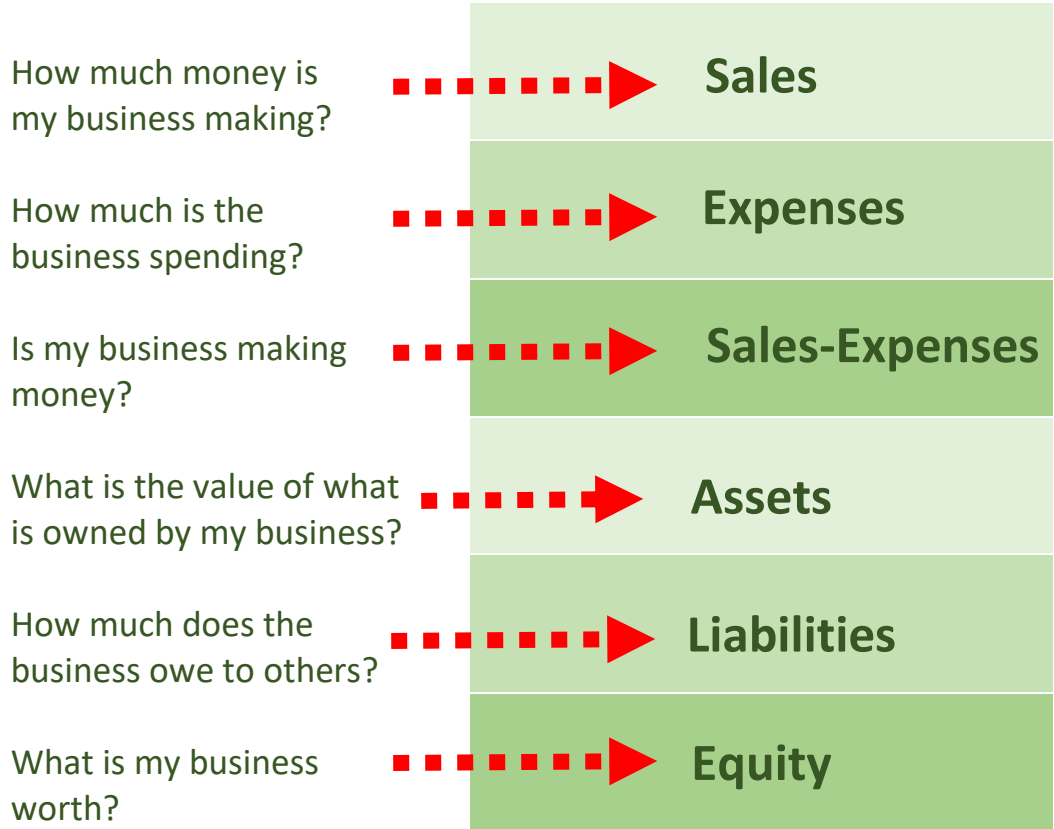
Let's assess financial controls in your business.

ASSESSMENT

Examine the internal control measures and assess whether your company has good internal financial controls.

INTERNAL CONTROLS	IS MY BUSINESS COMPLYING?
Budgets: The company has a budget in place at the beginning of the year to track income and expenses and identify overspends.	
Bank Mandate: As the owner, I have effective controls over who has authority to make payments from the company bank account and rules over cheque signatories.	
Expenditure Authorisation: Certain people have been given authority to spend the organisation's money.	
Salaries: There are substantial financial controls in place over staff salaries and calculation of overtime, part-time and pays casual labour to prevent fraud.	
Petty Cash: There is strict record-keeping, reconciliation and authorisation of who manages petty cash.	
Cash Income: There are strict controls of cash received, counting cash, making cash deposits and recording.	
Bank Reconciliation: The amount in the bank account agrees with the company records.	
Confidential information: There are controls for specific information about the business to be kept confidentially.	

FINANCIAL INFORMATION IS POWER



ACTIVITY

Give an example of the following:

Sales	
Expenses	
Sales - Expenses	
Assets	
Liabilities	
Equity	

ASSESSMENT

Assess yourself by answering the following questions:

List how does money come into your business? (income)

List how does money go out of your business? (expenses)

TRAINING UNIT 2: COMPLIANCE CHECKLIST

WHAT IS THIS TRAINING UNIT ABOUT?

This training unit is about making sure that your business complies with the laws and regulations for doing business in South Africa.

Compliance should not be seen as a burden but rather as an opportunity to run your business legally and more efficiently. It is also good for your relationship with customers and your reputation in the market.

Compliance is hard work, but it will keep you out of trouble with authorities such as the South African Revenue Service (SARS) and the Department of Labour (DoL).

OUTCOMES

At the end of this training unit, you will be able to:

- Understand why it is necessary to make your business comply with the laws and regulations of the country.
- Identify the compliance requirements for your business specifically.
- Devise a plan to ensure that non-compliances in your business are addressed.

ACTIVITY

Study the compliance requirements for your business on the checklist. Identify which requirements are met (compliance) and not met (non-compliance) by your business. Draw a plan of how you will address the non-compliances.

COMPLIANCE CHECKLIST FOR A BUSINESS

COMPLIANCE REQUIREMENTS	MET / NOT MET / N/A	PLAN OF ACTION (if not met)
Registration of the Business		
<i>The business is registered with the Companies and Intellectual Property Commission (CIPRO).</i>		
<i>The business has a registration number.</i>		
Tax		
<i>The business is registered with the South African Revenue Service for tax purposes and has a tax registration number.</i>		
<i>The business pay VAT monthly (because it has an annual turnover of more than R1 million per annum) and has a VAT Registration Number.</i>		
<i>The company is an employer and pays PAYE (pay as you earn) taxes monthly.</i>		
<i>The company pays skills development levies (SDL) and has an SDL number.</i>		
Labour Law		
<i>The company complies with the Basic Conditions of Employment Act.</i>		
<i>The company pays monthly contributions to the Unemployment Insurance Fund and has a UIF number.</i>		
<i>The company complies with the Occupational Health and Safety (OSH) Act and health and safety regulations.</i>		
Municipal Bylaws		
<i>The company complies with municipal bylaws - governing zoning, noise levels, hygiene, and so forth.</i>		
Consumer Protection		
<i>The company complies with the Consumer Protection Act.</i>		

TRAINING UNIT 3: BUDGETING

WHAT IS THIS TRAINING UNIT ABOUT?

