



New Venture Level 2:

Lecture: Mr. Popane

**Topic: Financial requirements of a
new Business venture**

Outcomes:

- ❖ Determine income and expenditure of a new venture:
- ❖ Determine the financial and cash flow requirements of new venture:
- ❖ Implement pricing and costing principles:
- ❖ Identify resources to obtain start-up capital.

Financial and cash flow requirements of a new venture

The learning outcomes of this section:

- ❖ Explain financial and cash flow requirements for a new venture;
- ❖ Provide examples of financial requirements. Financial requirements include, but are not limited to start-up costs, running costs, capital investment costs for growth of business, staff costs.
- ❖ Determine start-up costs requirements according to financial capacity and resources available:
- ❖ Determine financial and cash flow requirements for few a new venture according to a certain category
- ❖ Explain profit and loss in relation to financial requirements and market needs of new venture
- ❖ Explain relationship between “cash flow” and “profit” with examples

Forecast cash-Flow statement

A forecast cash-flow statement deals with the flow of cash in your business. In its about money coming into the business and money going out **MONEY IN VS MONEY OUT**. Anything bought on credit, sold on credit, owed to you, or the other way around, is not shown on your cash-flow, It is only when money has been received or paid that is shown on the cash-flow statement.

Cash-flow calculations

To calculate the cash flow you need to calculate the following things.

- ❖ Your expected monthly sales volume
- ❖ The percentage of cash and the payment patterns of debtors
- ❖ The cash payments you will need to make to your suppliers
- ❖ Your fixed monthly costs, all those monthly payments such as rent and electricity.

Example of a Cash Flow.

Cash flow statement for George's Catering for the year ended 31st of May 2010	
	\$
CASH FLOW FROM OPERATING ACTIVITIES	
Cash receipts from customers (10,500 + 5,000)	15,500
Cash paid to suppliers and employees (4,000 + 200)	<u>(4,200)</u>
Cash generated from operations	11,300
Net cash flow from operating activities	<u>11,300</u>
CASH FLOW FROM INVESTING ACTIVITIES	
Additions to equipment	(12,000)
Net cash flow from investing activities	<u>(12,000)</u>
CASH FLOW FROM FINANCING ACTIVITIES	
Proceeds from capital contributed	15,000
Drawings	(500)
Proceeds from loan	5,000
Payment of loan	<u>(4,000)</u>
Net cash flow from financing activities	<u>15,500</u>
NET INCREASE/DECREASE IN CASH	14,800
Cash at the beginning of the period	-
Cash at the end of the period	<u>14,800</u>

Steps in Making a Cash-Flow Statement

1. **Step1:** Determine all your fixed monthly cost-payments that stay same every month.
2. **Step2:** Identify payments that you can schedule and are not due every month. Predict payments like licenses and certain equipment purchase form part of this.
3. **Step3** Your sales forecast is used. Special attention must be given to seasonal sales patterns and customers; buying patterns. Special events that might influence your sales must also be taken into consideration.
4. **Step4:** Fill in your purchase (variable payments) in accordance with your project sales pattern.
5. **Steps 5** Include other payments such tax.
6. **Step 6:** Work out your cash-Flow for the entire first year.

Try and Do Activity 10 and Activity 11 for Friday on Page 85 -86 !!!!

Keeping Financial Records

Business must take keep records of all business transactions all order to compile the following 3 key financial statements that explain the financial position of the company : These are:

- ❖ Income statement
- ❖ Balance Sheet
- ❖ Cash-Flow statement

Example of source documents

- ▶ Receipts and Cash register slips
- ▶ Sales invoice and delivery notes
- ▶ Bank statement and Petrol slips
- ▶ Cheques and Bank deposit slips

