Business FINANCE

FINANCES AND BUSINESS

FSCA
MyMoney
Learning Series

FSCA
Financial Sector
Conduct Authority

Content

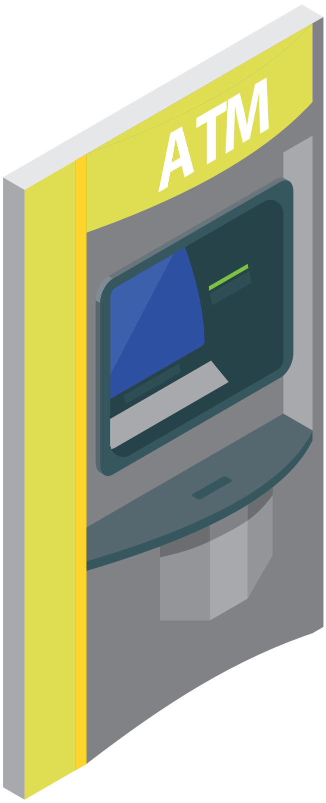
Taking care of cash

Control your spending

Account for every cent that is spent in the business.

Rainy day reserves

If you have a good month, it does not mean you must spend more. Some businesses have good and bad months so you must save money from your good months to keep your business running in the bad months.



Get help

If you are not sure how to manage the finances in your business seek professional help.

Prioritise your spending

Being able to prioritise spending is crucial and knowing what's necessary vs "nice to have" can make the difference between success and going out of business.

Follow up on money owed to you

Never let customers get away with money they owe you.

Pricing

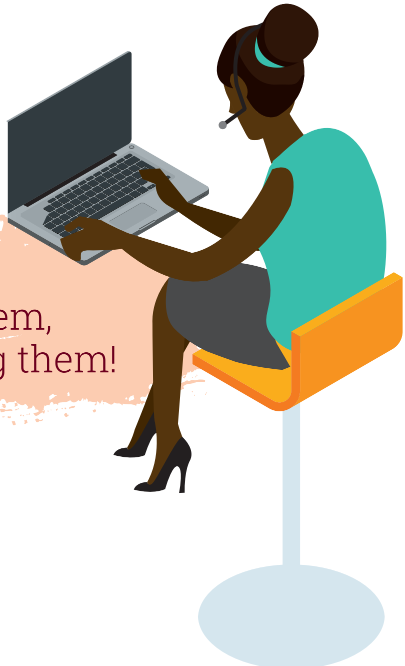
Make sure your goods and services are priced correctly.

Keep your cash safe

If your turnover increases, the safest place to keep your cash is in a bank.

Hire smart

Never skip the steps to make sure the person you hire is a good fit for your business, even if they are family and friends.



Remember:
You are not hiring them,
the **business** is hiring them!

Financial reports

The company is required to create the following financial statements.

A balance sheet

The balance sheet lists the assets and the corresponding claims (i.e. liabilities and equity). Logically, the assets must have the source, so they balance with the claims. That is why the total claims are equal to the total assets.

The balance sheet is a good example of the use of the accounting equation:

✔ **Assets = Liabilities + owner's equity**

Balance sheet
For the period ended 2018

Assets	R15,000
Total assets	R15,000
Liabilities	R4,000
Equity	
Contributed capital	R10,000
Retained earnings	R1,000
Total equity	R11,000
Total liability and equity (Claims)	**R15,000**

These financial statements are what we will be using later in order to do a financial analysis.

An income statement

The income statement measures the difference between the assets increase and the assets decrease. The assets increase from the operating activities is labelled revenues. The assets decrease is called expenses.

The difference between revenues and expenses is called **net income** (if revenues are greater than expenses) or net loss (if vice versa).

Income statement
For the period ended 2018

Revenues (i.e., assets increase)	R5,000
Expenses (i.e., assets decrease)	R2,000
Net income (i.e., change in net assets)	**R3,000**

R5,000 - R2,000 = R3,000

Financial reports

A cash flow statement

The cash flow statement shows how a company obtained and used cash. The sources of cash are called cash inflows, and the uses are known as cash outflows.

