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Small Business Services

THE ESSENTIAL GUIDE

FOR SMALL-BUSINESS OWNERS

see money differently

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DEAR BUSINESS OWNER

If you are reading this, you have probably taken the first steps towards building your own business. You might even be well on your way and operating a successful, growing company. Either way, no matter where you are on this journey, you will come across many instances where you might think: 'If only someone had told me this before!'

The reality is that all aspects of building a business are complex, whether you are dealing with your employees, your suppliers, your customers or your business advisors.

As the partner for your banking needs, we want to help you understand and handle these complexities, and make your journey a positive and rewarding experience.

This guide has been developed to make you aware of some of the basic decisions every business owner faces, to better prepare you for your engagements with your bank (whether to obtain banking services or ask for funding support) and to help you avoid some of the common mistakes so that you are set up for success from the start.

Small businesses are the lifeblood of our economy. Through your hard work, passion and dedication you contribute to the growth and wellbeing of our people, our communities and our country. At Nedbank we VOTE SMALL BUSINESS and salute you!

Disclaimer: This guide is distributed to make you aware of some issues that may affect your personal and business circumstances. Although we have taken great care, the guide is not intended to be a detailed exposition of the subject matter or to replace professional advice. Consequently, Nedbank will not be held liable for any action taken or not taken on the strength of this guide.

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DEALING THE BUSINESS BASICS

There are many important considerations from the time you start your business and throughout the lifetime of your business as circumstances and regulations change. The choices you make when you start out could have lasting consequences for you and your business and it is important that you consciously work through your various options and get professional guidance on your way to business success.

Before consulting professional advisors and to enable them to give you the best advice, you may want to consider some of the following issues before the consultation (these are only a few examples; you should consider all matters that may be relevant to your circumstances):

- Is this a full time or part time commitment?
- Are you in it for the long run or for a certain period only?
- What are the potential liabilities should your business fail?
- What are the financial and legal risks for you, your family and other personal relationships should the business fail?
- How much money do you expect to make (before and after expenses) in the first year of business?
- Will you employ staff? If so, how many?
- Will you work from home or rent an office or shop?
- What equipment, vehicles and furniture will you need?
- How much money of your own do you have and how much will you need to borrow from others?
- Will you have partners? Will they be involved in the day-to-day operation of the business or merely assist with funding?
- How will you exit the business? By sale to a third party, handover to another family member or merely by closing the doors?

As a wise person once said 'Begin with the end in mind'. The answers to many of the above questions will be invaluable in choosing the correct business entity and the appropriate way forward in your business endeavours.

CHOOSING A BUSINESS ENTITY

Why is this important?

You have a number of options as to the entity you can choose when setting up your business and each have its own advantages and disadvantages.

Choosing the right business format is an important part of business success. For example, a sole proprietorship (often called 'a trading as') requires no formal registration, but perhaps have to meet some licensing requirements. However, both companies and trusts have to meet many legal requirements and have to be registered with the relevant authorities.

Business entity

The appropriate business entity will depend on the nature and size of your business, the number of owners/shareholders, your business vision and, importantly, the kind of risks the business holds for your personal affairs.

For example, say you operate a sole proprietorship and your messenger, in a hurry to deliver your goods, causes a motor vehicle accident. You may find that not only your business property, but also your personal property, is subject to legal attack by the other accident party or a victim. If the business were a company or a trust, it is unlikely that your personal property would be under threat in the same circumstances.

Try to think as far ahead as is practical. Choosing an unsuitable entity can have serious long-term consequences that could introduce unnecessary risks and incur unnecessary costs, such as a duplication of administration and other expenses.

Where can I get more help?

- This is one decision you should not make without the advice of legal and/or tax experts in the field of small-business ownership.
- Useful links:
  - Companies and Intellectual Property Commission (CIPC): cipc.co.za
  - The South African Institute of Tax Professionals: thesait.org.za
  - The Law Society of South Africa: lssa.org.za

Did you know?

- It is not necessary for every business to be formally registered. For very small or informal businesses there may not be enough financial benefit to do so, but do not lose sight of possible legal risks that may be specific to your business activity.
- You can change your business entity at a later stage. However, this will come with some administrative efforts and costs such as changing the name.

Main considerations in choosing the best format for your business

Administration requirements

The administration costs of running certain entities can be more than what is really necessary. For example, if your total sales figure is R30 000 a year and unlikely to increase significantly in the near future, there seems to be no apparent reason to establish a company, which requires annual financial statements drafted by an accountant. The cost to comply with applicable legislation in this scenario is disproportionately high.

Taxation

The tax implications and consequences for the various business entities differ greatly. Generally speaking businesses enjoy a lower tax rate than individuals, but requirements around tax submissions for various businesses vary in complexity. Due to the many factors that could influence the taxation of your business, a consultation with a tax professional is highly recommended.

Liability/Insolvency

One of the main reasons for registering a separate entity such as a company or a trust is to limit personal liability for claims arising from business activities. If your business is sued or becomes insolvent, you do not want to be in a position where you lose not only your business, but also everything you own in your personal name.

Access to finance

How are you planning to raise funds when you need them? A sole proprietorship, for instance, can only make use of a loan, while a private company can raise a loan and use other financing options such as selling shares to a financier.

Business continuity

What would you like to happen to your business at your death? Should it be continued by your heirs or should it be sold? The various business entities have different processes. For example, a sole proprietorship ceases to exist on the death of the business owner, a partnership dissolves on the death of one of the partners, while a company and a trust can continue until a decision is made to terminate or sell it or its assets.

Sale of business

The format of your business will also impact on the conditions under which you can sell your business. For example, in a sole proprietorship and partnership you will be able to sell only the business and its assets, and not the entity as such. Shares in a company or close corporation can be traded on a 'willing seller willing buyer' basis and the company or close corporation can also sell its business 'out' of the entity.

Other factors to consider are the following:

- A formalised format may give you more credibility in market.
- When registering a business with a name, this name is protected and cannot be used by another entity.
- To participate in government tenders you have to be a close corporation or register your business as a company.