This training unit is about budgeting in your business. Budgets provide you with vital financial information of how much money your business has received, how much it has spent and for what it is spent.

You can work out whether the business is overspending or underspending. This will prevent misuse of money.

By comparing the actual record with the planned budget, you can determine if the business is on the right track.

OUTCOMES

At the end of this training unit, you will be able to:

- Understand why it is necessary to draw up a budget.
- Compile a budget for your business.
- Monitor the budget.
- Make a budget forecast.

QUESTIONS

Please answer the questions below.

What is a budget?

Why is it necessary to compile a budget for your business?

What problems may occur if your business does not have a budget?

Does your company have a budget? If not, why?

What are the main income and expenses in the budget of your company?

INCOME	EXPENSES

Creating a budget is the first place to start with managing the finances of your business.

A budget is a list of all your (monthly or yearly) expenses. It is organised by categories (items). In short, budgeting is the process of planning your finances over a period.

A budget is a tool that helps you:

- Track all your business expenses.
- Control the money in the business.
- Plan for the future.
- Cut costs when you need to.
- Plan for expansion of your business.
- Make a profit.
- You can keep records of money coming in and going out of the business.

By having a budget in place at the beginning of the year, you can assess performance and be able to identify overspending.

By comparing the actual record with the planned budget of the business, you can determine if the business is on the right track during your business year.

When you work out income and expenses monthly, you will be estimating how your business will operate in the future. This is called **assumptions**. When making assumptions, it should be realistic. Using historic financial information is a good place to start.

EXERCISE

A monthly budget template is given below. Draw up a budget for your business for Month X.

INCOME	MONTH X		
	BUDGET	ACTUAL	DIFFERENCE
Sales			
Investment income			
Interest income			
Other income			
TOTAL INCOME			
EXPENSES	BUDGET	ACTUAL	DIFFERENCE
Accounting fees			
Advertising			
Bank Charges			
Courier/Delivery			
IT fees			
Legal fees			
Loan payments			
Petrol			
Purchases			
Rental			
Repairs/Maintenance			
Stationery and Printing			
Taxes			
Vehicle Instalments			
Wages/Salaries			
TOTAL EXPENSES			
SURPLUS			
DEFICIT			

The above is a budget for one month. You can also do the budget for 12 months or longer using this format.

TRAINING UNIT 4: UNDERSTANDING FINANCIAL STATEMENTS

WHAT IS THIS TRAINING UNIT ABOUT?

This training unit is about three primary financial statements that any owner or manager must be able to understand about their business.

These statements are produced annually by your accountant. It provides you with vital information of the financial health of the business in much the same way a doctor would provide a patient with information about the latter's health.

Based on the reports, the business owner or patient can make informed decisions about the future using the data at their disposal.

OUTCOMES

At the end of this training unit, you will be able to appreciate the importance of and interpret the following primary statements in a small business:

- Income statement.
- Cash flow statement.
- Balance sheet.

THINK POINT

Explain this statement:

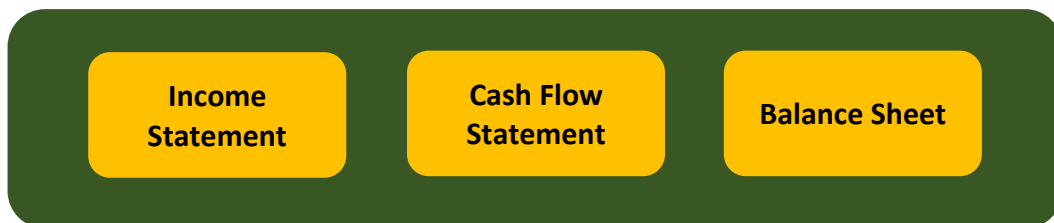
“Turnover is vanity, cash flow is sanity, and profits are reality”

If you're a small business owner, you probably come across the balance sheet at your accounting year end, when your accountant sends you one for your records.

PRIMARY FINANCIAL STATEMENTS

As a business owner or manager, you are expected to understand simple financial statements and communicate effectively with financial people in the business or the external accountant.

The three primary financial statements are:

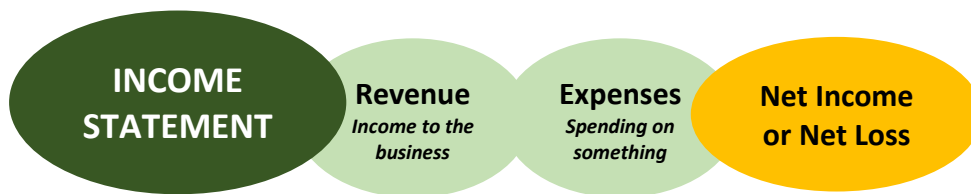


Income Statement	Revenue, expenses and profit/loss of the business for a given period.
Balance Sheet	A statement that analyses the assets and liabilities of a business at a given date.
Cash Flow Statement	A report that shows how cash flows through the business for a given period.

CASE STUDY: INCOME STATEMENT

Lerato's Fashion Design is a three-person business that makes and sell ladies' garments. She is a fashion designer and employs one sewing machinist at her small shop.

A simple income statement contains the following elements:



The following is an example of a simple income statement for Lerato's Fashion Design:

Lerato's Fashion Design Income Statement - 01 March 2017 to 28 Feb 2018	
Revenue	
Garments	150 000
Investment interest	5 000
Total Revenue	155 000
Expenses	
Rent	12 000
Wages	84 000
Materials	30 000
Telephone	6 000
Stationery	1 000
Transport	5 000
Miscellaneous	500
Total Expenses	138 500
Net Profit before Tax	16 500
Tax	4 620
Net Profit after Tax	11 880

EXERCISE

Design an Income Statement for your business using the template below.

Revenue	
Total Revenue	
Expenses	
Total Expenses	
Net Profit before Tax	
Tax	
Net Profit after Tax	

Why is keeping an income statement important for your business?

