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ECONOMIC
MANAGEMENT
SCIENCES

FINANCIAL
LITERACY

TERM 2



Contents

Contents	1
Capital, Assets and Liabilities	5
Lesson 1	5
Capital	5
• Fixed capital or physical capital	5
• Financial capital	5
• Share capital	5
• Working capital or operating capital	5
• Start-up capital	5
Assets	6
Lesson 2	6
Non-current assets	7
Current assets	7
Liabilities	8
Lesson 3	8
Non-current liabilities	9
Current liabilities	9
Income and Expenses	10
Expenses	10
Fixed expenses	10
Variable (non-fixed) expenses	10
Income	11
Lesson 5	11
Profit and Loss	12
Profit	12
Loss	13
Budgets	14
Savings	15

Transactions..... 16

 Lesson 8..... 16

 Two types of transactions can take place:..... 16

Financial Records..... 17

TOPIC 6 20

FINANCIAL LITERACY..... 20

Personal income and expenses..... 20

 Lesson 1..... 20

 Personal income..... 20

 There are two types of personal income:..... 21

 Fixed Income..... 21

 Variable Income..... 21

Salaries and Wages..... 21

Lesson 2..... 21

 Activity 2..... 21

 Investigating the different ways of earning a personal income..... 21

Personal expenses..... 22

 What are personal expenses?..... 22

 Activity 2..... 23

Personal statement of net worth..... 23

 Activity 4..... 24

Drawing up a Statement of Net Worth..... 25

 Activity 6..... 25

Business Income and Expenses..... 26

Types of income that businesses receive..... 26

 A business can earn an income by:..... 26

 In ‘accounting’, the different income transactions listed above have specific names: 26

 Types of expenses that businesses have to pay..... 26

 The accounting names of the different expense transactions are as follows:..... 26

Profit or Loss.....	27
Gross profit and net profit.....	27
Savings in business.....	27
Why is saving important?.....	28
Liquidity.....	28
Investments in business.....	29
Lesson 7.....	29
Different types of investments.....	29
• Buy shares.....	29
• Invest in an endowment policy.....	29
• Buy property.....	29
• Buy a business.....	29
• Start a business.....	29
Activity 9.....	30
Revision.....	30
Identify income and expenses in a business.....	30
Calculating your cost.....	31
Lesson 1.....	31
Definition of a Budget.....	32
Lesson 2.....	32
Why are budgets important?.....	32
Who prepares budgets?.....	32
Things to remember about budgets.....	32
Personal Budgets.....	33
Lesson 3.....	33
Personal Budgets.....	34
Activity 13.....	34
Planning a personal budget.....	34

Business Budgets 35

Activity 14 37

Understanding a business budget 37



Capital, Assets and Liabilities

Lesson 1

Capital, assets and liabilities are the basic concepts in financial literacy. **Assets are what the business owns and liabilities are what it owes.** For any business to be successful it must have access to capital.

Capital

Capital is all the money, goods and property a business can use to make an income through the activities of the business (buying, producing and selling)



There are five main types of capital:

- **Fixed capital or physical capital** is the goods used to produce other goods that satisfy our needs and wants. Fixed capital includes machines, tools, factory buildings, office buildings and trucks/vans.
- **Financial capital** is the source of money (funds) Example: Someone who starts a factory usually borrows money to rent premises and to buy machines, tools and raw materials (capital goods).
- **Share capital** is the money invested by the owners in the business. It provides the funds to buy fixed capital goods.
- **Working capital or operating capital** is needed to run the business from day to day. It does not include fixed capital.
- **Start-up capital** is the money needed to start a new business.



Activity 1

1. Explain what the term 'Capital' means.
2. There are 5 different types of capital. In your own words, explain each of the different types and include an example.
3. You are starting a small manufacturing business that will make and sell wooden toys. Draw a table like the one on page 3 and complete it by deciding whether the items listed below the table template are part of your working capital or your fixed capital.

Capital needs	Cost	Working Capital	Fixed Capital

- carpentry workshop and store
- cash in the store's till
- stock of chairs, tables and cupboards
- wood, nails, paint and wood glue
- saws, hammers and paintbrushes
- electricity saw, plane and sander
- delivery truck
- people who bought furniture on credit
- bank account



Assets

Lesson 2

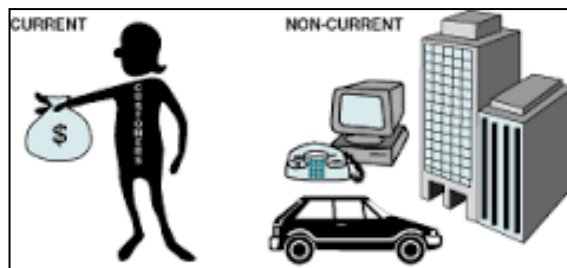
Assets are the items that have monetary value and are owned by the business. They may include the amounts of money that customers owe to the business (**debtors**) or that is in the bank account of the business. Assets also include physical assets like raw materials, machinery and inventory (**stock**).