CHOOSING A BUSINESS ENTITY

Main business entities at a glance

INFORMAL ENTERPRISES	
Informal trader	• Microenterprises, usually without any form of governance. • In essence a sole proprietor operating on a small scale.
Sole proprietorship and partnership e.g. Joseph Smith trading as Honest Joe's Cars	• Simplest form of business structure, with no formal registration. • Common-law partnerships can even be formed by oral agreement, though it is never advisable to form a partnership by oral agreement. • Owner trades under own name or in partnership with another. • No separation of personal and business assets
BUSINESSES REGISTERED WITH CIPC*	
Private company e.g. Newco (Pty) Ltd	• Formal registration is required. • Can offer protection against personal liability for business activities (suretyships by shareholders/directors incur liability to surety holder, with consequent loss of protection for the person signing surety). • Cannot offer shares to the general public. • A minimum of one director and one shareholder. • A minimal amount of annual formalities, but dependent on Public Interest Score, which is calculated and based on the number of employees in a company, its liabilities and the profile of shareholders.
Personal-liability company e.g. Abc & Associates Inc	• Usually used for groups of professionals, such as lawyers, doctors and accounting practices. • Caters for one or more directors. • Both current and previous directors may be held jointly and separately liable for any debts and liabilities that occur during their time in office.
Non-profit organisation Any organisation that is not for profit and is not part of government can apply for registration, e.g. voluntary associations/non-governmental organisations, section 21 companies and trusts.	• For non-profit activities. • The income and property of a non-profit company are not distributable to its incorporators, members, directors, officers or persons related to any of them and must be used to advance the purpose for which it was created, as set out in its memorandum of incorporation. • Must have a minimum of three directors. • Must have been established for: - **public benefit**; or - **cultural or social activities**; or - **group interests**, such as **religion, sciences, education, arts, charity or recreation**. • Important requirements must be met to qualify for benefits as a non-profit organisation. To receive grants or donor funding, the entity has to register with the Department of Social Development.

BUSINESSES REGISTERED WITH CIPC*	
Cooperatives regulated by the Co-operatives Act of 2005	• Formal registration is required with CIPC for all types of cooperatives. A cooperative is usually formed by a group or even a community who wishes to work together to achieve certain aims, e.g. making bulk purchases to benefit from a lower price. • A minimum of five members are required for a primary cooperative. • The legal liability of each member is restricted to the amount agreed in the constitution. • Taxed as a company and can qualify for beneficial small-business corporation rates. • Profits are shared in proportion to member's usage or patronage of the cooperative, unlike company dividends, which are relative to percentage shareholding. • Members must have democratic control of the cooperative. • Returns paid out to members in respect of investment must be limited to a maximum percentage outlined in the cooperative constitution. • Five percent of the cooperative's surplus each year must be set aside as reserves for future cooperative investments; this surplus may not be distributed to any members. An auditor must be appointed.
Close corporations (CC) (created before 1 May 2011)	• While CCs may no longer be created, existing CCs will continue to operate until they are converted into companies at their discretion. CCs are very popular due to relaxed reporting requirements.
BUSINESS REGISTERED WITH THE MASTER OF THE HIGH COURT	
Business or Trading trust (e.g. XYZ Trust IT 123/2016)	• In essence, a contractually created business organisation conducting business and is managed by trustees. Registered by way of a formal deed at the offices of the relevant Master of the High Court. • A minimum of five members are required for a primary cooperative. • A maximum of 20 trustees. • Protection against personal liability. • A minimal amount of annual formalities. • Tax requirements are an ever-moving target and under scrutiny by the South African Revenue Service (SARS). • Cheaper and easier to dissolve than a company.

* Companies and Intellectual Properties Commission (CIPC) administering the Companies Act, 71 of 2008.

REGISTERING YOUR BUSINESS

Registration for different business entities

No registration:

Sole proprietorships

- No business registration is required. You may, however, have to obtain a licence or permit, depending on the nature of the business you intend operating.
- You can simply start using your chosen trading name, e.g. on business cards or when opening a bank account.

Registration with CIPC:

Registered businesses

- Private company – (Pty) Ltd
- Personal-liability company – Inc
- Non-profit Organisation - NPC
- Cooperatives
- Public company – Ltd

Registration with the High Court:

Business or trading trust (IT number)

Registration through the Master of the High Court that has jurisdiction in the area where the business has the most business assets.

Registering a business with CIPC

You have various options or channels through which you **can register your business**

In all cases you will need for each registered owner:

- **Identification document**
- **Proof of address**

Directly with CIPC

- **Register online** at cipc.org.za and submit the required documentation physically at one of the CIPC offices.

Online through Nedbank

- **Register online** at nedbank.co.za and submit the required documentation physically at one of 700 Nedbank branches.
- **Open your bank account** at the **same time** as part of one seamless process.

At Nedbank through Swiftreg®

- **Visit any Nedbank branch** and make use of the Swiftreg® tailored service offering.
- This is a more comprehensive service offering, especially for more complex business requirements.

Did you know?

- Company and close corporation registrations have to be renewed annually at a prescribed fee (the fee depends on the annual turnover of the business). Make sure to diarise the annual renewal date or you may find that your business has been deregistered.
- Reregistration is a formal process and can be expensive and tedious, not to mention inconvenient.

REGISTERING YOUR BUSINESS

Comparison of business registration services at Nedbank

	CIPC ONLINE	SWIFTREG
Overview	• Self-service online business registration service through nedbank.co.za. • Low-cost solution for private companies with a maximum of three directors. • Available to existing Nedbank clients and non-Nedbank clients.	• Banker-assisted business registration service through a Nedbank branch. • Comprehensive service offering using a third-party service provider with additional value-adds (available directly from the service provider). • Available to existing Nedbank clients and non-Nedbank clients.
Entity	• Private company.	• Private company. • Non-profit organisations. • Incorporated company.
Number of directors	• A maximum of three directors (South African citizens only).	• A maximum of 10 directors/14 shareholders through an online application. • Unlimited through a manual application.
Service offering	• Name reservation • Business registration	• Name reservation. • Business registration. • Shareholding certificate. • Additional services offered by Swiftreg – please consult the Swiftreg website for details.
Cost*	• R125 (a maximum of three directors). • R50 for new name search (first four names free). • No facilitation fee charged by Nedbank.	• R330 plus R30 per director/shareholder (minimum fee of R390). • R110 for new name search (first four names free). • No facilitation fee charged by Nedbank.
Processing time	• Without name reservation: approximately three working days. • With name reservation: approximately seven working days.	• Average one to three weeks.
Payment methods	• Bank deposit (electronic funds transfer and cash). • Credit card (coming soon).	• Bank deposit (electronic funds transfer and cash). • Credit card.
Terms and conditions	• Non-Nedbank clients must agree to opening a business account for the new entity as part of the business registration process.	• Non-Nedbank clients must agree to open a business account, Business Enabler account or tender account.

Terms and conditions apply.

* 2017 Prices

Registering a trust with the Master of the High Court

Register the trust at the office of the Master in whose area of jurisdiction the greatest portion of the trust assets is situated. The offices of the Master of the High Court are situated in various major city centres throughout South Africa.

Registration of a trust, including all fees, can cost anything from R1 000 to R8 000, depending on the rate charged by the person helping you with registration.

TAX CONSIDERATIONS

Registering your business for income tax

Your choice of business entity will determine your tax requirements and obligations. Make sure you consider all factors. Professional advice is highly recommended with regard to tax matters.

