

FORMATIVE ASSESSMENT WORKBOOK

Unit Standard 119666

Activity 1 (SO1, AC1 ,2, 5-7)

This is a group activity

Discuss and explain the following:

Start Up Capital

Working Capital

Capital Investment

Growth of business costs

Profit and Loss

Profit and cash flow

Assets

[illegible]

Liabilities

[illegible]

Activity 2 (SO1, AC1 ,2, 5-8)

This is a group activity.

Determine the start-up requirements for one learner's business idea. The learner's financial capacity and resources have to be taken into account.

How much start-up capital will s/he need? Does s/he have this amount available?
How much working capital will s/he need? Does s/he have this amount available?
What assets will the business have?
Fixed assets
Current assets
What liabilities will the business have?
Long term liabilities
Short term liabilities

In the light of all you have learnt during this module, explain why finances and managing finances is important. Give examples of instances that you did not think of that came to light as a result of the training session.

What are the marketing needs of the business?

How will it affect the profit and loss of the business if no marketing activities take place?

How will it affect the profit and loss of the business if marketing activities do take place?

How much money do you have available for marketing?

Activity 3 (SO2, AC1)

This is a group activity

Explain what a budget is

Why is it important for a new business to have budgets?

Do you think you would spend more than necessary on expenses if you do not budget?

Why is a sales budget important?

Activity 4 (SO2, AC2,4)

This is a group activity. How do I work out sales?

The normal practice is to start with the previous year's sales and then add a percentage. If we look at the example above, if you feel you can increase sales by 10%, you would increase the sales for each month by 10%

Increase the amount of the sales for 2004 by 10% for every month

NO	MONTH	SALES
1.	March 2004	
2.	April 2004	
3.	May 2004	
4.	June 2004	
5.	July 2004	
6.	August 2004	
7.	September 2004	
8.	October 2004	
9.	November 2004	
10.	December 2004	
11.	January 2005	
12.	February 2005	
	TOTAL	R

Case study

Simon Ndlovu is going to open a small café near his home. His market research suggested that there are two hundred families living near his shop. When he spoke to them, one hundred and twenty families said they would buy from him. He will be open 7 days a week. He thinks that in the first month, eighty families will buy. In the second month, one hundred families, and from the third month, one hundred and twenty families will buy from him. Each family will spend R10 per day at the shop. He will start his business on 1 March 2008.

What will his sales budget be for twelve months?

Month	No of Families	Amount per Day	Month
March	80	800	
April	100	1000	
May	120	1200	
June	120	1200	
July	120	1200	
August	120	1200	
September	120	1200	
October	120	1200	
November	120	1200	
December	120	1200	
January	120	1200	
February	120	1200	
TOTAL	1380	13800	

Develop a sales budget for one of the learner's businesses. Remember, if you are starting a new business, you will work out:

- ✓ How much will I sell daily?
- ✓ How much will I sell weekly?

And from there you will calculate monthly and yearly sales.

Month			
March			
April			
May			
June			
July			
August			
September			
October			
November			
December			
January			
February			
TOTAL			

Activity 5 (SO2, AC 3-4)

This is an individual activity

Listed on the following page are many of the expenses and payments that are found in most business.

- ✓ Tick the ones that you think you will have in your business.
- ✓ Estimate how much per month you will spend.
- ✓ Add them up to get a total monthly expense budget.
- ✓ You can check your figures with the facilitator before you complete the budget. The college will have many of these expenses and he can give you accurate figures.

Expenses and Payment Budget		
Expenses	Tick (✓) if in my business	Monthly Amount R
Advertising and promotions		
Bank charges		
Cleaning materials		
Commission to sales people		
Electricity/gas & water		
Insurance: Vehicles equipment, stock		
Interest on Loan/Lease: Vehicles		
Interest on Loan/Lease: Equipment		
Interest on Loan: Start-Up		
Postage		
Printing & Stationery		
Refreshments		
Repairs: Vehicles		
Repairs: Equipment		
Rent		
Salaries: Owner		
Salaries: Staff		
Telephones		
Vehicle Expenses: Petrol & Oil		
Wages: Staff		
Wrapping & Packaging		
Other:		
Other:		
Expenses Payable		
Add Depreciation on Capital Goods		
TOTAL RUNNING EXPENSES:		

Payments		
Loan / Lease Repayment: Vehicle		
Loan / Lease Repayment: Equipment		
Loan Repayments: Start-up		
Owner's Loans		
Savings: Replacements Capital Goods		
Income Tax		
VAT		
Other:		
Other:		
TOTAL PAYMENTS:		

Calculate your sales budget

Month			
March			
April			
May			
June			
July			
August			
September			
October			
November			
December			
January			
February			
TOTAL			

Activity 6 (SO2, AC 5)

This is a group activity. Explain how to use budgets.