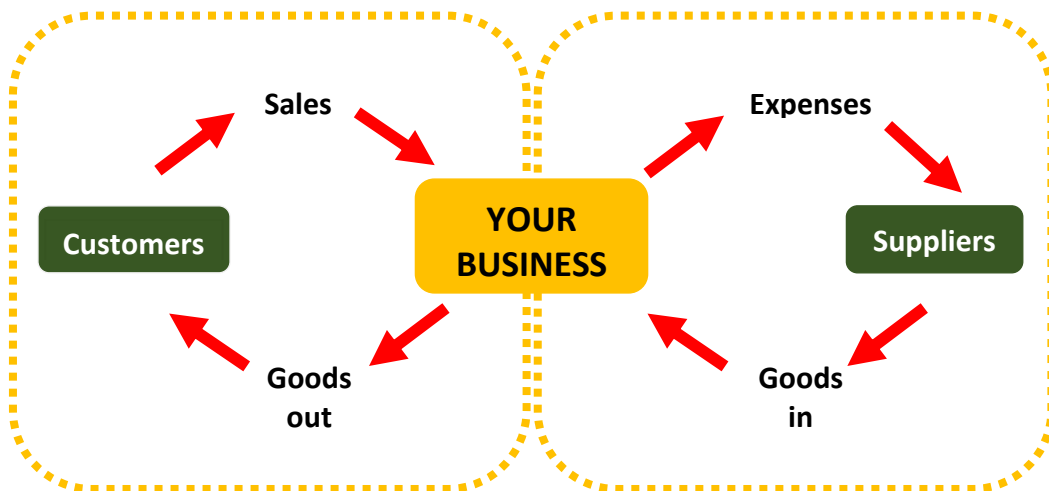
CASH FLOW

Cash flow can be defined two ways:

- Cash received less the amount of cash paid out over a period.
- Moving cash in or out of a business

A business can be profitable and still run out of cash. As an investment banker might say, “Cash flow projections provide the visibility needed to avoid liquidity problems.”

Cash Flow: Money in and Money out



Explain the above diagram?

Below is a simple cash flow statement for three months (April 2018 to June 2018). Study the figures and answer the questions.

MUSA'S DISCOUNT STORE – APRIL 2018 TO JUNE 2018				
	APRIL	MAY	JUNE	TOTAL
CASH INCOME				
Opening cash balance	(10 000)	(5 000)	(27 000)	
Cash sales	85 000	90 000	78 000	
Other income	5 000	6 000	7 000	
Total Cash Available	80 000	91 000	58 000	
OUTGOING CASH				
Goods	30 000	50 000	40 000	
Labour costs	30 000	35 000	45 000	
Loan payments	20 000	20 000	20 000	
Taxes	5 000	7 000	6 000	
Total Expenses	85 000	112 000	111 000	
ENDING CASH	(5 000)	(27 000)	(53 000)	

What do you notice about the month-to-month cash flow trend of Musa's Trading?

What can possibly occur to Musa's Trading if the current cash flow trend continues?

How can Musa's Trading improve their cash-flow?

Complete the three months total.

If Cash Flow is Negative, you may decide to...	If Cash Flow is Positive, you may decide to...
<ul style="list-style-type: none"> ▪ increase sales. 	<ul style="list-style-type: none"> ▪ reduce prices to increase volume.
<ul style="list-style-type: none"> ▪ be more aggressive in collecting invoices. 	<ul style="list-style-type: none"> ▪ consider investing “extra” funds.
<ul style="list-style-type: none"> ▪ slow spending; delay major new purchases. 	<ul style="list-style-type: none"> ▪ plan for expansion.
<ul style="list-style-type: none"> ▪ see if there is seasonal pattern. 	<ul style="list-style-type: none"> ▪ pay back debts.
<ul style="list-style-type: none"> ▪ reduce draw or cut payroll. 	<ul style="list-style-type: none"> ▪ hire more staff.

CASH FLOW PROJECTION

A cash flow projection is a financial statement that tries to show how cash is expected to flow in and out of a business over a future period.

Cash Flow Statement shows only the historical data and differs from a cash flow forecast which projects future data.

A cash flow projection is used to see if projected cash receipts (in flows) will be sufficient to cover projected cash disbursements (out flows).

- a cash flow projection is a tool to help you manage your cash so you can pay your bills on a timely basis and keep the doors of your business open.

- A cash flow projection is a great tool for setting sales goals and for planning for expenses to support those sales.
- A cash flow projection helps you see the cash status of your business now and plan into the future.
- A cash flow projection is a good way to prepare and plan for your financing needs and is often a required part of a business loan application.

THEMBA'S SUPER TYRES CASH FLOW PROJECTION – OCTOBER 2019 TO JANUARY 2020					
	OCTOBER	NOVEMBER	DECEMBER	JANUARY	TOTAL
CASH INCOME					
Opening cash balance	50 000	(14 000)	(68 500)		
Cash sales	60 000	75 000	225 000		
Interest income	2 000	1 500	1 000		
Total Cash Available	112 000	62 500	157 500		
OUTGOING CASH					
Wages	40 000	40 000	50 000		
Rent	10 000	10 000	10 000		
Phone	2 000	5 500	8 000		
Stationery	500	1 000	2 000		
Raw materials	20 000	10 000	10 000		
Insurance	500	500	500		
Utilities	3 000	4 000	5 500		
Debt service	20 000	20 000	20 000		
Taxes	25 000	30 000	20 000		
Transport	5 000	10 000	20 000		
Total Expenses	(126 000)	(131 000)	(146 000)		
ENDING CASH	(14 000)	(68 500)	11 500		