1 Sole proprietorships
Since a sole proprietorship is a business that is owned and operated by a natural person and has no existence separate from the owner, the owner must include the income from such business in his or her own income tax return and make the necessary payments. Individual tax rates apply and no separate tax registration is required. The owner must submit provisional tax returns and, if necessary, pay these taxes every August and February.

2 Partnerships
A partnership (or unincorporated joint venture) is the relationship between two or more persons who join together to carry on a trade, business or profession. A partnership is also not a separate legal person or taxpayer. Each partner is taxed on his or her share of the partnership profits. It is similar to a sole proprietorship, except that at least two owners are required. Individual tax rates apply and no separate tax registration is required. The partners must each submit provisional tax returns and, if necessary, pay these taxes every August and February.

3 Private company, personal liability companies and close corporations
These entities are treated by law as separate legal entities and must be registered as taxpayers in their own right. Once the business is registered with the CIPC, you should automatically receive a SARS registration number for the business. This registration is not intended to replace the tax registration of the business owner, who remains a taxpayer in his/her own capacity. This means that there are two taxpayers: the business and the individual. In certain (most) circumstances the owners (shareholders) and directors may be liable to submit provisional tax returns and, if necessary, pay provisional taxes every August and February.

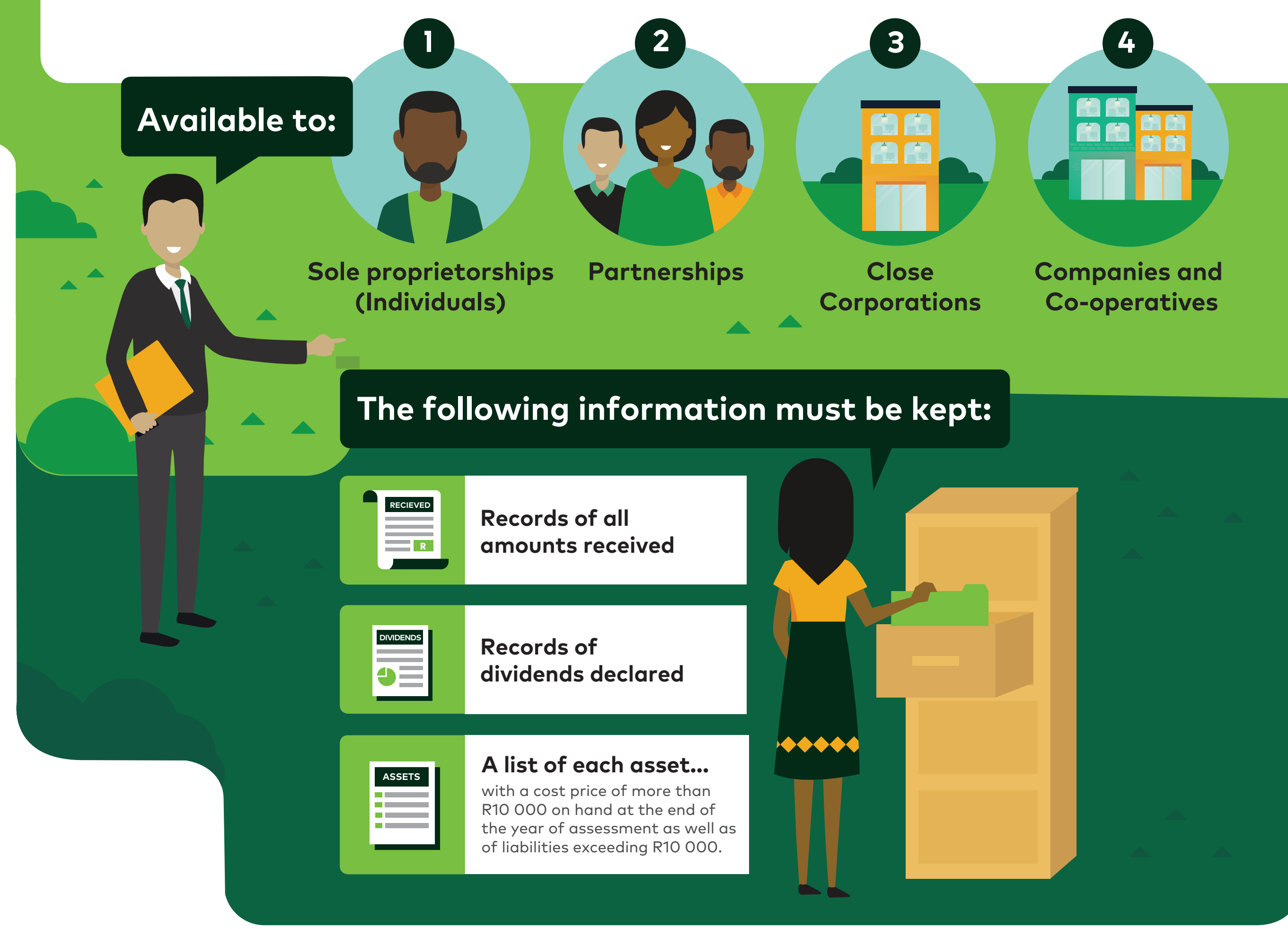
Visit your local SARS offices to ensure you and your business are registered for tax.

Turnover tax for micro enterprises (turnover of less than R1m)

Turnover tax is a simplified system aimed at making it easier for micro businesses to meet their tax obligations.

The turnover tax system replaces income tax, VAT, provisional tax, capital gains tax and dividends tax for micro businesses with a qualifying annual turnover of less than R1 million. A micro business that is registered for turnover tax can, however, elect to remain in the VAT system (from 1 March 2012).

Turnover tax is worked out by applying a tax rate to the taxable turnover of a micro business. A major benefit of turnover tax is the reduced record keeping requirements and tax rates that are significantly lower than those under the standard tax system. Obtaining professional advice is, however, very important before registering for this type of tax otherwise you may find yourself paying unnecessary taxes.



Businesses registered for turnover tax are required to make two interim payments (August and February) and submit a turnover tax return by the specified due date. To register for turnover tax a TT01 form must be completed and sent to SARS.

TAX CONSIDERATIONS

Tax for small-business corporations

- **Is your business a CC, company or cooperative?**
- **Is your business's turnover less than R20 million a year?**
- **Are all the shareholders/members in your business natural persons?**
- **Do you or your co-owners only own one CC, company or cooperative (or, if more, do the other entities have a value of less than R5 000 each and have never traded)?**
- **Does less than 20% of your turnover come from investment income?**
- **Does less than 20% of your income come from rendering a personal service?**

(In general, a personal service refers to a service for which the income derived is mainly a reward for the personal efforts or skills of an individual, such as an accountant and consultant. But if the business employs more than three persons that are not related to the business owner, it can still qualify for the beneficial rates, even if it supplies a personal service.)

If you have answered YES to all the above questions, your business could be making significant income tax savings by registering as a small business corporation.