There are two types of assets:

Non-current assets – will not be converted into cash within the next year (accounting period). Examples include land and buildings, vehicles, equipment and investments.

Current assets – can be converted into cash within the next year (accounting period). Examples include inventories, debtors and cash in the bank.



Activity 2

Calculating assets

David is a Grade 7 learner. He would like to draw up a list to see how wealthy he is. He has looked around his bedroom to decide what belongs to him. His parents told him that certain assets are his, such as his bed, table and chair. He also owns other things, or assets, which were either birthday presents or items bought with his pocket money. These are the items he now has in his possession:

Furniture in his room: R 2 300

Radio with CD player: R550

Cash in his wallet: R50

Clothes: R3 000

Books: R200

Savings account at the bank: R625

Two neighbours in his street owe him R60 each for sweeping their yards.

a) Prepare a list to calculate David's total assets.

b) Use the list created to classify each item as a fixed or a current asset

Liabilities

Lesson 3

Liabilities are monies owed, by the business, to other people or other businesses (creditors). Liabilities include the amounts of capital that were either borrowed from the bank or equity. This is the money that the business owners provided, as well as any reserves the business has.

There are two types of liabilities:

Non-current liabilities - are long-term costs such as mortgage/bond or loan repayments.



Current liabilities - include creditors and the bank overdraft, which is a short term loan from the bank when you run out of cash.

Activity 3

Calculating liabilities:

1. Make a list and calculate David's total liabilities.
 - a. He borrowed R20 from his sister to buy airtime. He owes his father R35, which he has to pay back by the end of the month.
 - b. He borrowed R2 400 from his uncle to buy his bicycle. David pays his uncle back R100 per month over two years.
2. Use the list of liabilities to classify each item as either a current liability or a non-current liability. Give a reason why you have classified each item the way you have.

Draw this table in your book.

Current Liability	Non-current liability

3. Are the following, assets or liabilities? Complete your answer in a table format.

Draw the table in your book.

A building, a telephone account, a telephone, rental for a storeroom, money in a savings account.

Assets	Liabilities

Income and Expenses

In a business, money comes in (income) and goes out (expense). To make a profit, your income needs to be greater than your expenses. If your expenses are greater than your income, your business is operating at a loss (it is losing money).



Expenses

An expense is payment for services and consumable goods that the business buys in order to keep the business running. Expenses decrease the owner's equity in the business. Expenses are items which have no lasting value. They are not assets.

Fixed expenses are the costs that you have to pay every month no matter how many products or services you provide. Fixed expenses are also known as overhead expenses of a business. Fixed costs include: rent you need to pay for the premises, telephone accounts, water and electricity, salaries and monthly wages.



Variable (non-fixed) expenses are the costs that relate to the amount of products and services the business provides. Variable expenses increase if more products and services are provided and decrease if fewer products and services are provided. For example, the cost of raw materials and packaging used will depend on the number of products manufactured. Variable costs include payments you have to make for: raw materials, wages (if workers are employed only when production takes place and they are paid an hourly rate), completed products, advertising, stationery and repairs.



Activity 4

Look at the following pictures of products and services.

For each of the pictures, list **8 costs involved** in the production process.

Indicate which are fixed costs, and which are variable costs.

			
A bakery	A furniture maker	A hairdresser	Fizzy Drinks Company

REMEMBER: BRING A MAGAZINE OR NEWSPAPER FOR LESSON 5

Income

Lesson 5

Income is all the money that the business earns. A trading and manufacturing business's main form of income will be from sales, while a service business will earn its main income charging customers a fee for services offered.



Income refers to items that have a positive effect on a person's net worth. They can either increase an asset or decrease a liability. Income increases the owner's profit and can therefore also the owner's equity in a business.

Other types of income include interest income, discounts and rent income.

Activity 5

Collage of accounting concepts

Create a collage in your workbooks, using pictures from magazines, newspapers or your own drawings, to illustrate different types of assets, liabilities, income and expenses.

Ensure that your pictures have labels to point out the different concepts.