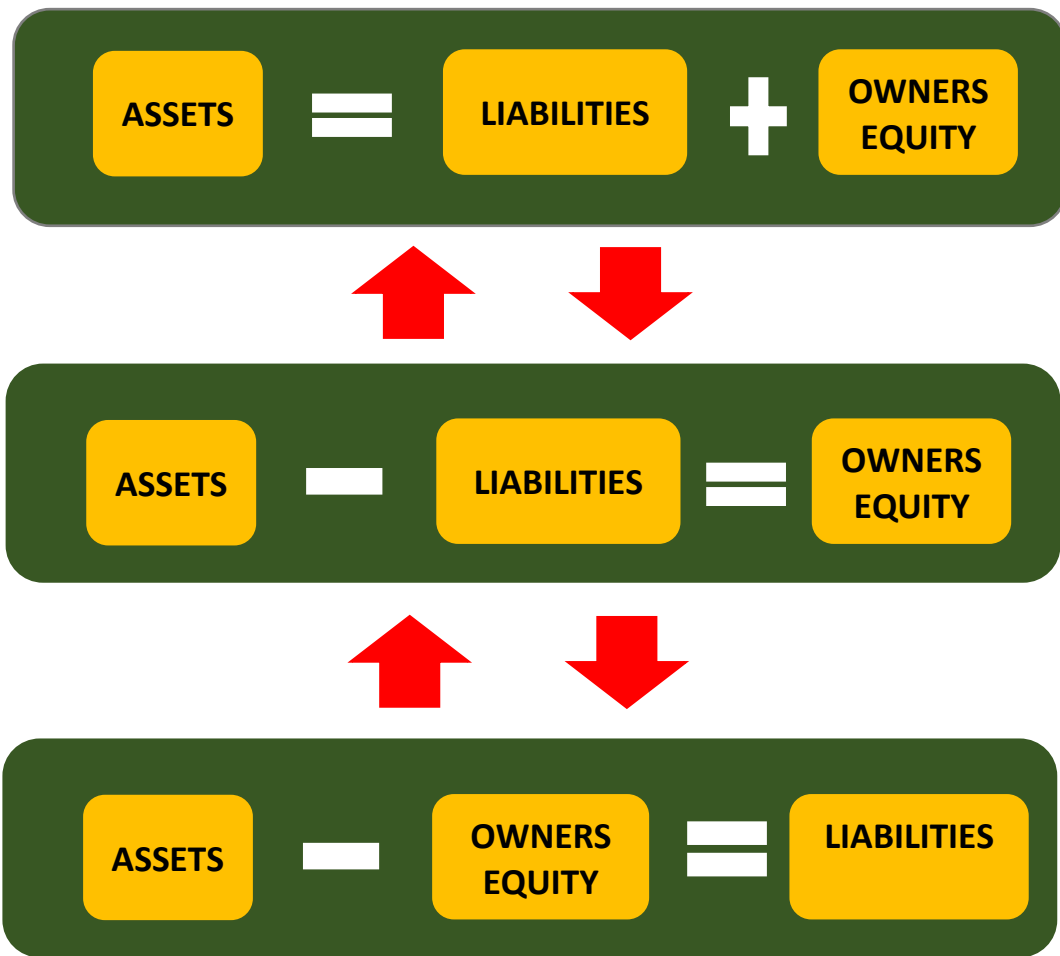
Using the above cash flow projections from October 2019 to December 2020, discuss the following:

Complete the figures for January 2020 and the four months total.

Describe the cash flow trends for October to December 2019.

BALANCE SHEET

Simply put, your balance sheet is a statement of a business' financial position at a point in time. It shows what the company owns (assets) and what it owes (liabilities). In other words, the balance sheet illustrates your business's net worth. You can also use the balance sheet to determine how to meet your financial obligations and figure out the best ways in which you can use credit to finance your operations.



ASSETS	Everything that your business possesses
Current Assets	
Cash	
Debtors	
Stock	
Fixed Assets	
Property	
Vehicles	Everything that your business has borrowed
Machinery	
LIABILITIES	
Current Liabilities	
Creditors	
Short-term loan (under a year)	
Long-term Liabilities	
Long-term loan	Everything your business owns
OWNERS EQUITY	
Owner's capital	
Retained earnings (profits)	

TERMINOLOGY

The following terms must be understood to interpret a balance sheet as well as other financial statements.

ASSETS	An <u>asset</u> is something owned by the business. Assets must be classified as current (within a year) or fixed (over a year), depending on the duration over which the business expects to derive economic benefit from its use.
Current Assets	Examples - cash in bank, trade receivables (debtors), petty cash, net cash, inventory (stock).
Fixed Assets	Examples – property, plant and equipment.
LIABILITIES	Liabilities are funds owed by the business and are broken down into current (under a year) and long-term liabilities (over a year).
Current Liabilities	Examples – <u>trade payable</u> (creditors); wages; <u>income tax deductions</u> , pension plan contributions; medical aid payments; building and equipment rents; customer deposits (advance payments for goods to be delivered); utilities; temporary loans; overdrafts.
Long-Term Liabilities	Examples – loans/borrowing (over a year)
OWNER'S EQUITY	Owner's equity is what the business owes to its owners. Equity is derived by deducting total liabilities from the total assets. Examples – Retained earnings (are earnings retained by the business - that is, not paid to shareholders in the form of dividends); stock; owners' drawings.

SAMPLE BALANCE SHEET

Lebogang Trading Enterprise Balance Sheet as at 28 February 2017.

ASSETS	R	LIABILITIES AND EQUITY	R
CURRENT ASSETS		CURRENT LIABILITIES	
Inventories	12 000	Trade payables	35 000
Trade receivables	25 000	Short-term borrowings	20 000
Cash	8 000	Current tax payable	10 000
Total Current Assets	45 000	Total Current Liabilities	65 000
FIXED ASSETS		LONG-TERM LIABILITIES	
Property	130 000	Long-Term Loans	30 000
Machinery	60 000	Mortgage	5 000
Vehicles	30 000		
Total Fixed Assets	220 000	Total Long-Term Liabilities	35 000
		OWNERS' EQUITY	
		Owners drawing	50 000
		Retained earnings	100 000
		Common stock	15 000
		Total Owners' Equity	165 000
Total Assets	265 000	Total Liabilities & Equity	265 000

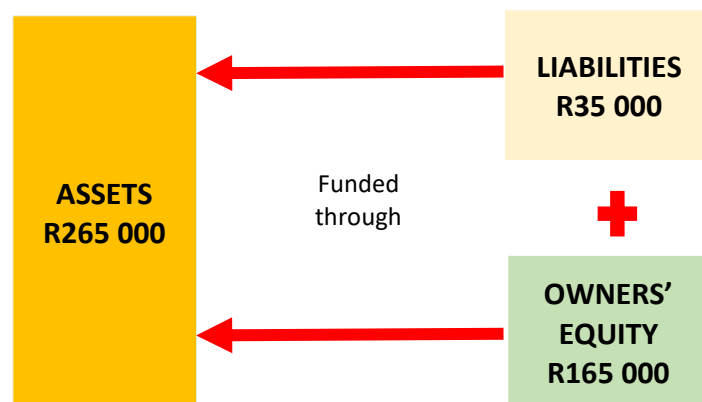
GROUPWORK

Discuss the following questions in groups.