A word on VAT

- A business must register for VAT if its turnover in any consecutive 12-month period exceeds or is likely to exceed R1 million.
- Any business may choose to register if its income in the past 12-month period exceeded R50 000 (in certain circumstances, if income is less than R50 000, registration may be approved – the SARS website has details in this regard).
- A small business that is registered as a micro business under the sixth schedule of the Income Tax Act may also register for VAT and may elect to submit returns and payments every four months on the last day of June, October and February.

If you have decided to register as a VAT vendor and have a VAT number, it is important that invoices that you issue or that are issued to you by VAT-registered suppliers contain both your VAT number and the VAT number of the other party, plus other specified information. Failing to comply with this can subject you to a VAT audit and delays in the refund of any VAT amounts that may be due to you. Information can be omitted from certain invoices, for example if you purchase goods for a value of less than R5 000 (one transaction).

Where can I get more help?

- Unless you are well versed in the field of tax and tax law, it is advisable to get help from a professional tax consultant or accountant.
- You can also visit the SARS website at sars.org.za for the SARS Tax guide for small business and to the South African Institute of Tax Professionals at thesait.org.za.

IDENTIFYING YOUR BUSINESS ADVISORS

Accounting, financial and legal services

Most businesses will sooner or later require the services of a professional firm – be it for accounting, financial, insurance, legal or tax advice.

In fact, depending on your chosen business entity, you may be legally required to make use of an accounting officer or an independent auditor to vet your financial results. Similarly, you will need legal support to establish and register a business trust.

You should also consider using professionals for:

- Drafting of contracts (e.g. lease agreements, supplier contracts, customer terms and conditions).
- Bookkeeping and structuring of financing solutions.
- Intellectual property protection (e.g. trademark protection).
- Protecting your business and your family against the risk of loss or theft or the consequences of your untimely death or disablement.
- Dispute resolution
- Provision of employee benefits such as pension or provident funds.

Rather than waiting for the day when your back is to the wall, identify the right advisor to work with from the outset.

It is important to find the right individual or team of people, who should meet the following criteria:

- Your business can afford their fees.
- They are reputable service providers.
- They will work with you in a way that suits you.
- They are big (or small) enough to cater for your needs.

Always bear in mind that it is your business and that you are expected to meet your obligations (legal or otherwise). Do not rely exclusively on any advisor without applying common sense, and always ensure that they, and you, meet your business commitments.

Did you know?

- Certain organisations in South Africa provide free professional advice. This includes large firms offering advice on a pro bono basis.
- You can also gain ongoing access to legal/financial advice through a monthly subscription fee.

2

KEEPING FINANCIAL INFORMATION

Why is this important?

Keeping financial records and managing your business finances are probably the most important elements of running a business. It affects your internal relationships with your staff and partners, and your external relationships with suppliers, your bank and clients. It also speaks volumes about the way you conduct your business. Keeping financial records of your income and expenses and accounting for the financial activity of your business should start the day you take that first step towards running your own business.

What records need to be kept?

Some records are essential to keep close scrutiny of your business affairs and to comply with the law that requires you to keep documentation for a specific period. Examples are:

- Bank statements (it is a good idea to keep these in a separate file).
- Sales invoices and credit notes.
- Supplier documentation such as delivery notes.
- A correspondence file for letters received and sent.
- If you are registered for VAT, the necessary documents for the relevant VAT periods.
- Receipts for any cash purchases made.

FINANCIAL INFORMATION OVERVIEW

Financial record keeping

Why it is so important to keep financial records:

Preparation | **Legal requirement** | **Tax purposes** | **Funding**

1. It allows you to understand the true state of your business and **predicts future financial needs so that you can plan for these well in advance.** This becomes especially true once you are in a position to compare the financial information for different periods, i.e. December with February or 2016 with 2015.
2. For the formal business entities (companies and close corporations) it is a legal requirement to produce annual financial statements within a certain period. Make sure you familiarise yourself with such requirements when you register your business.
3. **For tax purposes you need to demonstrate the income generated** by you and your business and declare this (either as part of your personal tax return and/or in a separate return if your business is registered as a separate entity with SARS).
4. **It unlocks funding.** Whether you seek to borrow from friends, formal institutions or the general public, you need to convince the lender of the current state and potential future state of your business, both in terms of your ability to service the debt and the assets to be used as security. Accurate and up-to-date financial statements go a long way to making funders comfortable when they are assessing any application for finance.

Where can I get more help?

- If you have the right financial skills and your business is not overly complex, you may well decide to manage financial record keeping yourself, at least initially. A simple statement of money flowing into your business from sales (and other sources), money flowing out of the business and details thereof is very useful for planning purposes.
- Alternatively (or in addition) you can hire a bookkeeper or financial officer on a temporary or full-time basis to assist you with invoicing and record keeping, especially if the volume of documentation in your business increases.
- Accounting firms offer the service of creating and auditing your annual financials should you be required to do so.
- Various software packages and tools are available in the market – some free of charge to automate certain aspects of your financial reporting.

BUSINESS PLANS AND FINANCIALS

Your business plan

Many books have been written on how to put together a sound business plan, covering all the aspects of strategy, operations, sales, marketing and research, human resources and finance.

The point here is not to reiterate the 'what and the how', but rather to emphasise that preparing a business plan is a useful discipline that all business owners should consider. A well-considered plan helps to identify opportunities, eliminate risks and create focus and direction. It also provides clarity on financial and cashflow needs.

Business summary

Include a summarised version of the whole plan (one to two pages) in your comprehensive business plan. This summary (often called an 'executive summary') can be a useful conversation tool when you engage with stakeholders, including your bank.

In your summary you should cover:

- What your business is about.
- How it generates income.
- How it is planning to grow.
- What funding you require (if any) and what the funding is to be used for.
- High-level financial projections (including cashflow forecasts).

Where can I get more help?

- Many enterprise development programmes offer support – ranging from mentorship to business planning courses that guide you step by step.
- Books, online sites and business planning software, including certain tools, are available in the public domain – some of these are even available for free.
- Lastly, there are professional firms specialising in business planning services (for a consulting fee).

BUSINESS PLANS AND FINANCIALS

Management accounts and financial statements

Generically, financial statements consist of the following components:

- **Statement of financial position (previously balance sheet)**
- **Statement of changes in equity (previously statement of changes in retained earnings)**
- **Statement of comprehensive income (previously income statement)**
- **Notes to the financial statements**
- **Cashflow statement**
- **Director's / Owner's report**

There are different levels of financial statements for different purposes – so make sure you understand exactly what is required of you from the stakeholder you are engaging with and why.