Example of Receipt

Original Korean Receipt	Interpreted in English																																																																								
<p style="text-align: center;">영 수 증</p> <p>상 호: 팬도로시_울산유니스트 1호점 사업자번호: 107-86-09325 대표자: 이규홍 주 소: 울산 울주군 언양읍 유니스트길 50 전화번호:</p> <p>2016년08월08일 13:28 No:0068 01-점장</p> <table border="1"> <thead> <tr> <th>메뉴명</th> <th>단가</th> <th>수량</th> <th>금액</th> </tr> </thead> <tbody> <tr> <td>ICE아메리카노</td> <td>2,000</td> <td>1</td> <td>2,000</td> </tr> <tr> <td>ICE카푸치노</td> <td>2,500</td> <td>1</td> <td>2,500</td> </tr> <tr> <td colspan="3">판매금액</td> <td>4,500</td> </tr> <tr> <td colspan="3">과세상품금액</td> <td>4,091</td> </tr> <tr> <td colspan="3">부가세(VAT)금액</td> <td>409</td> </tr> <tr> <td colspan="3">받을금액</td> <td>4,500</td> </tr> <tr> <td colspan="3">내신금액</td> <td>4,500</td> </tr> <tr> <td colspan="3">신용카드</td> <td>4,500</td> </tr> </tbody> </table> <p>진동벨번호 : 13</p>	메뉴명	단가	수량	금액	ICE아메리카노	2,000	1	2,000	ICE카푸치노	2,500	1	2,500	판매금액			4,500	과세상품금액			4,091	부가세(VAT)금액			409	받을금액			4,500	내신금액			4,500	신용카드			4,500	<p style="text-align: center;">RECEIPT</p> <p>Store: Pan Dorothy, Ulsan UNIST #1 Store number: 107-86-09325, Manager: Lee Address: Unist St. 50, Ulju-Gun, Ulsan</p> <p>08/08/2016, 13:28 No:0068 01-Manager</p> <table border="1"> <thead> <tr> <th>Menu</th> <th>Price</th> <th>Quant.</th> <th>Total price</th> </tr> </thead> <tbody> <tr> <td>Ice Americano</td> <td>2,000</td> <td>1</td> <td>2,000</td> </tr> <tr> <td>Ice Cappuccino</td> <td>2,500</td> <td>1</td> <td>2,500</td> </tr> <tr> <td colspan="3">Total price</td> <td>4,500</td> </tr> <tr> <td colspan="3">Before tax</td> <td>4,091</td> </tr> <tr> <td colspan="3">Tax (VAT)</td> <td>409</td> </tr> <tr> <td colspan="3">Total price</td> <td>4,500</td> </tr> <tr> <td colspan="3">Amount of pay</td> <td>4,500</td> </tr> <tr> <td colspan="3">Credit card</td> <td>4,500</td> </tr> </tbody> </table> <p>Order Number:13</p>	Menu	Price	Quant.	Total price	Ice Americano	2,000	1	2,000	Ice Cappuccino	2,500	1	2,500	Total price			4,500	Before tax			4,091	Tax (VAT)			409	Total price			4,500	Amount of pay			4,500	Credit card			4,500
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Example of Cheque.

 **FNB** An Affiliated Financial Services and Capital Provider (INCORPORATED)
240-438

POTCHEFSTROOM Date: 25-07-09

Pay/Betaal: *Democratic Alliance*

the sum of / die bedrag van: *Two hundred thousand Rand only*

~~R200 000~~

Registered Bank Rep. No. 1993/00226/04 S J D NEL

[Signature]

⑈0167 ⑆240438⑆ 62046349404⑈03

Example of bank statement

Member of the
Lid van die  **BARCLAYS** Group
Groep

Return address:
PO Box X13, Johannesburg, 2000

 **MISS V GEORGIEVA**
372 NICOLSON STREET
WATERKLOOF
0181



Visit us at:
Absa Bank
Brooklyn, Pretoria

 012 483 2500

Write to:
P O Box 7263
Pretoria
0001

Web: www.absa.co.za

Account statement

1 Sep 2016 to 30 Sep 2016

Account number	90 7380 2038	Statement number	00	Issued on	8 Oct 2016
Client VAT Registration number					

Account summary on your Flexi Account

Balance brought forward	31 866,99
Total credits	23 704,36
Total debits	46 178,16 -
Total service fees (R9,84 VAT included)	80,10
Balance on 30 Sep 2016	9 313,09

Credit Rate Plan:

Transaction history

<i>date</i>	<i>description</i>	<i>transaction amount R</i>	<i>balance R</i>
1 Sep 2016	Balance brought forward		31 866,99
1 Sep 2016	Internet payment debit	30 000,00 -	1 866,99
	Absa bank ivana loan refund		
3 Sep 2016	Administration fee		
	Administration fee	15,50 -	1 851,49
3 Sep 2016	Internet transfer credit	1 600,00	3 451,49
	Absa bank 5440425014507012		
4 Sep 2016	Internet transfer debit	300,00 -	3 151,49
	Absa bank 123		
4 Sep 2016	Notification fee sms		

Please turn over

Keeping Financial Records

Records must be kept to comply with the legal requirements specified in government legislation. For example, the Receiver of Revenue requires Business to keep records in order to comply with the following Acts:

- ❖ **The Income Tax Act of 1962**
- ❖ **The Value Added Tax Act of 1991**
- ❖ **The Workmen's Compensation Act of 1941**

Pricing and costing principles

At the end of this outcome, you should be able to:

- ▶ Explain and identify costing principles:
- ▶ Explain, identify and evaluate breakeven points to determine how much business must be executed to ensure breakeven;
- ▶ Explain and utilize the concept of mark-up
- ▶ Identify factors that influence pricing, with examples. Range: wider economic trends, markets needs, expenditure, supplier pricing, competition.
- ▶ Calculating pricing of product/service by using pricing calculations;
- ▶ Revise budgets according to pricing determinations.

Introduction

The pricing function is one of the more difficult marketing decisions that an entrepreneur will have to take. Determining the price of your product will have a direct on your sales because of the effect of price on the buying patterns of customers. Some customers will buy only the cheapest products: while others focus on quality and are prepared to pay more for it.