Give your comments on Lebogang Trading Enterprise’s Balance Sheet as at 28 February 2017

Is the business in a position to expand? Explain.

This diagram shows how the balance sheet works. The business requires assets to operate, and these assets will be funded from the equity in the business or the profit from the operations of the business or by borrowing money from external parties.



A prosperous business will have assets of the business funded by profits, rather than relying on funding from either external parties (liabilities) or continual cash injections from the owner (equity).

TRAINING UNIT 5: INTEREST, DEPRECIATION AND PRICING

WHAT IS THIS TRAINING UNIT ABOUT?

This training unit focuses on other financial management measures that business owners and managers should grasp. These include interest, depreciation and pricing which influence all transactions.

Businesses should comply strictly with the laws and regulations governing interest and depreciation. It is also necessary to make effective and efficient decisions on these issues since it could be a difference between profit and loss.

OUTCOMES

At the end of this training unit, you will be able to:

- Understand the concepts of interest, depreciation and pricing.
- Differentiate the various types of interest.
- Calculate interest.
- Price a product.

INTEREST

An interest rate is a fee that you are charged for borrowing money, expressed as a percentage of the total amount of the loan. So if you borrow money, either in a business, car or personal loan, you pay interest on it.

If you have got your money put away in a bank, either in a savings account, term deposit or bank account, that more or less amounts to lending the bank your money, and so you will be paid interest as a lender.

Interest is the cost of borrowing money.

THE BIG PICTURE

We all know the interest rate is essential for borrowing or saving money. So what do changing interest rates mean in practical terms? Check out the table below for the effects of increasing or decreasing interest rates. Complete the blank spaces.

HIGH INTEREST RATES	LOW INTEREST RATES
SA rand gets stronger	SA rand gets weaker
Imports become less expensive	
Encourages saving	
	More disposable income
Loan repayments increase	
	Savings earn less interest

FACTORS THAT AFFECT HOW MUCH INTEREST IS PAID

You will need to know a few basic facts about your loan before calculating how much interest you will pay.

Principal amount

This is the amount you are looking to borrow. But it is not as simple as deciding how much you want - you should really be focusing on how much you need and can realistically afford to pay back.

Loan term

How long will you be repaying your loan? Shorter loan terms will generally mean higher repayments, but less interest in the long run. Longer terms will lower monthly repayments but cost more in interest over the entire life of the loan.

For example, a repayment on a loan of R20 000 at 8.75% p.a. you would pay:

R634 each month, adding up to R2 812 in interest over three years, or R413 each month, adding up to R4 765 in interest over five years.

Repayment amount

When you make your repayment, not all of it goes to paying off your loan. A certain amount will go towards paying the interest first and then what is left chips away at your loan principal.

TYPES OF INTEREST RATES

Fixed Interest Rate

A fixed interest rate means your interest will not change over the life of your account or loan – it is fixed at a certain rate.

Pros of a fixed interest rate	Cons of a fixed interest rate
Makes budgeting easier	Less flexibility
A sense of security	No benefits of changing rates
	Penalties for early repayment

Variable Interest Rate

A fixed interest rate means your interest will not change over the life of your account or loan – it is fixed at a specific rate.

Pros of a variable interest rate	Cons of a variable interest rate
Flexibility	Budgeting may be tricky
Loans benefit from drops in the interest rate	Rise in loan repayments if there is an interest rate hike
Savings benefit from high interest rates	Drops in savings from low interest rates

Compound Interest

The previous month's interest is included in your new balance, so you earn interest on interest.

At first, it might not seem like it makes a huge difference - but a high interest rate over some years can be a great way to keep your savings account looking plump and healthy.

Benefits of Compound Interest	The Flip Side
<p>Compound interest will grow your savings faster - which is a bonus from your savings account. It is a more effective way of earning than simple interest, which only works on your initial deposit.</p>	<p>While compound interest is great for your savings account, it is not so good for loan repayments.</p>
<p>For example: If you had R25,000 in a savings account earning 4% simple interest p.a., you would have R30 000 in 5 years.</p>	<p>For <u>loans</u>, your interest is built into the monthly repayments, so you do not have to think about it, but with a credit card debt, it becomes a little trickier. If you are only making the minimum payments on your credit card balance, you're not getting anywhere as far as paying off the principal goes, and interest can compound quickly.</p>
<p>If you had the same R25 000 in a savings account earning 4% p.a. Compounding monthly, you would have R30 525.</p>	

CALCULATING INTEREST ON LOAN

These loans are called amortising loans - which means that the mathematical whizzes at your bank have worked them out so that you pay a set amount each month and at the end of your loan term, you will have paid off both interest and principal.

You can use a calculator to work out how much interest you are paying:

$$\left(\frac{\text{interest rate}}{\text{number of payments}} \right) \times \text{loan principal} = \text{interest}$$

1. Divide your interest rate by the number of payments you will make in the year (interest rates are expressed annually). So, for example, if you are making monthly payments, divide by 12.
2. Multiply it by the balance of your loan, which for the first payment, will be your whole principal amount. This gives you the amount of interest you pay the first month.