	MAIN PURPOSE	CHARACTERISTICS
Management accounts	• Used for the day-to-day running of the business and quick decision-making. • Ensures record keeping in preparation for year-end. • Enables business analysis in the absence of recent annual financial statements.	• Produced monthly (or quarterly). • Available quickly if you have the necessary information available. • May include only certain components of annual financial statements.
Annual financial statements (AFS)	• A formal report summarising the results of the business. • Can be used for SARS tax submission and loan applications.	• A full set of financial schedules. • Should contain year-on-year comparatives. • Prepared by a qualified accountant. • Relies on analytical procedures and enquiries from management and provides limited assurance for the reader.
Audited financial statements	• Same as an annual financial statement, but with additional oversight and verification steps. • Acts as additional management control for the business owner and stakeholders. • Statutory requirement for certain business types.	• Same as annual financial statements. • Audit must be performed by an independent, qualified accountant. • Additional tasks must be done to provide full assurance.

Debtor management

Healthy cashflow is the lifeblood of every business, regardless of its size. Cashflow problems can have the most adverse impact on smaller businesses. Having a sound debtor management strategy in place is key to avoid these negative effects. This strategy should include:

Setting clear parameters

Make sure your terms and conditions of sale and/or service are clearly articulated and communicated to your customers (and suppliers), so that they can be enforced if necessary. You may want to make use of the help of an attorney to cover all your bases.

Choosing your clients

Depending on the nature of your business, you may consider checking credit records and payment histories before engaging with customers on a permanent basis. As there are costs involved, this makes sense only in certain scenarios. Don't forget to obtain prior consent in writing to avoid accusations of privacy invasion! You can also use your marketing and pricing strategies to ensure you attract the right customers.

Payment terms

While payment terms are often determined by common market practices in the industry in which you operate, you have the option to insist on a deposit or operate on a cash-on-delivery basis only.

Proactive debtor management

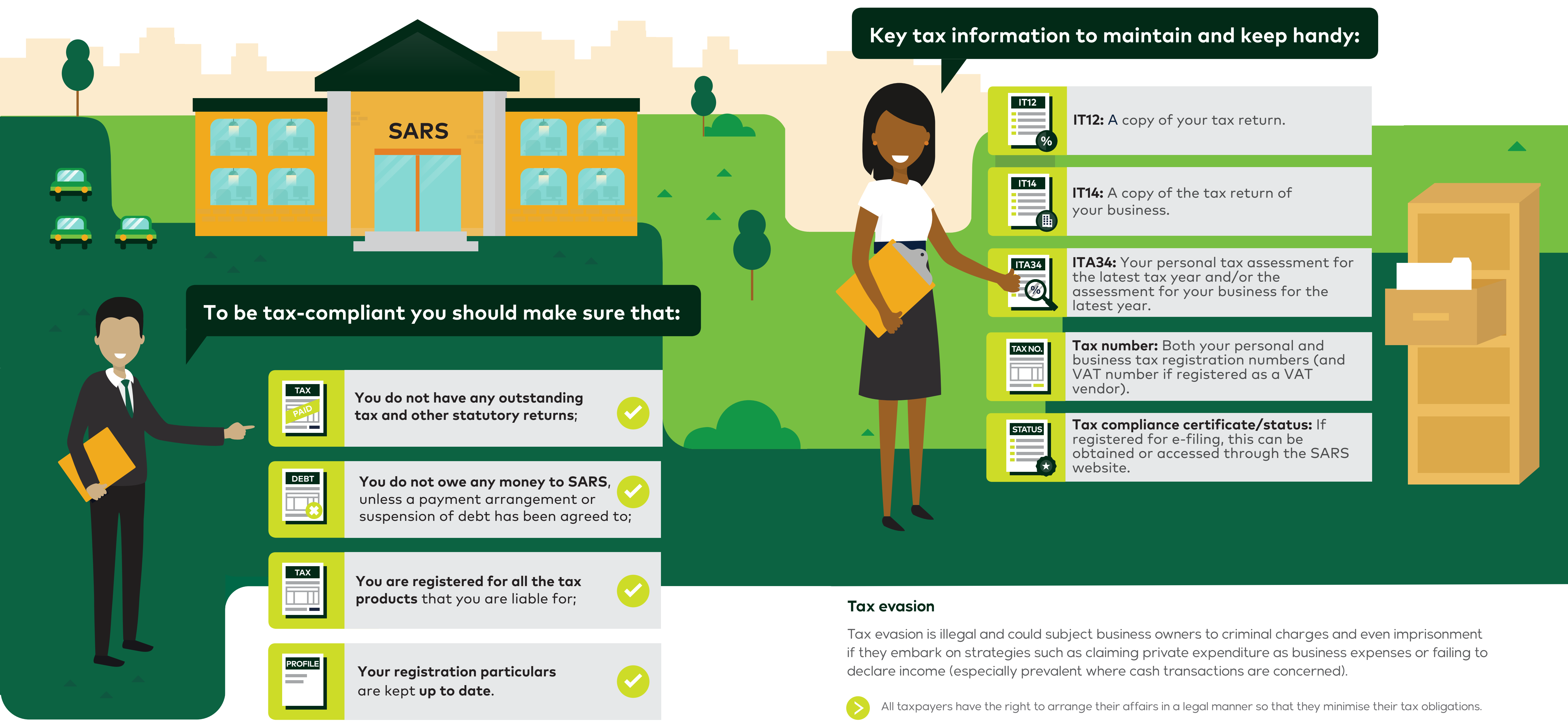
Even with the most sophisticated sales strategies in place, management of outstanding invoices is critical. There is a 'golden period' (typically less than 30 days overdue) when your chance of collection is the highest.

Unlocking your cashflow with Nedbank

A well-managed debtors book can be used to unlock up to 80% of the tied-up cash. Please consult your banker for available options, which vary depending on the nature and makeup of your book.

BUSINESS PLANS AND FINANCIALS

Management of all statutory returns



Tax evasion

Tax evasion is illegal and could subject business owners to criminal charges and even imprisonment if they embark on strategies such as claiming private expenditure as business expenses or failing to declare income (especially prevalent where cash transactions are concerned).

All taxpayers have the right to arrange their affairs in a legal manner so that they minimise their tax obligations.

BUSINESS PLANS AND FINANCIALS

Other statutory obligations

As a business owner you want to ensure that you comply with all legal (statutory) requirements and returns, not only submissions to SARS. Certain business sectors require different registrations and returns to be submitted to various statutory bodies.

All business owners should confirm whether they are required to register and submit regular returns to the following (and other relevant legal bodies) or not:

Name	Website	Regularity
Unemployment Insurance fund	ufiling.co.za	Monthly
Skills Development	sars.gov.za	Monthly
Compensation Commissioner	labour.gov.za	Annual
Pay-as-you-earn (employees tax)	sars.gov.za	Monthly
VAT	sars.gov.za	Two- or Four-monthly
CIPC	cipc.co.za	Annually

NEDBANK FINANCIAL TOOLS AND SERVICES

There are many service providers offering software, consulting services and advice to small and medium-sized enterprises. **Nedbank has the following practical tools that will save you valuable time and money** in running your business:

Money Manager™

This easy-to-use budgeting and tracking tool is suitable for small businesses. It feeds directly from your internet banking to generate simple cost analysis, income statements and cashflow views. Money Manager is free of charge and automated for Nedbank Internet Banking users.