Profit and Loss

Profit

Profit is the money a business makes after taking all the income and deducting all the expenses. The aim of any business is to make a profit. This is called a **profit motive**.

Profit can be seen as payment for the services rendered by the business, or for the entrepreneurship displayed by the owner and for taking the risk to invest money in the business. Some articles have a low profit margin, especially when they sell quickly (high turnover), e.g. groceries. Others, which sell slowly, e.g. furniture, have a higher profit margin. The profit must be such that the business:

- can compete with other businesses
- covers all expenses
- gets a fair income



that

Any profit that is gained goes to the business owners, who may or may not decide to spend it on the business.

Profit is calculated as follows:

$$\text{Income} - \text{Expenses} = \text{Profit}$$

Loss

A loss can be described as the loss of money or decrease in the financial value. A net loss in a business is when the expenses are more than the income earned in a certain period. A loss can also occur when a business sells an asset for less than it is worth. Any loss that takes place will decrease the owner's interest in the business.

When we talk about how much money a business has made during a specific period, we could say that the business:



- shows a profit (made money)
- ran at a loss (lost money)
- breaks even (has not made or lost any money. In other words, the business has earned exactly what it cost them to produce the goods or provide the service.)

Activity 6

Rewrite the following sentences in your book and fill in the answers, using the words listed below.

- _____ are loans which are payable over a number of years.
- Goods that we own are called our _____.
- The interest or share that an owner has in his business is called _____.
- _____ is the money the business earns.
- Money that is owed to creditors is a _____ for the business.
- When money is spent on wages, it is an _____ for the business.
- The money the owner uses to start a business is called _____.
- Vehicles and equipment are examples of _____.
- _____ are only temporary of nature and can be converted into cash quite easily, usually within a short period of time.
- The aim of any business is to make a profit, this is referred to as the _____.
- A loss can be described as a loss of money or a decrease in _____.

owner's equity	income	capital	current assets	expense
	Long-term or non-current liability		assets	debt
financial value		current liability		profit motive
				fixed assets

Calculate profit, loss and break even point

Copy the following table and complete these calculations to show if the companies made a profit, ran at a loss or broke even. Use the formula: $\text{Income} - \text{Expenses} = \text{Profit}$

Income	Cost	Profit / Loss
1) R2 000	R 349	
2) R400	R 425	
3) R9 000	R11 250	
4) R7 000	R 780	

Budgets

A budget is a written plan on how to spend future income. It is a written document showing the **planned income** and the **estimated expenses** of a persons or a business for a specific period of time in the future, for instance, a month or a year. Individuals, as well as businesses should draw up budgets to spend money wisely and make savings where possible.



Families prepare a monthly budget for their **income and expenditure**. When you have a plan for how your money and resources will be allocated, you can ensure that you do not spend more than you earn. Essential expenses such as rent, food and electricity should be paid first. Then, some money can be put aside to save for major expenses, such as furniture or a car.

Government budgets for their tax income (**revenue**) and expenditure in a national budget. Businesses use budgets to plan and control their operations and activities. A budget shows how resources are expected to be acquired and used during a specific period.

Budgeting is an essential part of managing a business because the budget information is used throughout the management process. Managers prepare **forecasts**, which are estimates of money coming in (**receipts**) and money going out (**payments**).

The forecasts need to be as accurate as possible and the transaction patterns of the previous years must be taken into account. Budgets should be checked and updated regularly, to enable managers to control receipts and payments.

Savings

Saving is the act of putting money aside for future use. You can only save if you do not spend all the income earned. Money can be saved in a bank or any other financial institution that offers savings facilities. Trying to spend less on some unnecessary expenses, like luxuries, or trying to cut down on expenses, like water and electricity, can also be seen as a form of saving.



People who save put money aside for things they need to pay for in the future, such as education, a deposit on a house, a car or even travelling. They also have money for emergencies, such as car accidents, illness or unemployment.

You can save money by doing the following:

- Never spend more than the amount you earn
- Think about buying what you need first. Pay off all your debt and stay out of debt
- Always have cash to buy the basic things you need
- Keep some emergency funds for doctors, vets, vehicles, house costs and other bills
- Learn from that past and plan for the future
- Make long term goals



Activity 7

Imagine that you have just won R1 million on the lottery! What are you going to do with all that money?

1. Draw a mind map on what you 'need' and what you 'want'.
2. Work out a budget detailing how much money you would need every month, every year and into the future, to fulfil your needs and wants. Write the budget information under two columns called '**Spend**' and '**Save**'
3. Work out how much money you could put aside to follow your dreams and to help others. Write one paragraph (8-10 lines) to explain what you would do, and explain your reasons.
4. Write one paragraph (8-10 lines) about how you would like to save part of your R1 million wisely.

