



## Introduction

Running a business is about the management of people, products and processes. It is also about monitoring cash within the business.

A successful business needs a strong foundation in both practical and financial management. This involves not only tracking cash flow but also understanding key concepts like cost, revenue, profit, and the importance of accurate financial reports. Effective business management requires careful planning, control over spending, prioritising resources, and making informed decisions based on financial data.



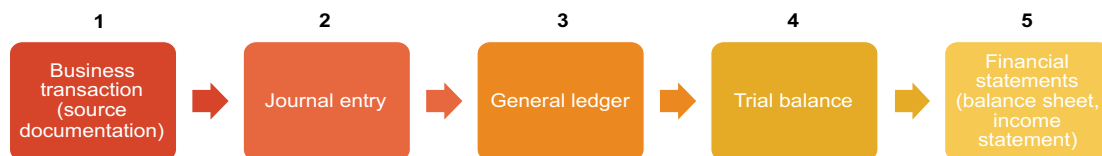


## 1. Accounting cycle

The accounting cycle is a series of steps that record an accounting event from the time a transaction occurs to its reflection in the financial statements. This process will guide you through the requirements to manage and monitor your cash flow.

The steps in the accounting cycle are:

- Registering the transaction
- Recording it in a journal
- Posting to the ledger
- Preparing a trial balance
- Preparing financial statements



## 2. Take care of cash

The very first thing you need to learn when you start a business is that the money is not yours. It belongs to the business.



**NOTE:** Keep business and personal finances separate! Read more in the Keep personal and business finances separate section further below.

Cash is the lifeblood of a business – the fuel that keeps the engine running. Trying to run a business without monitoring the cash flow is setting the business up for failure before it has even started.

Cash flow refers to the movement of money into and out of a business. For example, when you sell a product, the money received from customers flows into the business. When you buy goods to make your product, money flows out of the business as payment for those goods.

**Example:**

Imagine you make scones and sell them for R5 each. If you sell 20 scones, R100 will flow into your business. If the ingredients to make more scones cost R40, that R40 will flow out of your business when you buy those ingredients.



## More about



### Finances and business

#### 2.1 Control your spending

Every cent that you spend from the business must be tracked. This can be done by keeping the slips and entering the amounts into a book or setting up a spreadsheet on your computer.

During the startup stage of your business, you must track expenses daily.

#### 2.2 Rainy day reserves

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

##### Example:

You sell cool drinks at the taxi rank. In summer, people drink a lot more cool drinks because it is hot, so you will make more money. In winter, people drink less cool drinks so you will make fewer sales. You need to save some of the money you make in the hot months to keep your business going in the cold months, or evolve your business model to sell hot drinks in winter.

#### 2.3 Get help

If you are not sure how to manage the finances of your business, seek professional help from authorised individuals and/or providers, for example, an accountant.

#### 2.4 Prioritise your spending

Being able to prioritise spending is crucial. Knowing what's necessary vs. "nice to have" can make the difference between success and going bust. Buying in bulk is often a good idea, but if you only have enough cash for a few products, it may be better to buy only what you need.

#### 2.5 Follow up on money owed to you

New businesses often face the challenge of managing customer payments and may be tempted to allow delayed payments in order to attract or retain customers. However, offering extended payment terms can create cash flow issues and financial instability. Businesses should establish clear payment policies and ensure timely follow-ups on outstanding invoices to maintain financial health and sustainability. Allowing customers to delay payments should be avoided unless it is a core part of the business model, such as in banking or credit services.

#### 2.6 Pricing

Make sure your goods and services are priced correctly. It is no good selling a lot of products if you are not making money.

#### 2.7 Keep your cash safe

There are many stories about small business owners who have been scammed or ripped off by someone they trusted with their hard-earned cash. Keep your cash safe and locked away. If your turnover increases, the safest place to keep your cash is in a bank.

You must have controls in place in your business to protect what you have worked so hard to achieve.



2.8 Hire smart

We all want to protect and support our own. It could be your niece, nephew, neighbour, friend’s husband or wife, trusted colleague, or someone you have known for a good long time.

They may well be someone you trust. But that does not mean you can skip the steps of making sure they are a good fit for your business. No matter who you are hiring, you need to conduct a background check to ensure there are no surprises. You also need to conduct an interview to confirm their values are the kind you want demonstrated in your business. Consider their skills and how they can add to the success of your business.