Nedbank Accounting Sage One

This comprehensive accounting solution is integrated with Nedbank Internet Banking and powered by Sage Pastel. Monthly fees apply.

SIMPLYBIZ.co.za

SimplyBiz™ is a platform for small-business owners, driven by small-business owners. Get practical information, ask questions, spark discussions, get advice, share your stories, promote your business and build a network of like-minded people you can turn to on your business journey.

3

MANAGING YOUR BANKING RELATIONSHIP

Building a trusted relationship with your bank has many benefits for you as business owner and will set you off on a smooth journey by removing many of the hassles that others may be complaining about.

Build a positive relationship with your bank by:

- **being prepared –** have your company documents ready, your financials properly prepared and your tax returns submitted timeously; and
- **being transparent and providing full disclosure –** the more your banker understands your position, the better he or she is equipped to guide you on the best solution.

Always remember that the bank performs many checks and quickly gets concerned if the facts you present do not tie up.

BANKING RELATIONSHIP GUIDELINES

Engaging with your banker

You have chosen your bank and you are ready to engage with your banker. Here are some general guidelines you should consider before your first meeting:

Equip the bank to understand your business

Consider preparing a snapshot that summarises your business. This snapshot should include information on the nature and industry of your business, its age, past performance and projections as well as you and your partners' credentials. Unfortunately, bankers do not have time to read lengthy business plans, so remember less is more.

Keep your documents in order

Banks are highly regulated and are required to obtain certain minimum information about you and your business – keep a file with the relevant documents handy.

Be open with your bank

Banks want to do business with you, but they are also cautious in nature. In the long run it pays to be honest and disclose your situation fully. It will also better equip your banker to advise you appropriately.

Understand what the bank can and cannot do

There are limitations to what banks can do. If you are clear on these, it might save you trouble later, e.g. banks are not angel investors, if that is the kind of funding you need, then rather talk to a venture capitalist.

Build and maintain a credit record

A good credit record requires regular and timeous payments of all creditors. Maintaining a good credit record and keeping your credit facilities within reasonable limits of your income earned can only improve your chances of success when applying for funding. (See the next section for a full explanation on building and maintaining a credit record.)

Get to know your banker and banking options

Different banks apply different service models. If you have been allocated a dedicated banker, you should use him or her as your primary contact so you can get to know each other. Even if you or your business has an adverse credit record, you can open a bank account (certain terms and condition will apply). The bank may even be able to assist in repairing an adverse credit record.

Dedicated relationship bankers

At Nedbank we offer a dedicated relationship banker to each of our small-business clients to assure easier access and a deeper understanding of your needs and context.

BUILDING AND MAINTAINING A CREDIT RATING

The connection between cashflow management and credit record

Business advisors may have wide and diverse opinions about what a business requires to be successful, but there is no doubt that proper cashflow management and an impeccable credit record are high priorities.

One could mistakenly think that a good credit record and good cashflow management always go hand in hand, but this is not always true.

In reality business owners enjoying a good cashflow can create an impaired or poor credit record by, for example, regularly paying accounts beyond their due date, or not paying them at all. On the other hand you may also find that a business owner whose cashflow is not that great is managing his or her expenses in such a way that they are settled on time and in accordance with the terms and conditions of the credit agreement. Which one of these business owners would you rather give a loan to?

BUILDING AND MAINTAINING A CREDIT RATING

Adverse credit record findings

An adverse credit record finding against either the business or one or more of the business owners will make it exceptionally difficult to get funding.

Keep in mind that large credit providers are members of credit bureaus that share account payment habits of all creditors. This means that every time you apply for credit, your application for credit is recorded on a database and you give consent for your personal credit record to be obtained. Read the fine print in your application for credit. Whether you are applying for a loan, an overdraft, a clothing account or credit facilities, your and your business's credit record will be scrutinised before a decision is made whether or not to grant you credit.

In essence a good credit record requires regular and timeous payments of all creditors. Keeping a good credit record and maintaining your credit facilities within reasonable limits of your income earned can only improve your chances of success when applying for funding. Another factor that may lead to a credit application being declined is an oversupply of credit. For example, if you have a large credit facility that is unused and you apply for further credit with another credit provider, your application can be declined.

What if you have no credit record?

Many people, not only business owners, find themselves in this situation, as they have never applied for credit and chosen to pay all purchases upfront. Although your bank can give you a credit thumbs up by confirming that you have never gone into 'unauthorised overdraft', it is good practice to open an account (clothing, credit card or cellphone) and demonstrate your ability and willingness to meet your obligations. This will help create the good credit record you require and lower your risk for the financial service provider.

What if you have (knowingly or unknowingly) a bad credit record?

It can happen that you are unaware of a bad credit record until you apply for credit. In this instance you may be faced with the fact that one of your accounts (or the account of a person for whom you had signed a suretyship) had not been settled and gone 'bad', or even that you were the victim of identity theft.

It may also be the result of a dispute with a service provider about incorrect billing, and because you are not willing to pay until the issue is resolved, your credit rating might have been negatively affected. In case of a dispute, you should confirm with the service provider that your credit record will not be adversely affected while it is being settled.

Generally speaking, amounts in dispute should not affect your credit record, but incorrect administration by the service provider may cause this to happen – another reason to check your and your business's credit record regularly.

Fixing a bad credit record

Fixing a bad credit record is unfortunately not cheap or easy. The best place to start is to find out which credit provider had placed the adverse information with the credit bureau and request the information about the outstanding debt, as well as the best approach to correct the situation. This may sometimes require the intervention of an attorney and lead to legal costs. If you omitted to pay the outstanding account, you will be required to settle the debt. While it can take a couple of weeks (or even months) for your credit record to be cleared, banks typically accept relevant documentation from the organisation with whom you had the dispute as proof that the underlying problem has been resolved. They will then be able to proceed with an application for credit in the meantime.

This guide does not deal with the process of debt counselling in detail. Please consult the provisions of the National Credit Act or get professional advice if necessary.

Did you know?

- You are entitled to a free credit report every year. Check out creditexpert.co.za or call any of the credit bureaus.
- Even small outstanding amounts or late payments can lead to a negative credit record.

OPENING A BANK ACCOUNT

Choosing the right bank account

Let's face it, opening a bank account does not have quite the same appeal as choosing your next car, moving to better premises or designing your first advertising campaign. Yet your bank account can become one of the most important enablers for your business. You can facilitate secure payments, build up a credit record and source the finance you require through your bank account.