Transactions

Lesson 8

A **transaction** is a financial action or event that takes place in a business. A transaction has at least two interested parties, i.e. the buyer and a seller. Transactions must be recorded and these receipts and slips are called **source documents**. When two parties take part in a transaction, they do business by exchanging money or something of value for example:

The business sells goods for cash to a customer:	The business buys goods from a supplier for cash:
Two parties: business and customer	Two parties: business and supplier
Business exchanges goods for cash	Business exchanges goods for cash
Customers exchange cash for goods	Customers exchange cash for goods

Two types of transactions can take place:

- Cash transaction (cash receipts and cash payments)
- Credit transactions (credit purchases and credit sales)

Transactions are recorded in the **journals** and **ledgers** of a business (book). The following information is necessary from the source document when recording a transaction in the books of a business:

- The date of the transaction
- The parties involved in the transaction
- The amount of money involved
- The reason for the transaction

Financial Records

All businesses need to record financial transactions in the accounting systems of business. This is called keeping **financial records**.



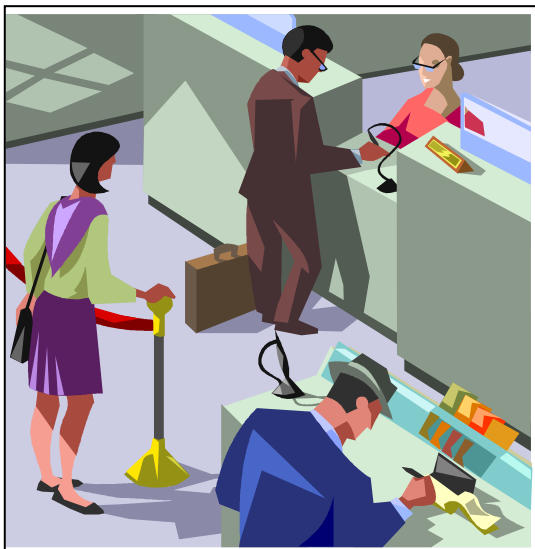
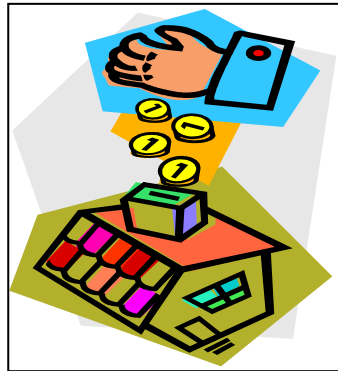
Every financial transaction must be recorded in an orderly and systematic way. This is called **book-keeping**. Amounts, dates and sources of every transaction must be correctly recorded into an accounting system and summarised for the following reasons:

- To ensure the effective daily running of the business.
- To work out if the business has made a profit or a loss.
- To plan for a future.
- To work out how much money is owed to other parties.



Financial statements are prepared to communicate the financial results of the business to interested parties. There are a number of people or institutions that may be interested in the financial statements of the business. Examples:

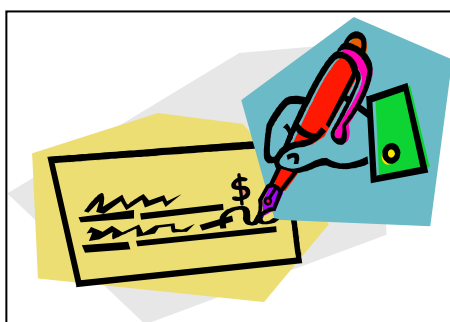
• Owners of the business	• Potential buyers of the business
• SARS	• Managers and senior personnel
• Employees and trade unions	• Creditors or suppliers who grant credit to the business
• Banks and other financial services	



Activity 8

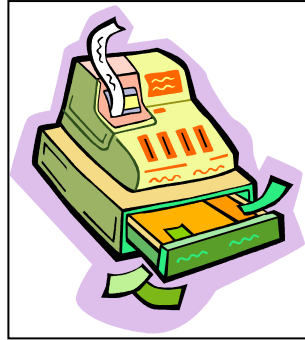
Match the users of the financial statements (Column A) with why they are interested in the financial statements (Column B). Write your answers into your workbooks.