So for example, on a personal loan of R30 000 throughout 6 years at 8.40% p.a. and making monthly repayments:

$$(0.084 \div 12) \times 30,000 = 210$$

Because you have now begun to pay off your principal amount, to work out the interest you pay in the following months, you need to first calculate your new balance. So:

$$\text{principal} - (\text{repayment} - \text{interest}) = \text{new balance}$$

1. Minus the interest, you just calculated from the amount you repaid. This gives you the amount that you have paid off the loan principal.
2. Take this amount away from the original principal amount to find the new balance of your loan.

To work out ongoing interest payments, the easiest way is to break it up into a table.

So using the above example, your calculations might look like this:

Month	Starting balance	Repayment	Interest paid	Principal paid	New balance
1	30 000	532	210.00	322.00	29 678.00
2	29 678	532	207.75	324.25	29 353.75
3	29 353.75	532	205.48	326.52	29 027.23
4	29 027.23	532	203.19	328.81	28 698.42
5	28 698.42	532	200.89	331.11	28 367.31

Keeping in mind that doing the calculations yourself means slight discrepancies due to rounding and human error, this should give you a pretty good idea of what you are paying in interest each month.

ASSESSMENT

The business has taken out a loan of R100 000 for a van over 12 months at a fixed interest rate of 10% p.a. and making monthly repayments. Work out the first 6 instalments.

Month	Starting balance	Repayment	Interest paid	Principal paid	New balance
1	100 000	8 500			
2		8 500			
3		8 500			
4		8 500			
5		8 500			
6		8 500			
7					
8					
9					
10					
11					
12					

DEPRECIATION

Depreciation is the decrease of the value of a business asset over its useful life.

- Here is what happens to an asset over time: Let us say the business purchased computer equipment at a cost of R1 000. The average computer lasts ten years, so it decreases in value 10% each year.
- Another example, if you buy a vehicle for R250 000, you calculate depreciation on the R250 000, no matter how you paid for it - cash or credit. If you lease the vehicle, you can still depreciate it, depending on the type of lease.
- Business assets are items of value owned by your business. Most higher-cost business assets are depreciated, because they decrease in value over time, either through use or through obsolescence. When an asset becomes obsolete, it may be from technology passing it by or from physical wear and tear.
- The types of assets that are depreciated are called property, plant, and equipment (PPE). These items include buildings, improvements to your property, vehicles, and all kinds of equipment and furniture.
- Land, however, is not depreciated because it does not decrease in value.
- Some assets have a residual or salvage value at the end of their useful life. This value is not included in the depreciation calculation.
- When an asset has been fully depreciated, it is considered to be "off the books" of the company. That does not mean the asset

is not still useful, but only that the business cannot take any more depreciation expense on that item.

- If the item has a salvage value, that value stays on the books until the item is sold or scrapped.

How Is Depreciation Calculated?

The information needed for calculating depreciation on an asset is:

- The **useful life of the asset**.
- Less the **salvage value** of the asset at the end of its useful life.
- Divided by the **cost of the asset**. The resulting value is called the **book value** of the asset.

For example, the annual depreciation on a machine with a useful life of 20 years, a salvage value of R1 000 and a cost of R50 000 is R2 450 (R50 000 – 1 000/20).

An example of depreciation on the Balance Sheet:

Fixed Assets:	
Motor Vehicle	480 000
<i>Less Depreciation</i>	50 000
Net Motor Vehicle	430 000
Equipment	68 000
<i>Less Depreciation</i>	35 000
Net Equipment	33 000
Total Fixed Assets	463 000

Depreciation is regarded as an expense item on the income statement.

ESTIMATING COST AND SETTING PRICES

Cost of production + overheads + profit = selling price

The price of a product sold by a business is influenced by the following:

COST DRIVERS	EXPLAIN HOW?
Location of the business	
Cost of production	
Competitors' prices	
Uniqueness of the product	
Availability of the product	
Demand of the product	

What method are you using in your business to determine the selling price of your products?

COST ESTIMATION SHEET

RAW MATERIALS			
Description	Quantity needed	Cost per unit	Estimated total cost
Total Raw Materials Cost			

LABOUR				
Occupation	Quantity required	Estimated time	Cost per hour	Estimated total cost
Total Labour Cost				

OVERHEADS				
Description	Calculation method	Estimated time	Cost per unit	Estimated total cost
Total Overhead Cost				

Total Cost Estimate (raw materials + labour + overheads)	
Profit desired %	
Divide by quantity of products	
SELLING PRICE	

ACTIVITY

Sibongile's makes and sells wooden toys at the flea market. Calculate the selling price of the product using the cost estimation sheet above:

1. She has an order for a 100 toys.
2. She needs 20 pieces of wood. The total cost for 20 pieces is R100.
3. She needs one artisan to help her for 80 hours at R25 per hour. She needs to pay herself as a saleslady for 16 hours and R25 per hour.
4. Transport is R500
5. Rent for a table at the flea market is R200
6. She wants a mark-up of 75%.

Why should I re-examine the price after I have made the product?

TRAINING UNIT 6: TAX

WHAT IS THIS TRAINING UNIT ABOUT?

This training unit discusses the various forms of taxation and the tax obligations that come with running a business. The body responsible for collection of taxes is called the South African Receiver of Revenue, commonly referred to SARS. Whether you're running a sole proprietorship, a partnership or a private company, you must be registered with SARS. If you registered a company with the Companies and Intellectual Property Commission (CIPC) CIPC, you will automatically be registered as a tax payer with SARS.

OUTCOMES

At the end of this training unit, you will be able to:

- Explain the various types of taxes.
- Identify the type/s of tax that applies to your business.
- Explain the importance of being tax compliant.

TAX is a compulsory contribution to state revenue, levied by the government on workers' income and business profits, or added to the cost of some goods, services and transactions. A failure to pay, along with evasion of or resistance to taxation, is punishable by law.

NOTE:

When you start your business, take note of the following steps:

- **Register as a tax payer:** Every business is liable for taxation and must register with SARS as a taxpayer.
- **Submit annual tax returns:** Every taxpayer must submit a return of income, twelve months after the end of the financial year. You can submit your returns electronically, via e-filing or manually at the SARS branch where you have registered.
- **Submit provisional tax returns:** In addition to your annual returns, your company has to submit provisional tax returns.