ACCOUNT TYPE	CONSIDERATIONS
Pay-as-you-use (PAYU) business account	• Do you prefer a fixed monthly charge or an actual charge that fluctuates with transaction volumes? • What are the fees per transaction?
Bundled business account	• What is included in the bundle? • What are the penalties for exceeding the stipulated maximum number of transactions? • What is your likely monthly usage of the benefits included?
Special-purpose accounts	• What other accounts are offered? • Certain banks offer special propositions, e.g. for medical practices, agribusinesses or franchises. • If you or one of your shareholders has an impaired credit record, an account to re-establish your record is required • If you are tendering for business, you require a bank account number. A tender account is ideal for a new business needing a bank account number for tender purposes.

Business Enabler

For new and established businesses with no credit record and/or judgments against individual members. An account to re-establish your credit record is required.

One bank vs multiple banking relationships

While it makes sense to choose two or more banks in some instances, for most small businesses this just means extra cost with no clear benefit. The following benefits should be considered when making that choice:

Single bank

- There is no duplication of efforts (in terms of account reconciliations, forms, document submissions, etc).
- The bank can see the way you conduct your banking and expedite decisions with regard to your finances.
- Better rates are offered to single-bank clients.
- One set of bank charges (half the cost of multibanked).

Multiple banks

- It mitigates the payment risk (e.g. if one payment channel is down, you can still use the other).
- It allows you to pick 'best of breed' products.

Maintaining your bank account

Once you have chosen a bank and opened a bank account, it is important that you manage your account well. Even a bank account needs some love and care. Here are two things to watch out for:

Dormancy (no usage)

If you don't use your account regularly (let's say one transaction every second month), it goes dormant. Different banks apply different rules. Once it is dormant, you can no longer access the account and have to request for it to be reactivated. More often than not this happens at the most inconvenient time, so it is better to avoid dormancy.

Excess (overdrawing your account over and above any agreed overdraft limit)

Whether you use your account or not, your monthly bank fees and any debit orders you may have requested will continue to be deducted every month. And before you know it, you may be in the red. Banks are quick to close such accounts and, what is worse, this can reflect negatively on your credit record.

APPLYING FOR FINANCE

Understanding your finance needs

Any bank will expect you to identify and consider your financing needs by answering questions such as the following:

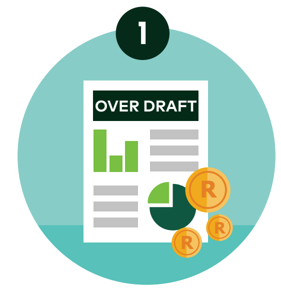
In assessing your request for financing a bank will also consider a number of factors to satisfy itself that you have the ability to repay the requested finance. These factors include:

- **Your track record** in dealing with current and previous financial obligations. The bank will look at its own records and those of the credit bureaus to get a view on your ability to repay the finance.
- **Historical performance of your business.** You will have to provide the bank with complete financial information so that it can assess your business's past performance.
- **Realistic and well-considered financial projections,** including the assumptions that inform the bank. These will assist in the assessment of your future financial prospects and ability to service the requested finance adequately.
- **The macro- and microeconomic factors** that could impact your business and the industry/sector in which you conduct your business.
- **The bank's risk appetite** for a specific industry/loan type/client segment based on past experiences. Banks operate based on predefined credit policies, and if your request falls outside these standard policy parameters (e.g. maximum loan size, loan-to-value ratios, minimum/maximum term), the assessment may take longer and could result in a 'lesser' offer.

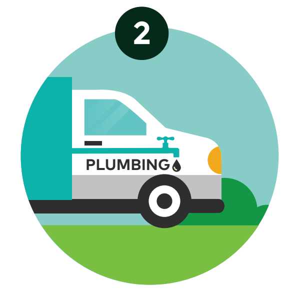
Once your bank has satisfied itself in terms of your risk profile and the transaction you are considering, the bank will determine its requirements to mitigate the risk through some form of easily realisable security, such as a pledge of an investment or covering bond over property.

When to approach your bank for funding

Based on certain principles of appropriate financing, a bank will generally consider assisting in the financing of short-, medium- and long-term requirements, for example:



Short-term funding
of working capital (to help meet monthly expenses) by way of overdraft facilities, credit card facilities, factoring of invoices or cash advances.



Medium-term funding
of acceptable operational assets such as equipment and vehicles used to produce income (by way of instalment sale or term loan agreements).

Long-term funding
of non-operational assets such as commercial and residential property by way of mortgage finance.

When to approach other providers of funding

Banks are less enthusiastic about funding new unproven concepts and ventures or speculative transactions (unless there are compelling reasons that can be substantiated by the applicant).

In these instances you might wish to explore financing options from the following:

- family and friends (can impact these relationships);
- crowd funding;
- private investors (venture capital funds, angel investors); and
- government agencies such as Business Partners, Small Enterprise Finance Agency (SOC) Ltd (Sefa) or the Industrial Development Corporation (IDC).

Be aware that, because this funding is regarded as having a higher risk, the associated cost is likely to be much higher than the lending rates of commercial banks.

APPLYING FOR FINANCE

An overview of typical bank lending products

Short-term financing options

Overdraft

Credit card facilities

Debtor finance / Invoice discounting

Cashflow is the lifeblood of every business. The following facilities can unlock additional cashflow or free up working capital:

- **Overdraft –** bridges gaps with regard to working capital, debtor payments or fluctuations in income or expenses. You will usually be required to pay the interest monthly at a specified interest rate and apply for an annual renewal of the facility amount. The facility is reviewed annually. For example, if you have a facility of R10 000 at 12% per annum and you made full use of the facility, you would pay R100 interest every month: R10 000 x 12%/12 = R100.
- **Credit card facilities –** provides access to short-term funding to bridge cashflow gaps. Typically you will be required to pay either the full amount due or a specified percentage of the outstanding amount at month-end. The interest rate for the 'specified percentage' option tends to be a bit higher than the rate for other facilities. If you pay off the amount you used at the end of every month, you would not pay interest. You can also decide to pay only the minimum amount due every month, but remember that you will have access only to the available credit at the time and not the full credit facility.
- **Debtor finance/Invoice discounting –** will unlock cashflow if your cash is tied up in your debtors book. Obviously there would be a cost to use this type of facility. The cost will depend on various factors, including the creditworthiness of your business and the debtor(s) concerned. Talk to your banker about this if you feel that this option could benefit your business cashflow.

GAP Access
An innovative solution from Nedbank that provides access to working capital for businesses that make use of point-of-sale (POS) devices.

Medium-term financing options

If you are buying more vehicles or expanding your operations, you can finance your vehicles, equipment and machinery using medium-term finance.

Asset-based finance is a type of secured loan specifically used for buying assets such as cars, machinery and equipment. Asset finance is a product mostly available at banks or financial institutions that specifically list it as a product.