Column A	Column B
1. Partners of the business	To make sure that the business is paying Value Added Tax) VAT on a regular basis and that the partners are paying income tax on their earnings.
2. South African Revenue Services (SARS)	To see which institutions lend money to the business and to make sure the business has the ability to repay its loans, bank overdrafts and have enough security to guarantee it.
3. Employees and trade unions	To make sure the business can pay its debts and that the business is credit worthy.
4. Banks and other financial services	To determine if their investment in the business is profitable.
5. A potential buyer of the business	The information reflects day to day information that can be used for problem solving.
6. Managers and senior	To see if the business has a positive profit trend and that it continues to justify more investment.
7. Creditors and suppliers	They can use it as a tool to negotiate salary or wage increases and better working conditions.



TOPIC 6

FINANCIAL LITERACY



Personal income and expenses

Lesson 1

Personal income is an individual's total annual earnings from all sources such as wages, investments, dividends, rentals, profits and interests. Expenses are the individuals cost of spending.

Personal income

Income is money has been earned. People earn income from sources such as their employment and from interest earned on money that has been invested.

There are different types of personal income that people can earn:

- Salaries or wages
- Interest on bank accounts
- Rental from property
- Profits from a business

Your **personal income** could be your pocket money your parents give you or what you earned or received for some service rendered. Many children earn a personal income by working part time.

There are two types of personal income:

Fixed Income – includes amounts that are received regularly, such as a salary or a wage.

Variable Income – is uncertain windfalls, such as winning a competition or receiving money as a gift.

To calculate interest, you need to:
 R6000 x 10% interest per year

$$\frac{R6000 \times 10\%}{100\%} = \frac{R60\,000}{100} = R600 \text{ pa}$$

Salaries and Wages

Lesson 2

Employees who receive salaries	Employees who receive wages
Work full-time and are usually skilled workers.	Can work full time or part time and are usually semi-skilled or unskilled.
Are paid at the end of each month.	Are paid daily or weekly.
Receive the same amount of money every month.	Amount received can change depending on how many hours are worked.
Examples: teachers, office clerks, business managers.	Examples: domestic workers, labourers, casual workers.

Activity 2

Investigating the different ways of earning a personal income

1. In your own words, briefly describe four different ways in which personal income can be earned.
2. List 3 differences between a salary and a wage.
3. Mr James Oliver has placed R50 000 in a fixed deposit account with an interest rate of 15% p.a. Calculate the interest that Mr Oliver will receive each year?
4. Look at the advert below, for a house for rent, and then answer the questions.

HOUSE FOR RENT IN FARRAMERE

Price: R5000 per month

3 bed, 2 baths to let.

Very large kitchen, separate dining area and lounge. Close to local primary schools and shopping areas.

Immediate occupation



1. How much rent does the owner want?
2. Who do you think would rent this house? Why?
3. Why would people choose to rent rather than buy a house?
4. Give 2 reasons why you think people rent out houses rather than to live in them?

Personal expenses

Lesson 3

What are personal expenses?

Personal expenses are everything that people have to pay for in order to survive (comfortably). Personal expenses are also referred to as living expenses. Different people have different living expenses, but most people have to pay for the following:

Rent or accommodation costs	Water & electricity
Cell phone or telephone costs	Petrol or transport costs
Food	Clothing
School fees	Medical expenses

Can you think of any other living expenses that a household might have?

Activity 2

Calculating personal income and expenses

Read the case study about the Dlamini family and answer the questions that follow.

Mrs Dlamini has a full time job working as a nanny and a housekeeper. Her wages are R750 per week plus R20 per hour overtime. Mr Dlamini works part time at a factory for 3 days a week. He earns R250 per shift. Thando does deliveries for the local spaza shop on his bike. He works Monday and Wednesday afternoons and Saturday mornings. They pay him R20 per shift plus tips. Asanda also works at the spaza shop on Wednesday and Saturday mornings. They pay her R30 per shift.

1. Make a list of the personal income earned by the Dlamini family.
2. Draw a table to divide the family's income into fixed and variable income.
3. Make a list of what you think the family's personal expenses could be.
(e.g. One loaf of bread and a litre of milk daily R20 for one week = R140)
4. What does overspending mean? Why do people overspend? List 3 reasons.

Personal statement of net worth

Lesson 4

When we think of the worth of the people around us, we normally think of how kind, honest or responsible they may or may not be. This is known as their **personal worth**.

To calculate how wealthy, you are, you can draw up a statement of your **net worth**.

A statement of net worth is a list of all your **assets** (what you own) and your **liabilities** (your debts).

Assets are the items owned by the individual person that has a monetary value.

Examples of assets are: your bicycle, the amount of money your friend borrowed from you, the cash in your wallet or the cash in your savings account.