NOTE: Remember the business is hiring them, not you personally.

3. Financial reports

A company is required to create a balance sheet, an income statement and a cash flow statement. These financial statements are what we will be using later to do a financial analysis.

3.1 A balance sheet

Table with 2 columns: Description and Amount. Title: Balance sheet for the period ended 2020. Rows include Assets (R15,000), Total assets (R15,000), Liabilities (R4,000), Equity (Contributed capital R10,000, Retained earnings R1,000), Total equity (R11,000), and Total liability and equity (Claims) (R15,000).

A balance sheet shows the assets the business owns, and who has a claim to those assets (liabilities and equity). The key idea is that the total value of the assets must match the total claims on those assets because every asset must come from a source (either debt or owner investment).

In this example:
The total assets are R15,000, representing everything the business owns.
The claims on these assets are split into:
Liabilities (amounts owed to others): R4,000
Equity (ownership claims): R11,000 (R10,000 contributed by owners + R1,000 retained earnings)
Since the total liabilities and equity add up to R15,000, they balance with the total assets, as they should.

NOTE: The balance sheet is a good example of the use of the accounting equation: Assets = Liabilities + Owner’s equity



Business owners can use technology and free resources to streamline payment processes and improve cash flow management.

- Tools like Wave, QuickBooks or Zoho Invoice offer automated invoicing and reminders for overdue payments
- AI-powered platforms like Melio can identify late payment patterns and adjust terms.
- Customer relationship management (CRM) tools such as HubSpot CRM allow tracking of payment histories and automating follow-ups.
- Payment gateways like Yoco or Square facilitate instant digital payments, reducing delays.
- Free resources like Google Sheets templates for cash flow.
- Guides from platforms like FSCA MyMoney provide valuable support to set up effective payment systems.
- You can also access FSCA's business simulation app, BasingaBiz App (available on App Gallery, the Apple App Store and Google Play Store).

 For more information, visit the [FSCA MyMoney website](#). Contact details provided in the [FSCA MMLS contact list](#).

### 3.2 An income statement

Income statement For the period ended 2020	
Revenues (i.e. assets increase)	R5,000
Expenses (i.e. assets decrease)	R2,000
Net income (i.e. change in net assets)	R3,000

The income statement measures the difference between the asset increase and the asset decrease. The asset increase from the operating activities is labelled revenues. The asset 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).

### 3.3 A cash flow statement

Cash flow statement For the period ended 2020	
Cash flows from operating activities	
Cash receipts from revenue	R7,000
Cash payments for expenses	(R4,500)
Net cash flow from operating activities	R2,500
Cash flows from investing activities	R0
Cash flows from financing activities	
Cash receipts from borrowed funds	R4,000
Cash receipts from capital acquisitions	R10,000
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
<b>Ending cash balance</b>	<b>R15,000</b>



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. 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.

## 4. Competitive pricing

Before you start setting the prices for your goods, you need to understand the difference between cost and price.

### 4.1 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 and wages of workers. The term can also refer to the amount of money needed to maintain a product or a service. Both “price” and “cost” involve the element of money, but the context where it is used is not at all the same.

### 4.2 Price

“Price” refers to the money given to the seller for the product, while “cost” involves the seller’s money that is needed to produce value.

### 4.3 Fixed and variable costs

When you start your own business, you will have a lot of bills you need to pay. These bills are called costs to your business.

There are two types of costs:

- Variable costs
- Fixed costs

#### 4.3.1. 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.

Examples of variable costs are:

- Telephone
- Electricity
- Casual labour
- Raw materials



4.3.2. Fixed costs

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

Examples of fixed costs are:

- Rent
- Advertising
- Insurance

4.4 Factors affecting price setting

4.4.1. Internal factors

Remember the cost of your product or service is the amount it costs to make your product.