Cash flow statement
For the period ended 2018

Cash flows from operating activities	
Cash receipts from revenue	R7,000
Less cash payments for expenses	(R4,500)
Net cash flow from operating activities	**R2,500**
Cash flows from investing activities	R0,00
Cash flows from financing activities	
Cash receipts from borrowed funds	R10,000
Cash receipts from capital acquisitions	R1,000
Less cash payments for distributions	(R1,500)
Net cash flow from financing activities	**R12,500**
Net increase in cash	R15,000
plus: beginning cash balance	R0,00
Ending cash balance	**R15,000**

The statement classifies cash inflows and cash outflows into three categories:

- **Financing activities -**
  describe the cash transactions associated with the resource providers (i.e. owners and creditors).
- **Investing activities -**
  include cash received or spent by the business on productive assets and investments in the debt or equity of other companies.
- **Operating activities -**
  explain the cash generated through revenue and the cash spent on expenses.

Competitive pricing

Cost

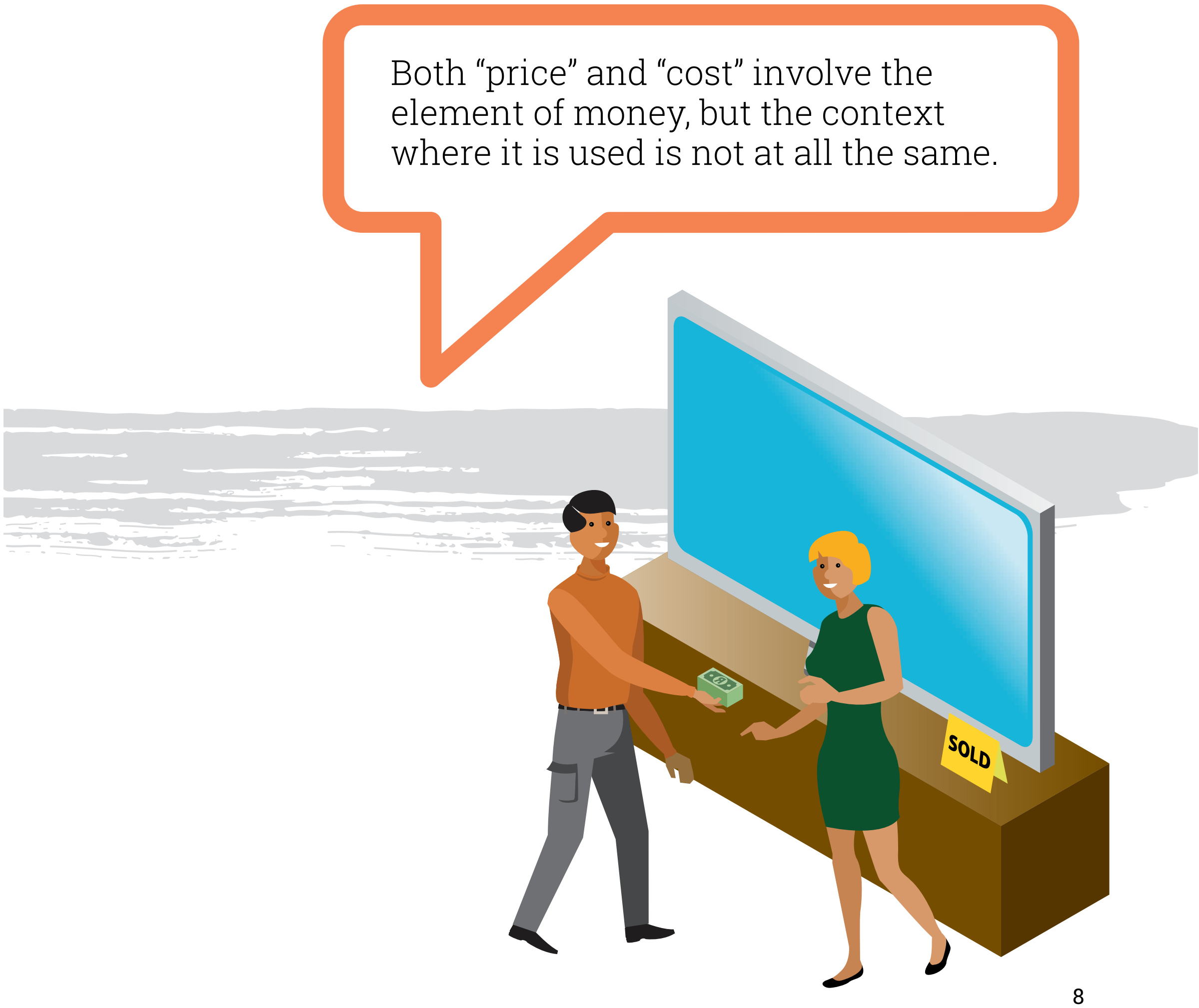
"Cost" is the amount paid to produce a product or service before it is marketed or sold to its intended consumers.