Refer to the completed budget management report for 2003 in the learner guide and answer the following questions:

What were the budgeted sales:
What were the actual sales:
Were the sales over or under budget:
By how much:
What were the budgeted purchases:
What were the actual purchases:
Were the purchases over or under budget: over
By how much:
What were the budgeted expenses:
What were the actual expenses:
Were the expenses over or under budget: over
By how much:

Did the business still make a profit?

Mr Sipho Dhlamini has a small hardware store. His budget for July is as follows:

Sales	R8 000
Purchases	R2 000
Expenses	R5 000

What profit does he expect?

Sales R 8000

Less: Purchases	Difference	Less: Expenses	Expected	Profit
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Activity 7 (SO3, AC 4)

This is a group activity. Discuss the following factors that influence pricing and give examples of each.

Competition

Supplier recommendation

Expenses

Market needs

Wider economic trends

Activity 8 (SO3, AC 1, 3, 5)

This is a group activity. Do the following costings and add a markup of 15% to determine the selling price.

1. Manufacturing

Shoshanguve Handbag Manufacturers makes leather shopping bags. The following information is available for a production run of 200 bags in June.

Materials used for one bag	Price from supplier
Leather – 2 meters	R19.80 per meter
Binding glue - ½ liter	R2.40 per liter
Binding cotton – 3 meters	R1.20 per meter
Plastic handles – 2	R4.50 each
Cotton lining – 1½ meters	R3.70 per meter
Zips - 3	R8.00 pack of ten

Labour costs for 200 bags R1 700.00

Expenses relating to manufacture R3 500.00

Non-manufacturing expenses R1 500.00

- What will his total costs be in June?
- What is his true cost per item?

Material costing sheet

Product:						
Item No		For 1 unit	For ____ units	Price	Per Unit	Total
1						
2						

3						
4						
5						
6						
7						
8						
9						
10						
Total Cost of Materials						

Total cost of materials: R	Divide by no of units made:
Cost of materials for one unit: R	
Add markup of 15%	
What is the selling price?	

2. Trading

BCE Traders has the following budget for September:

Purchases or total manufacturing costs R6 000

Expenses R3 000

He buys paraffin at R1.06 per litre.

What is his expense factor?

What is his true cost per litre of paraffin?

Add a markup of 20% to determine the selling price

3. Service

Mr Makeba wants to polish shoes outside Bloemfontein Station. He will work five hours per day, Monday to Saturday. He will work 48 weeks during the year. Estimated monthly expenses are R1 560.00 (including his salary of R1 000.00 per month).

1. What are his true costs per hour?

2. He can clean five pairs of shoes in one hour. What are his true costs per pair of shoes cleaned?

Add a markup of 30% to determine the selling price

4. Materials costing sheet

Peter Smith makes shirts. Peter has worked out what raw materials are needed to make one shirt:

Raw materials	Quantity for one shirt	Price from supplier
Cotton & rayon material	1½ meters	R8.50 per meter
Cotton thread	5 meters	R0.90 per meter
Buttons	8 buttons	R2.20 per dozen
Collar support	1	R1.10 each
Plastic packet	1	R0.65 each
Pins	10	R6.00 per 1000
Cardboard	¼ meter	R1.45 per meter

Product: Shirt Model B963 Short Sleeve

Item No		For 1 unit	For 120 units	Price	Per Unit	Total
1	Cotton & Rayon material	1½ meter	180 meters	8.50		
2	Cotton thread	5 meters	600 meters	0.90		
3	Buttons	8	960	2.20		
4	Collar support	1	120	1.10		
5	Plastic packet for shirt	1	120	0.65		
6	Pins	10	1 200	6.00		
7	Cardboard	¼ meter	30 meters	1.45		
Total Cost of Materials						

Activity 9 (SO3, AC 2-6)

This is an individual exercise.

Calculate the price of one of your products or services.