The internal factors that will influence the price you charge are:

- Business running costs
- Your market position
- Business objectives
- Marketing strategy
- Market share

4.4.2. External factors

The external factors that will influence the price you charge are:

- The demand for your product or service
- Consumer expectations
- Competition (same product, related products)
- Government regulations



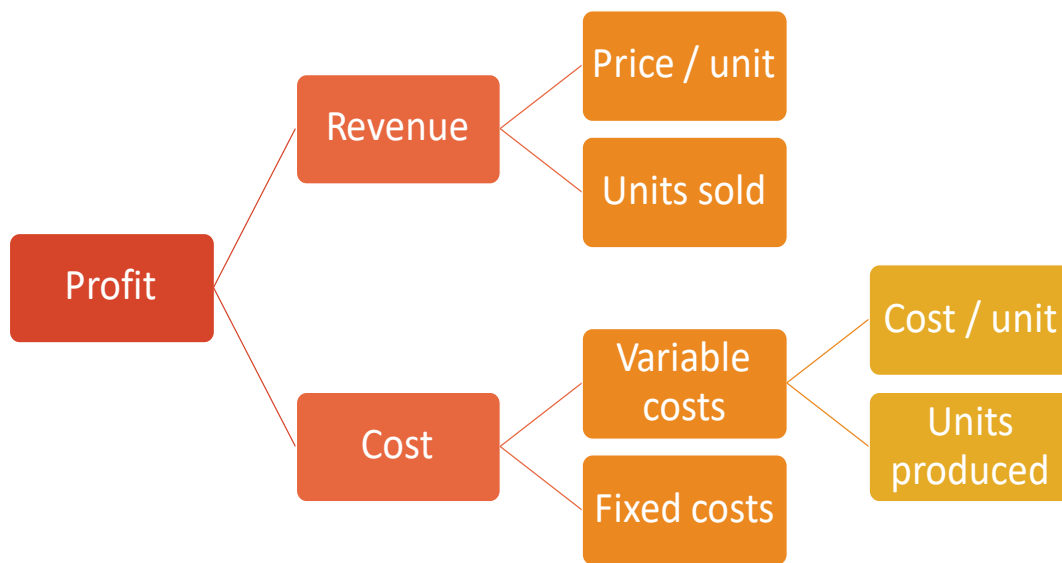
NOTE:

- Profit = Total revenue – Total costs
- Revenue = Price x Quantity sold

## 5. Cost, revenue, profit

### 5.1 Profit

Profit equals revenue minus cost.



### 5.2 Gross profit

Gross profit is the profit a company makes after deducting the costs associated with making and selling its products, or the costs associated with providing its services. Gross profit will appear on a company's income statement and can be calculated with this formula:

- $\text{Gross profit} = \text{Revenue} - \text{Cost of goods sold.}$

### 5.3 Net profit before tax

Operating profit less interest and depreciation.

### 5.4 Net profit after tax

Net profit before tax less tax.

### 5.5 Revenue

Revenue can come from various sources, including advertising and product sales, but is normally thought of as being a function of price per unit and units sold.

- Operating revenues
- Other revenues
- Non-operating revenues



**5.6 Cost**

5.6.1. Operating costs

Gross profit less costs such as wages, rent, fuel, and raw materials, but before the deduction of interest payment and tax.

5.6.2. Expenses

- Operating expenses
- Capital expenditure
- Financial expenses

5.6.3. Economic profit

Net profit after tax minus the equity charged.

5.6.4. Amortisation

The amount you pay off on loans.

**5.7 Assessing suppliers**

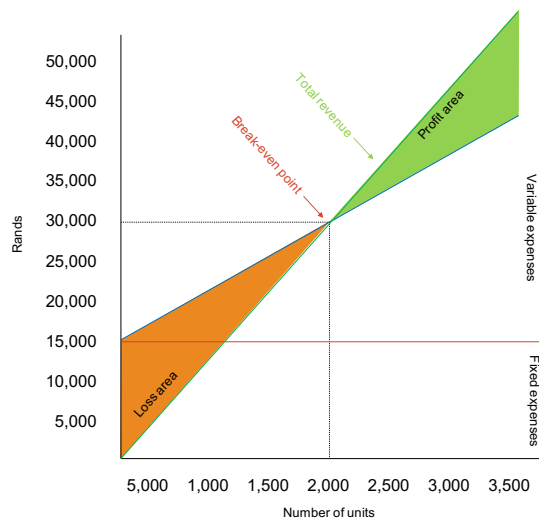
When deciding to use a supplier, you need to consider a number of factors:

- Price
- Reliability
- Relevance

Suppliers should offer competitive pricing, reliability, and relevant products or services that support your business's profitability and market share.