Cost can include:

- Labour
- Capital
- Materials
- Bills
- Salaries
- Wages of workers

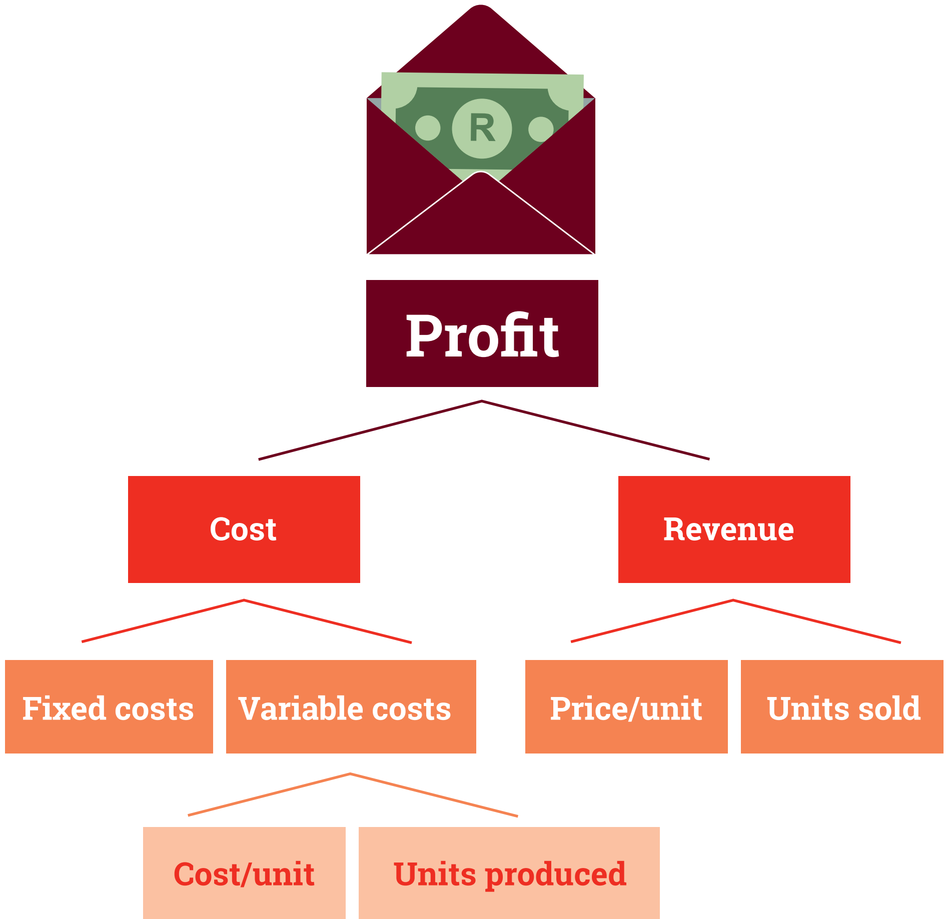
Price

"Price" refers to the money given to the seller for the product while "cost" involves the seller's money to produce values.



Cost Revenue Profit

✔ **Profit = Revenue - Cost of Goods Sold**



Business and Finance

Profit

Profit is the amount of money a company makes after it has subtracted the cost of goods.