SOME OF THE USES OF TAX INCLUDE:

- Pay government workers' salaries.
- Support service delivery such as police and firefighters.
- Help to ensure the roads you travel on are safe and well-maintained.
- Fund public libraries, hospitals, parks, etc.
- Provide various social services to the people of the country.

Therefore, every business whether small or large, needs to be tax compliant. Fines and penalties are imposed for non-compliance.

EXERCISE

What happens if you don't pay tax (non-compliant)?

List other uses of taxes.

TYPES OF TAXES

There are various types of taxes that need to be paid to SARS. Depending on the type of business you are running, you may be obligated to pay one or more of the following tax:

- Provisional Tax
- PAYE (Pay as you earn)
- VAT (Valued- Added Tax)
- SDL (Skills Development Levy)
- UIF (Unemployment Insurance Fund) contributions
- Customs
- Excise

HOW WILL I KNOW WHICH TYPE OF TAX MY BUSINESS NEEDS TO PAY?

PROVISIONAL TAX

If you are a sole proprietor or have partners, you need to register as provisional tax payers directly. When you start a business, you will be required to register within 60 days of starting a business for an income tax reference number by completing an IT77 form, either at any SARS office or online.

NOTE:

- Provisional tax payments occur by the payment of two instalments in respect of estimated taxable income that will be received or accrued during the relevant year of assessment.
- An optional third payment after the end of the year of assessment.
- The above methods of payment help to avoid making a single substantial normal tax payment on assessment after the end of the year of assessment.

PAY AS YOU EARN (PAYE)

When a firm employs personnel, tax is deducted from the employee's salaries. The advantage of this is that tax liability for a year is paid off over 12 months, instead of a lump sum being charged at one time.

NOTE:

- An employer is, under the law, required to deduct PAYE from the remuneration of employees and pay these amounts deducted over to SARS on a monthly basis.
- PAYE is not a separate tax and is set off against the income tax liability of an employee, calculated on an annual basis in order to determine the employee's final income tax liability for the year of assessment.

VALUE ADDED TAX (VAT)

If your turnover, is or is expected, to fall within the R1 million a year or more range, you will need to register as a VAT (Value Added Tax) vendor. This is done by completing and submitting a VAT101 form, which is available at SARS offices.

VAT applies to almost all goods and services and taxed at a rate of 15%. Examples of items that are vat exempt or zero-rated, include amongst others basic food items such as brown bread, milk and fruit, etc. Certain services are also exempt from VAT, for example educational services, public transport and residential rental accommodation.

NOTE:

- At the end of every tax period a vendor must report the VAT to SARS by submitting a VAT201.
- A vendor may not charge VAT on any exempt supplies.
- A vendor that manually submits a VAT201 return to SARS must ensure that it is received by the 25th of the month following the end of the vendor's tax period.
- Payment must be made electronically or over the counter at the bank.
- A vendor that makes use of eFiling to submit the VAT201 return and makes payment electronically (that is, on SARS' eFiling facility or effected by EFT through internet banking) must ensure that the VAT201 return and the payment are received by no later than the last business day of the month following the end of the vendor's tax period.

SKILLS DEVELOPMENT LEVY (SDL)

If your payroll is more than R500,000 a month, you will have to register for payment of the Skills Development Levy (SDL). In order to do this, you need to complete an EMP101 form at any SARS office. This includes sections for contributions to the Unemployment Insurance Fund (UIF) and payment of the SDL.

CUSTOMS AND EXCISE TAXES

This tax is levied as a specific duty on tobacco and liquor and also on cosmetics, televisions, audio equipment and motor cars, according to their cost and market value.

WHERE DO I PAY MY TAXES?

- Directly to the SARS office in your area; or
- eFiling

WHAT IS eFILING?

- eFiling is a free online service for the submission of tax returns and related functions.
- This service allows individual taxpayers, tax practitioners and businesses to submit tax returns, make payments and perform many other interactions with SARS in a secure online environment.
- You can register free of charge for eFiling.

EXERCISE

What type of business do you have? Is it a sole propriety, partnership, closed company, etc?

What type of tax/es do you think your business is obligated to pay? Explain.

Would you choose the manual method or eFiling to submit your tax returns? Give reasons for your choice.

TRAINING UNIT 7: BUSINESS ETHICS

WHAT IS THIS TRAINING UNIT ABOUT?

This training unit discusses the importance of practising business ethics.

Business ethics are not just designed for big businesses and public organisations. Whether a business employs thousands of workers or one worker, business ethics are an important aspect of any work environment.

A common ethical problem may have a significant impact on small business and large corporations. When unethical behaviour becomes widespread, it affects the country. Discrimination, prejudice, or disputes between employers and employees all have an impact on how well a business is likely to run.

OUTCOMES

At the end of this training unit, you will be able to:

- Understand what is business ethics.
- Identify instances of unethical behaviour.
- Practice business ethics.
- Put ethics into the culture of the business.

QUESTIONS

Please answer the questions below.

What is ethics?

Why should we practise business ethics?

List examples of ethical and unethical business behaviour.

Ethical Business Behaviour	Unethical Business Behaviour

What are the possible effects of unethical behaviour on a business?

TWELVE ETHICAL PRINCIPLES FOR BUSINESS PEOPLE

1. HONESTY
2. INTEGRITY
3. TRUST
4. LOYALTY
5. FAIRNESS
6. EMPATHY
7. RESPECT
8. LAW ABIDING
9. EXCELLENCE
10. LEADERSHIP
11. REPUTATION
12. ACCOUNTABILITY

Discuss in groups
what each
principle means
and give
examples.

TRAINING UNIT 8: BUSINESS PLAN

WHAT IS THIS TRAINING UNIT ABOUT?

This training unit discusses how to draw up a business plan. A business plan is the blueprint for your business. It should give you a clear view of what you are aiming for, as well as your business's strengths, weaknesses, opportunities and threats (SWOT analysis) in your business environment.

A business plan is a vital tool for any size of business. It helps to define a new business; support a loan application; raise equity funding; define objectives and describe programmes to achieve those objectives; evaluate a new product line, promotion, or expansion; and create a regular business review and course correction process.