Net worth is calculated using the following formula:

TOTAL ASSETS – TOTAL LIABILITIES = NET WORTH

Activity 4

1. Define the terms assets and liabilities.
2. Use the following list, supplied by Mr David Jones, to help him calculate his net worth

Savings account R850
Clothes, R3000
Watch, R275
Soccer boots, R440
Soccer ball, R145
Play station and games, R5450
Hi-Fi set, R2000
CD's, R300
Money owed to the Hi-Fi supplier, R1200
Loan from his father, R850

1. Categorise the list above into assets and liabilities. Copy the table into your workbooks.

Assets	R	Liabilities	R

2. Calculate the total assets and total liabilities.
 3. Calculate net worth: Assets – Liabilities = Net Worth
-

Drawing up a Statement of Net Worth

Activity 6

Copy the table below into your book and use it to compile your own budget for next month. List your intended expenses and your income. Include any savings that you might have.

Expenses	Income
Total: R	Total: R

Draw up your personal statement of Net Worth

Name: _____ Statement of Net Worth	
ASSETS	
TOTAL ASSETS	
LIABILITIES / DEBTS	
TOTAL LIABILITIES / DEBT	
NET WORTH (ASSETS – DEBTS)	
TOTAL	

Use the following formula to calculate your net worth:

$$\text{TOTAL ASSETS (A)} - \text{TOTAL LIABILITIES (L)} = \text{NET WORTH (E)}$$

Business Income and Expenses

Types of income that businesses receive

Lesson 5

Income is the money the business earns through selling goods, by offering a service or by investing money.



A business can earn an income by:

- Renting out extra office space.
- Earning interest on money invested in a bank account or other forms of investment.
- Selling goods or products.
- Providing a service, like cutting hair or fixing motor cars.
- Earning commission for selling something like a house or products to other people.

In 'accounting', the different income transactions listed above have specific names:

Renting out extra office space	⇒	Rental Income
Earning interest on money	⇒	Interest income
Selling goods / products	⇒	Sales income
Providing a service	⇒	Current income
Earning commission	⇒	Commission income

Types of expenses that businesses have to pay

The expenses that individuals have to pay are similar to those that have to be paid by a business.

The accounting names of the different expense transactions are as follows:

➤ The cost of goods sold	⇒	Cost of sales
The cost of promoting	⇒	Advertising

The cost of employing people	⇒	Salaries and wages
The cost of administration	⇒	Stationary and printing
The cost of material	⇒	Service material
The cost of delivering	⇒	Delivery expenses
The cost of borrowing money	⇒	Interest on a loan or overdraft
The cost of telephone calls	⇒	Telephone
The cost of having a place	⇒	Rental expenses

Profit or Loss

Businesses aim to make sure that the income that they earn is more than the expenses. This is referred to as profit. If the expenses are more than the income, then the business has made a loss. In the business world, profit is usually calculated on an annual basis.

Gross profit and net profit

The word **'gross'** refers to the total amount of profit made after deducting only the cost of sales from income. The gross profit of a business does not take any other expenses into account. The word **'net'** refers to the profit that the business has made after all the expenses have been deducted from the gross income.



Savings in business

Lesson 6

Businesses that save put money aside for things that they need to buy in the future, such as staff training, a deposit on new premises and replacing capital goods, e.g. machinery or

vehicles. They will also have money saved for emergencies and times when business is slow.

Why is saving important?

The more organisations and people that save, the more money, banks have available to lend to other businesses and people. This means that new businesses can start up and established business can expand. Saving is the method that provides money for future use. Banks get the money they lend to businesses from the savings invested with them by businesses, governments and individuals in the form of **fixed deposits** and **saving deposits** that the bank keeps for a period of three, six, twelve or eighteen months.



The business can use the money it has saved in different ways. One way is to buy a fixed asset, such as a machine that will generate more income. This is investing the **capital** by buying **fixed assets**. A business can also invest income in a savings account at a bank, where it will earn **interest income**.

Businesses can save their spare money in different kinds of bank accounts, e.g.

- Savings account
- 32-day notice account
- Fixed deposit

Liquidity

Liquidity refers to how quickly an asset can be converted into cash.

For example, a factory building is not very liquid as it can take too long to sell and for the money to be paid. Money in a bank account is very liquid because it is readily available and can be withdrawn immediately. **Liquid capital** is the capital that is available as cash.

Liquidity also refers to the ability of the business to regularly pay their debt on time.