Revenue

The income generated from the sale of goods or services.

Cost

The amount to produce the product or service, costs such as wages, rent, fuel or raw materials.

Fixed costs

Fixed costs are costs that tend to remain the same regardless of production output.

Variable costs

Variable costs are those costs that vary depending on a company's production volume; they rise as production increases and fall as production decreases.

Price / unit

The price charged for the product or service.

Units sold

The amount of products or services sold.

Cost / unit

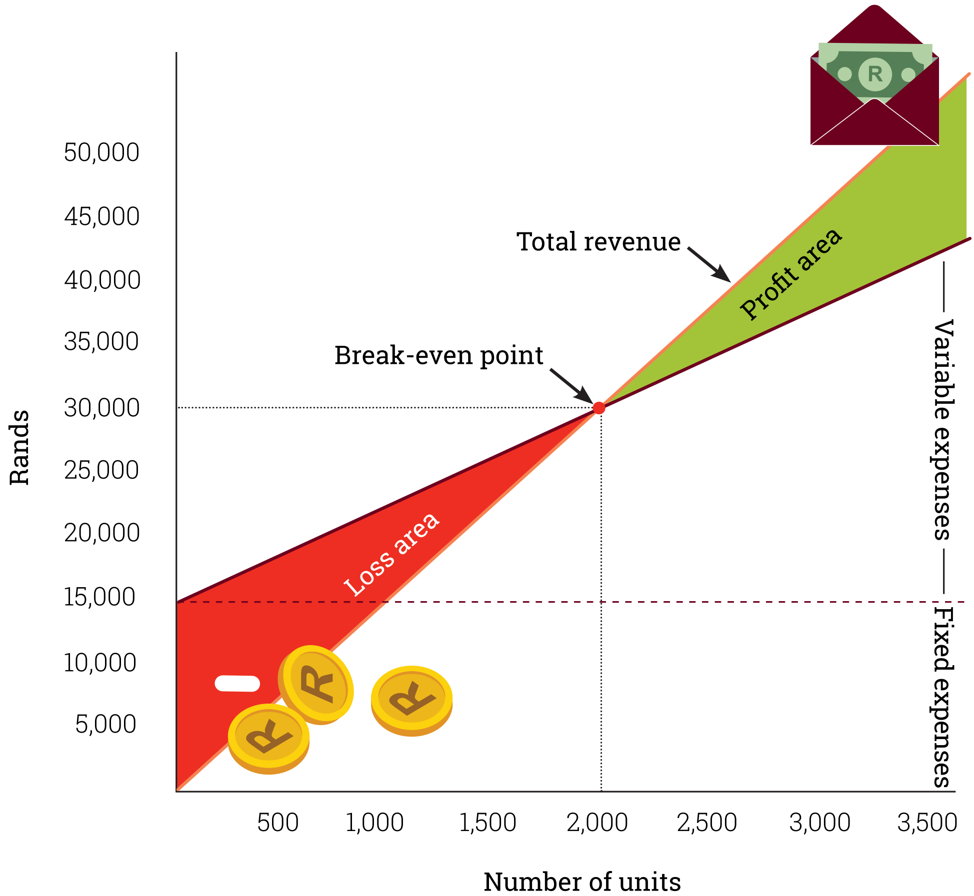
The amount it costs to produce each unit.

Units produced

The amount of units made.

Break-even

Break-even graph



Understanding the graph

Here's a simple example:

- The total costs of operating the business each month are R10,000.
- Each product the company produces can be sold for R1,000.
- Each product costs an average of R800 per unit to produce, sell and deliver.
- The profit contribution per unit is, therefore, R200 each.
- The amount R200 is divided into R10,000 to determine the break-even point.
- Next, R10,000 divided by R200 equals 50 units.
  The company must, therefore, sell 50 units per month to break even or approximately two units per business day.
- Only after the company has sold 50 units in one month does it begin to earn a profit of R200 per unit.

Notes

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"The purpose of this booklet is to help you monitor and manage cash within a business."

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