OUTCOMES

At the end of this training unit, you will be able to:

- Explain why it is necessary to draw up a business plan.
- Discuss the components of a business plan.
- Develop a business plan.

Your business plan is your map. Like all plans, it will not be cast in stone but will be subject to constant reviews and changes. Try to prepare a comprehensive but succinct plan. This will make it easier for investors and lenders to understand and comment on it.

Your business plan must explain the following:

1. What you intend doing?
2. How you will do it?
3. When you intend doing it?
4. Why you believe the venture will succeed?

SAMPLE BUSINESS PLAN TEMPLATE

Business Plan

for

"Business Name"

"Date"

"Business Address"

"Phone"

"email"

"website"

If addressing to a company or individual include:

Presented to:

"Name"

"Company or Financial Institution"

COMPONENTS OF BUSINESS PLAN

	<p>Executive Summary.....</p> <p>Business/Industry Overview.....</p> <p>Market Analysis and the Competition...</p> <p>Sales and Marketing Plan.....</p> <p>Ownership and Management Plan.....</p> <p>Operating Plan.....</p> <p>Financial Plan.....</p> <p>Appendices and Exhibits.....</p>	
	Section 1: Executive Summary	
	<ul style="list-style-type: none"> • Describe your <u>mission</u> - what is the need for your new business? • Introduce your company and the management and ownership. • Describe your main product and service offerings. • Briefly describe the customer base you will be targeting and how your business will serve those customers. • Summarise the competition and how you will get market share (i.e., what is your competitive advantage?) • Briefly outline your financial projections for the first few years of operation. • Describe your <u>start-up financing</u> requirements (if applicable). 	
	Section 2: Business/Industry Overview	
	<ul style="list-style-type: none"> • Describe the overall nature of the industry, including sales and other statistics. Include trends and demographics, and economic, cultural, and governmental influences. • Describe your business and how it fits into the industry. • Describe the existing competition. 	

	<ul style="list-style-type: none"> Describe what <u>area(s) of the market you will target</u> and what <u>unique, improved or lower cost services you will offer</u>. 	
	Section 3: Market Analysis and the Competition	
	<ul style="list-style-type: none"> Define the target market(s) for your product or service in your geographic locale. First, you'll want to read the <u>Define Your Customer Before Marketing</u>. Describe the need for your products or services. Estimate the overall size of the market and the units of your product or service the target market might buy, potential repeat purchase volume, and how the market might be affected by economic or demographic changes. Estimate the volume and value of your sales in comparison with any <u>existing competitors</u>. It helps to summarise the results in table form as in the following example which demonstrates that there is a gap in the high-quality sector of the market that your business intends to target. 	
	Section 4: Sales and Marketing Plan	
	<p>Product or Service Offerings</p> <ul style="list-style-type: none"> Describe your product or service, how it benefits the customer, and what sets it apart from competitor offerings (i.e., what is your <u>Unique Selling Proposition?</u>). <p>Pricing Strategy</p> <ul style="list-style-type: none"> Describe how you intend to price your product or service. <p>Sales and Distribution</p> <ul style="list-style-type: none"> Describe how you will distribute your products to the customer (if applicable). Will you be selling wholesale or retail? What type of packaging will be required? How will the product(s) be shipped? What methods will be used for payment? 	

	<p>Advertising and Promotion</p> <ul style="list-style-type: none"> • List the different media you will use to get your message to customers (e.g. <u>business website</u>, email, <u>social media</u>, traditional media like newspapers, etc.). Will you use <u>sales promotional</u> methods such as free samples, product demonstrations, etc.? • What marketing materials you'll use such as <u>business cards</u>, flyers, <u>brochures</u>, etc. What about product launches and <u>tradeshows</u>? Include an approximate budget for <u>advertising</u> and promotion. 	
	<p>Section 5: Ownership and Management Plan</p>	
	<p>Ownership Structure</p> <ul style="list-style-type: none"> • Describe the legal structure of your company (e.g. <u>corporation</u>, <u>partnership</u>, <u>Limited Liability Company</u>, or <u>sole proprietorship</u>). List ownership percentages if applicable. If the business is a sole proprietorship, this is the only section required. <p>Management Team</p> <ul style="list-style-type: none"> • Describe managers and their roles, key employee positions, and how each will be compensated. Include brief resumés. <p>External Resources and Services</p> <ul style="list-style-type: none"> • List any external professional resources required, such as <u>accountants</u>, lawyers, <u>consultants</u>, etc. <p>Human Resources</p> <ul style="list-style-type: none"> • List the type and number of <u>employees</u> or <u>contractors</u> you will need and an estimate of the salary and benefit costs of each. 	
	<p>Section 6: Operating Plan</p>	

	<p>Production</p> <ul style="list-style-type: none"> • <i>For manufacturing, explain how long it takes to produce a unit and when you'll be able to start producing your product or service.</i> <p>Facilities</p> <ul style="list-style-type: none"> • <i>Describe the physical location of the business including location, land, and building requirements.</i> <p>Staffing</p> <ul style="list-style-type: none"> • <i>Outline expected staffing needs and the main duties of staff members, especially the key employees.</i> <p>Equipment</p> <ul style="list-style-type: none"> • <i>Include a list of any specialised equipment needed.</i> <p>Supplies</p> <ul style="list-style-type: none"> • <i>If your business is manufacturing, retail, food services, etc. include a description of the materials needed and how you will reliably source them.</i> 	
Section 7: Financial Plan		
	<p>Income Statement</p> <ul style="list-style-type: none"> • <i>The Income Statement shows your projected Revenues, Expenses and Profit.</i> <p>Cash Flow Projection</p> <ul style="list-style-type: none"> • <i>The Cash Flow projection shows your monthly anticipated cash revenues and disbursements for expenses.</i> <p>Balance Sheet</p> <ul style="list-style-type: none"> • <i>The Balance Sheet is a snapshot summary of the assets, liabilities, and equity of your business at a particular point in time.</i> 	
Section 8: Appendices and Exhibits		

	<ul style="list-style-type: none">• <i>Possible Appendix/Exhibit Items</i>	
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