Factors influence pricing.

- ❖ **Your Target Market** (people who will likely buy your products or use your service)
- ❖ **Competitors** (business that sell the same products/service as you)
- ❖ **Convenience** (how easy is it for people to buy your products/service)
- ❖ **Costing** (how much will it cost you to sell your products/service)

Pricing Concepts

- ❖ Skimming (setting Prices High to cover your Costs)
- ❖ Competitive Pricing (Prices that are lower then your Competitors)
- ❖ Cost-plus pricing (Prices determined by your costs)
- ❖ Odd pricing (Example R299.99 seems cheaper than R300)
- ❖ Loss-leader pricing (dropping prices of popular products to attracted more customers)
- ❖ Discounts (



Mark-up %

Look at example on page 92.

Costing Principles for various types of business.

- ❖ **Trading and Retailing** (Example they are Shoprite, BIBI, Pick N Pay, Spar)
- ❖ **Manufacturing** (Example Sasko bread Factories, Nestle Factories)
- ❖ **Services** (Example are Hairdresser, Dentist)

The principles and procedures for compiling cost price of a product/service

Steps when determine the cost price of your product or service on page 94-95. Look at Example on page 95.

Calculate the Price of Product page 96.

Resources to Obtain start-up capital

Introduction

Every entrepreneur is faced with the problem of financing when starting or expanding a business. You will need capital (money). The only question is how much and for what reasons.

Start-up capital requirements

Start up Capital

Start-up capital (money) refers to your business's needs to buy fixed assets. You will need money to buy things like buildings, machines, equipment, vehicles and furniture. When planning your business you must determine how much you need for fixed assets.

Working Capital

Working capital is the amount you need to pay for items like raw materials, paying wages and electricity, until you have received money from customers.

Growth Capital

Growth capital is needed when an existing business expands or changes its direction. For example, a small bakery saw their cake sales taking off dramatically after they started to advertise. With more orders of cakes coming in, the growing business needed more money to buy a second oven and some more stock.

Funding options (there are 2 types Debt or Equity Financing)

Debt financing the lender (example Bank) does not become a partner in your business

Equity financing you do not have to pay interest for the money received, but you will have to sacrifice a certain percentage share of the profits

Personal funds

It is money you save to start a your own business

Friends and Relatives

It is the money you get from family members and friends to start your own business.

Equity shares

This form of financing normally refers to partnerships and close corporations This option provides an opportunity to obtain additional capital for the business by accepting a partner.

Borrowed Capital (loans - money you borrow)

- ❖ Short -term loans
- Bank Overdraft
- Trade Credit
- Micro Lenders



Borrowed Capital

- ❖ **Medium-term loans**-These loans can either be obtain through commercial banks or development corporations.
- ❖ **Long-term loans**- These loans you borrow money to buy buildings, land and house. They takes years to pay back .

Interest Rates

Interest is the amount of money paid the benefit of having a loan.

SIMPLE INTEREST:

$$I = prt$$

I = interest

p = investment

r = interest rate

t = time (years)

I = ??

p = 100

r = 5% = 0.05

t = 2

$$I = (100)(0.05)(2) = \boxed{\$10}$$

Financial Institutions

Banks

Many Banks have a small business section. They can be approached with your business plan when looking for funding.

Using the Banking System

- ❖ Current Account - All small business should have a current account. It is the account you make payments to salaries. (Maluti College has a ABSA account)
- ❖ Saving account - (it is a account were you save money and you earn interest on the money saved).
- ❖ Internet banking - (you basically perform banking services on the internet using your phone or computer.)
- ❖ Telephone Banking - (using your phone to call the bank and doing the service on the phone.)
- ❖ Auto banking-(banking using the ATM like deposits at the ATM)

Banking Services

 <p>BRANCH</p>	 <p>ONLINE</p>	 <p>ATM</p>	<p>Bank with us the way you like</p>
 <p>MOBILE</p>	 <p>CHEQUE</p>	 <p>CARDS</p>	

Banking Services

6 Ways to Check Your Bank Balance

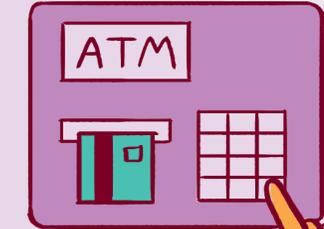
Check online



Download a mobile app



Call your bank



Visit an ATM



Set up alerts

Ask a teller



Other Financial institutions

- ❖ Khula Enterprise Finance Limited.



Other financial institutions

- ❖ Business Partners - (is an organization that focuses more on medium-sized enterprise)
- ❖ Chambers of Commerce
- ❖ Micro lenders (example finbond and BFs)



The End of Module 3

Please stay at home and stay safe !!!!!!!!!!!

Do Activity 14 on page 92 for Monday.