Activity 8

1. Name and describe the two types of capital the owners of a business provide.
2. What is the benefit of having good liquidity for the business?

Place the following in order of most liquid:

- Cash in the till



- Delivery truck
 - Factory building
 - Computer
 - Money in a bank account
 - Surplus stock
-

Investments in business

Lesson 7

An investment is when a business buys a financial product such as a policy or an investment plan or a physical object such as machinery. The business will get some kind of financial return on that object or product when it sells it or cashes in the policy.

A unit trust is an investment in which an investment company or banks take different people or businesses small deposits and combines them to invest them as one large amount in a trust.

Different types of investments

There are different ways in which to invest money to make it grow:

- **Buy shares** – you own part of a company
- **Invest in an endowment policy** – put money away and receive it all back with interest later on.
- **Buy property** – land or offices or homes
- **Buy a business** – that already exists
- **Start a business** – become an entrepreneur



Investments are riskier than savings. This means that there is a chance that something could go wrong and that you could lose the money the money that you have invested. If the investment is successful, then it can make your money grow faster than it would have if you had simply put it in a savings account.

Activity 9**Revision****Identify income and expenses in a business**

1. Use the word bank below to complete the definitions.
Rewrite the sentences in your workbooks.

stationery

telephone

operating expenses

rent income

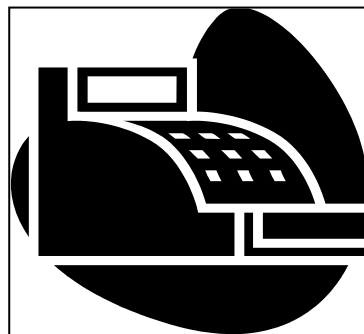
current income

sales

cost of sales

material costs

- The running cost of a business is _____.
- The cost price of goods sold in a business is _____.
- Money received by renting out part of the business building is _____.
- Cables and switches used by an electrician are referred to as _____.
- Money received from selling goods is _____.
- An example of payments for services delivered to the business is _____.
- Money received for providing a service is _____.
- An example of a necessary workplace item is _____.



FINANCIAL LITERACY

Topic 7: Budgets



Some people are not very good at controlling how they spend their money. They often go out and spend all of it as soon as they get it and then find that they later run out of money for the things that they desperately need. A very important life skill is to learn how to manage your money so that you can make it stretch further.

Calculating your cost

Lesson 1

Activity 10

You have finished studying and have just got your first job. You have decided to move into a flat with a friend. Your salary is R9 000 per month, after tax.

Work out how much you will need to spend for one month and how much you will have left over for savings and investments.

Remember to take into account some of the costs, e.g. rent, food and electricity, etc.

If you had any money left over every month would you save or invest your money? Explain why.



Definition of a Budget

Lesson 2

A budget is a plan of how much money you have and how you spend it.

We define a budget as an estimate of future income and expenses.

Why are budgets important?

- A budget is an easy way to keep control of your finances: you know exactly how much you have spent and still need to spend.
- The aim of a budget is to help you stay out of debt and to spend your money wisely.
- A budget is also used to help you save money.
- A budget helps you to identify areas where you spend too much money.
- A budget helps you decide which items are more important to buy and when you should buy them: for example, you should make sure that you have enough money for food before you spend money on clothing and luxury items.
- A budget changes as income changes, and as needs, wants and priorities change.



Who prepares budgets?

Individuals, households, businesses, government and non-profit organisations are examples of groups that prepare budgets.

Different kinds of budgets will be prepared for the different types of groups.

A budget can be prepared monthly, quarterly (every 3 months), every six months or annually.

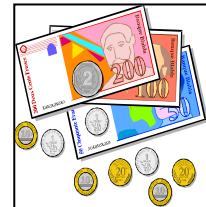
Things to remember about budgets:

- A budget must be realistic.
- A budget must be flexible in case you need money for an emergency, such as household repairs, a new tyre for your car and so on.
- You can adjust your budget as you go along, e.g. if you do not spend all your entertainment money for that month you can either save it or add it to another item on your budget, like food or clothing.
- A personal budget is usually planned for every month.
- A budget for a business will usually cover a number of months or even years.

Personal Budgets

Lesson 3

It is essential to have a personal budget. It puts you into control of your money and helps you to set goals. It inspires a culture of planning and saving. Saving is an investment in your future. A budget can be a plan for as short a time as a day or a month, or it could be for a year or for a number of years. You can think of a budget as a plan for what is to be done with an income.