Add a mark-up of the amount of profit you wish to make

Calculate the break even point to determine how much business you must generate to pay all your expenses and costs

Explain what mark-up is

Will you have to revise any of your budgets?

Activity 10 (SO4, AC 1-7)

This is a group activity

As part of your pre-training assignment, you were requested to collect information about financial assistance packages from the following banks:

- ✓ ABSA
- ✓ Nedbank
- ✓ First National Bank
- ✓ Standard Bank.

You were also requested to find out what documentation they would need, as well as the interest rates that would be charged on the following:

- ✓ Hire purchase for a vehicle
- ✓ Overdraft
- ✓ Fixed term loan
- ✓ Mortgage on property.

Discuss the following in groups:

Which resources do you need for your business?
Which resources can you afford?
Compare the various funding options and services offered by the finance industry
Which options are viable? Why?
What are the risks involved regarding this funding option?
Interest on loans
guarantee requirements
collateral requirements

Which alternatives to funding did you explore and what are the risks involved?
Using your savings
Cash sales
No funding
Compare the costs of the various funding options
Which one is most suitable for your business? Why?
Explore and compare repayment options to determine best options
Explain the information needed to process funding applications

Activity 11 (SO4, AC 1-7)

As part of your pre-training assignment, you were requested to collect information about financial assistance packages from the following banks:

- ✓ ABSA
- ✓ Nedbank
- ✓ First National Bank
- ✓ Standard Bank.

You were also requested to find out what documentation they would need, as well as the interest rates that would be charged on the following:

- ✓ Hire purchase for a vehicle
- ✓ Overdraft
- ✓ Fixed term loan
- ✓ Mortgage on property.

During a previous section, you were requested to draw up a capital expenses budget, an expenses budget and a cash flow budget.

By now you should know how much money you need and what you will spend it on. Now you have to decide:

How much money you can put into the business

Which assets you can finance through hire purchase

Which assets you can finance through a mortgage

How you will finance the balance of the start up capital that you need.

--

Which financial institution will you approach for your financing

What will the interest for the different loans and credit instruments be? to calculate interest, use the

What will your monthly repayments be on the loans and credit instruments?

Prepare a purchases budget for your monthly repayments:

	Loan repayments budget					
	Interest on overdraft	Term loan repayment	Mortgage repayment	Hire purchase repayment	Other	Total
January						
February						
March						
April						
May						
June						
July						
August						
September						
October						
November						
December						
Totals						

Compare it to you cash flow projections. Will you be able to afford the repayments?

Cash Forecast (Cash Flow)

The success of my business depends on there being enough cash to pay for my stock and expenses (including my own salary and loan repayments) and to have some left over for savings and growth. From my sales, purchases, expenses and payments budgets, I can successfully plan my expected cash flow (cash in and out of the business) for at least twelve months ahead.

Name: _____ Date: _____

Start-up Requirements

Note: Attach quotes for capital equipment, where applicable.

What security can I provide for loans?

[illegible]

Credit to Customers

Sales and Purchases Budgets

Debtors – 30 days				Creditors – 60 days		
	Sales Budget			Purchases Budget		
	Cash	Debtors	Total	Cash	Creditors	Total
January						
February						
March						
April						
May						
June						
July						
August						
September						
October						
November						
December						
Totals						

Wages and salaries

1. Hours worked per day _____ hours per day
2. Days per week _____ days per week
3. Hours per week _____ hours per week
4. Weeks per year _____ weeks per year
5. Hours per year _____ hours per year
6. Average hours per month _____ hours per month
7. Average monthly expenses True cost per hour R_____

R_____ monthly expenses

_____ hours per month

Budget Management Report: Monthly expense report (example)

	Payments and Expenses	Budget	Actual	Over	Under
1					
2					
3					
4					
5					
6					
7					
8					
9					
10					
11					
12					
13					

14					
15					
16					
17					
18					
19					
20					
21					
22					
23					
24					
25					
Totals					

Name: _____ Date: _____

Start-up Requirements Schedule

[illegible]

First Month's Expenses					
Totals					

Cash Flow Forecast – Receipts Analysis

[illegible]

Cash Flow Forecast – Payments Analysis

[illegible]

Cash Flow Forecast

[illegible]

Expense Budget (Work in Rand – ignore Cents)

[illegible]

[illegible]

Other Payments Budget (Work in Rands – ignore Cents)

[illegible]

[illegible]

Budget Management Report (example)

[illegible]