**6. Break-even point**

The graphical presentation of rand and unit sales needed to break even is known as the break-even point:





## More about



Finances and business

### 6.1 Understanding the graph

The number of units is shown on the horizontal X-axis, while the Rand is displayed on the vertical Y-axis.

The straight line in red colour represents the total annual fixed expenses of R15,000.

The blue line represents the total expenses. Notice that the line has a positive or upward slope that indicates the effect of increasing variable expenses with the increase in production.

The green line with a positive or upward slope indicates that every unit sold increases the total sales revenue.

The total revenue line and the total expenses line cross each other. The point at which they cross each other is the break-even point. Notice that the total expenses line is above the total revenue line, before the point of intersection and below after the point of intersection. This tells us that the business suffers a loss before the point of intersection and makes a profit after this point. The break-even point in the above graph is 2,000 units or R30,000.

The difference between the total expenses line and the total revenue line before the point of intersection (BE point) is the loss area. The loss area has been filled with an orange colour. Notice that this area reduces as the number of units sold increases. It means every additional unit sold before the break-even point reduces the loss.

The difference between the total expenses line and the total revenue line after the point of intersection (BE point) is the profit area. The profit area has been filled with a green colour. Notice that this area increases as the number of units sold increases. It means every additional unit sold after the break-even point increases the profit of the business.

### 6.2 Break-even point

How soon will your business be profitable? The break-even analysis lets you determine what you need to sell, monthly or annually, to cover your costs of doing business. This is your break-even point. The break-even analysis calculates a break-even point based on fixed costs, variable costs per unit of sales, and revenue per unit of sales.

Conducting an accurate break-even analysis requires a careful examination and study of costs and prices in your business. You must know what your product or service costs in total to deliver to the final customer, as well as the price you can charge for the product or service. Also include and deduct all miscellaneous expenses involved in operating your business.

To get started, analyse every product or service you produce and sell on a regular basis. Make a list of these products or services, starting from the largest volume seller. Next, calculate the average sales price of each unit, and then calculate the total cost of each unit.

Then, calculate the net profit that you earn on the sale of each unit, and calculate the cost of the investment to produce and sell each unit. Determine the percentage of return/profit that you earn from the sale of each unit.

It's important to organise each of your products and services by priority, in terms of their contribution to profitability. The analysis should be done on each of your important products or services.



Get started by determining:

- Your most profitable product/service
- The volume of sales of each product
- The total profit per unit of each product sold, after deducting every direct and indirect expense
- The total profit contribution to the company of each product

#### Example

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 of R200 is divided into R10,000 to determine the break-even point.

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.

## 7. Keep personal and business finance separate

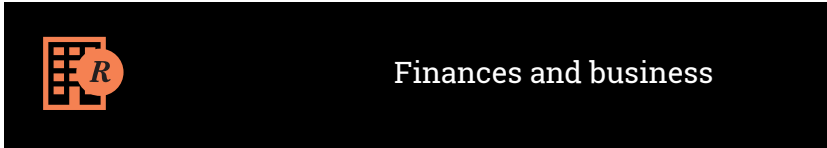
It is important for an entrepreneur to keep personal and business finances separate for several reasons:

- Protecting personal assets: Keeping finances separate protects personal belongings from business debts and legal issues.
- Simplifying financial management: Separate accounts make it easier to track income and expenses, allowing for better budgeting.
- Easier tax preparation: Distinct finances simplify tax reporting and help identify deductible business expenses, reducing the risk of errors.
- Maximising tax deductions: Separate accounts allow entrepreneurs to fully benefit from available tax deductions.
- Enhancing professionalism: Using a dedicated business account shows professionalism to clients and suppliers, building trust.
- Streamlining bookkeeping: Separate accounts simplify bookkeeping and make it easier to generate financial statements.
- Improving financial reporting: Clear separation aids in accurate financial reporting, helping with informed decision-making.
- Building business credit: Keeping finances separate helps establish a strong credit history for the business, which is important for future loans.

By maintaining separate finances, entrepreneurs can protect their assets and ensure better financial management, contributing to their business's success.



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