Activity 12

Planning a personal budget

Look at Donavan's budget

Income	Amount	Expenses	Amount
Salary (after tax)	R4 210	Rent	R 1 010
Weekend job	R 514	Electricity	R 90
		Food	R 1 500
		Car payments and petrol	R 1 020
		Account payments	R 425
		Entertainment	R 700
		Clothing	R 600
		Domestic help	R 400
TOTAL	R4 724	TOTAL	R 5 745

1. Explain what you have noticed about Donavan's budget.
 2. Is it a balanced budget? Explain why you think so.
 3. Is Donavan spending more or less than he earns?
 4. What would you suggest he could do to manage his money better?
 5. What do you think he should stop spending money on? Why?
 6. Should he be saving any money?
 7. What will happen if he suddenly needs money for an emergency?
 8. Re-draw Donavan's budget. Draw up an expenses column for Donavan so that he can support himself with his current income.
 9. Explain how Donavan can manage financially with his new budget.
-

Personal Budgets

Activity 13

Planning a personal budget

Use the following information to compile Robert William's personal budget for March.

Roberts's monthly allowance (pocket money) from his parents is R750

Robert works as a waiter at a local restaurant and earns a basic hourly wage of R20. A normal Saturday night shift is 5 hours. Robert plans to work 3 Saturdays in March and thinks that he will receive R85, per shift, in tips.

Robert uses his monthly allowance to pay for:

Toiletries: R150

Petrol for his motorbike: R263

Monthly entertainment costs: R350

Tuck shop at school: R90

Monthly repayment for sound system: R175 per month (three payments remain)

Cell phone airtime: R80

Savings for his planned soccer trip: R120

Robert is planning to buy his mother a watch for her birthday, which costs R250.



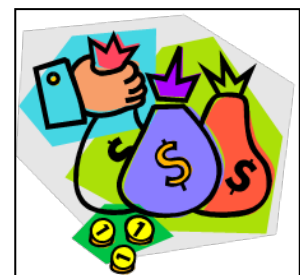
Compile Robert's budget for March. Draw a table, similar to the one below, in your book and fill in the relevant information.

BUDGET – MARCH	R
Income	
Total income	
Expenses	
Total expenses	
Surplus / shortfall	

Business Budgets

An important part of a business is the budget. It is essential in the planning and financial management of any business. Income is the money that a business receives from donors, fund-raising or selling goods and services. Expenses are all the monetary costs of daily running a business. The budget of a business shows the expenses and income for a certain period. The budget is vital in an effective business.

A budget has many purposes besides planning. Budgets should be **accessible** to staff members so that they know if funds are available for them to do their work. It allows limits to be set and goals to be realistic. Problems and shortfalls can be identified.



Transparency and **accountability** ensures that money is spent on what is budgeted for. **Expenditure** can be monitored and waste avoided.

Expected expenditure and expected income are the two main parts of a budget.

Expected expenditure includes all capital costs, running costs, staff costs and operational costs.

Expected income includes donor funds, donations, fundraising and sales.

When more money comes into a business than is spent, there is a **surplus**.

However, if more money is spent than what comes into a business there is a **deficit**.

It is important in a budget to justify all amounts of money spent and received.

A business budget is compiled by someone who is well-informed about the finances of the business. This could be a committee, treasurer or director. When compiling the budget, all people involved must be consulted so that informed decisions can be made.

When a budget is compiled, it needs to be approved by the management board.

Independent **auditors** use the budget of a business when they check the business's **financial records**. A budget can be compiled for a certain period of time or for a specific project.

Examples of business expenses:

Capital costs – buying vehicles, computers and printers, property.

Running costs – rent, maintenance of machinery, water and electricity, telephone accounts, internet network provider, couriers, vehicle maintenance, equipment rental, insurance, bank charges and legal fees.

Staff costs – salaries, medical aid, pension fund contributions, staff training, Unemployment Insurance Fund (UIF).

Operational costs – printing, research, material development, advertising, transport, catering.

Activity 14

Understanding a business budget

1. Why is a budget so important to a business?
2. What is the difference between income and expenses?
3. Explain what the purpose of a budget is?
4. List what could be included as expected expenditure.
5. List what could be included as expected income.
6. Why is it better to have a surplus than a deficit in a business?
7. What could happen if a business has a deficit for a long time?
8. How could a deficit be solved in a business?
9. Explain what happens when a business is audited.
10. Who compiles a budget for a business?
11. Why is it important that all role players are consulted when a budget is compiled?
12. Why do you think transparency and accountability are such important factors of a business budget? Begin your answer by explaining what is meant by the words: transparency and accountability.