Repayment of amounts advanced can be structured in various ways and, depending on the asset financed and other circumstances, payments can consist of interest and capital, as well as interest and capital plus a balloon payment (also known as 'residual payment').

As the tax treatment of these options differ from each other, it would be wise to discuss this with your banker or your tax practitioner.

Typically, there are two types of medium-term finance, each with its own agreements

- Through the instalment sale agreement the financed asset becomes your property only when the outstanding finance amount is paid, but it appears on your balance sheet as a long-term asset if it has a useful life of more than a year and is not a small asset that costs you less than R7 000.
- With a lease agreement the financed asset does not appear on your balance sheet, but the cost is included in your income and expenditure statement. Often the asset can be returned to the financier or can be purchased at the end of the term for an agreed amount.

Depending on the asset being financed, the period over which the full amount plus interest must be repaid is typically a maximum of 72 months (six years).

APPLYING FOR FINANCE

Long-term finance for property

Deciding to buy your own business premises is one of the biggest and also potentially rewarding decisions a business owner can make.

To implement this investment decision you can make use of commercial property finance that is available from banks.

Many business owners also choose to unlock equity by applying for an ordinary home loan in their personal capacity and using this for their business.

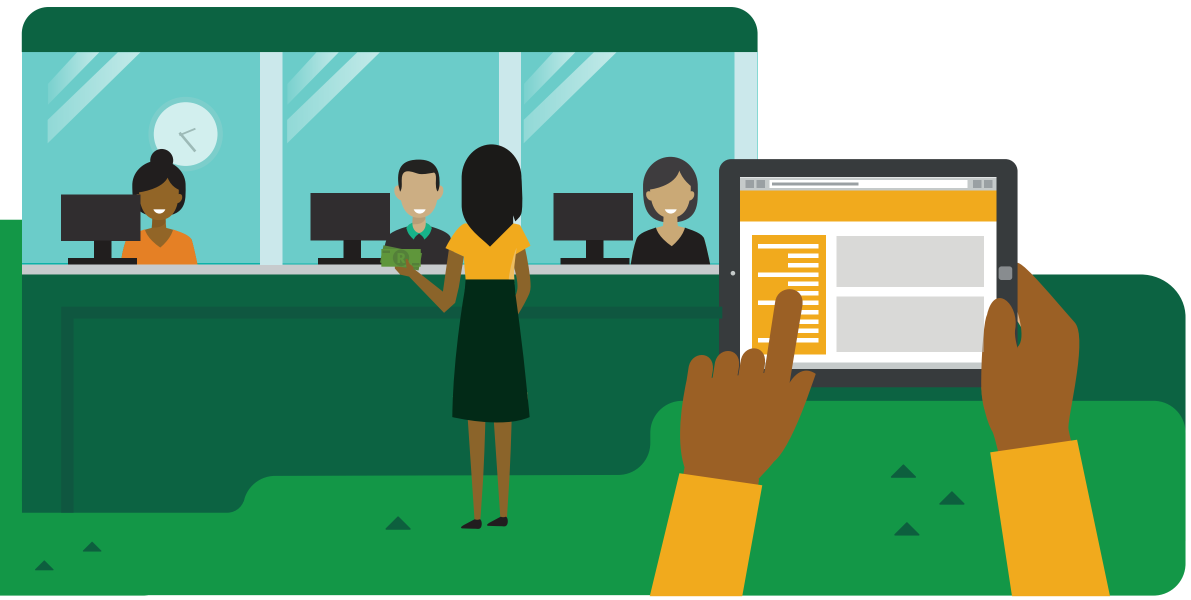
Amortisation (depreciation)

Amortisation means that the value of intangible assets are reduced over time. When using medium- or long-term debt, the below example applies and is referred to as the amortisation principle:

Any debt repayment over a specified period includes payment of a portion of the capital (i.e. the amount borrowed) as well as interest on the outstanding amount.

For example, for a loan of R150 000, repayable over a five-year period, your instalments at an interest rate of 13% would be approximately R3 413 per month (excluding administration fees).

The interesting detail about this type of financing is that in month one your payment of R3 413 covers R1 625 interest and R1 788 capital, while the final payment covers R37 interest and R3 376 capital.



Did you know?

As the tax treatment of financing options differ from each other, you would be wise to discuss this with your banker or your tax practitioner.

4

UNDERSTANDING FINANCIAL RATIOS

Any financier, investor, funder or even the potential purchaser of any business will use certain financial calculations to **unpack the financial position and performance of your business.** There are many financial calculations or financial ratios used to analyse various aspects of a business, but for the purpose of small business there are a couple that are more commonly applied, especially by finance houses and funders.

The basis of comparison could be industry ratios and/or information from your own business. You are able to compare the ratios for your business to the ratios of other businesses in your industry and to compare the performance of your business in different or corresponding periods.

If you do a simple financial ratio analysis using accurately captured comparative data, you can learn a lot about the financial position of your business and make necessary financial adjustments to enhance your performance.

In this section we will **unpack these common ratios, explain how they are calculated and what they can tell you.** The benefit for you is not only in better understanding your banker's decision-making process when applying for finance, but also gaining valuable insights into your business on an ongoing basis so that you can make decisions that make your business more successful. With these easy-to-use ratios you will be able to monitor and establish the extent of any progress (or problematic areas) in your business activities.

Please note: VAT vendors should use amounts net of VAT, while non-VAT vendors should use amounts inclusive of VAT.

A mock statement of comprehensive income and statement of financial position is given for illustration purposes only. Refer to these in the ratio examples.

PROFITABILITY RATIOS

Profitability is defined as the ability to make a profit, and profit is what income is left after you have deducted all costs and expenses related to earning the income. Clearly, if these ratios are in negative territory, drastic measures are required to rectify the situation.

Let's look at the statement of comprehensive income to see how key profitability ratios are determined:

Statement of comprehensive income

Sales		R100 000.00
Opening Stock	R50 000.00	
Purchases	R30 000.00	
Closing Stock	R20 000.00	
Cost of Sales		(R 60 000.00)
Gross Profit		R 40 000.00
Operating Expenses		(R 30 000.00)
Net Profit		R 10 000.00
Tax*(30%)		(R 3 000.00)
Net Profit after Tax		**R 7 000.00**

* Assumed tax rate 30%

Gross profit and gross profit percentage

Gross profit is the amount left after the business owner paid for stock or services and related expenses and that can be used to settle operating expenses. R40 000 in our example.

Gross profit % =	$\frac{\text{Gross profit}}{\text{Sales}} \times 100$	$\frac{\text{R40 000}}{\text{R100 000}} \times 100$	= **40%**

A service provider such as a consultant will have a 100% or near 100% gross profit percentage, while retailers and manufacturers will have a varying gross profit percentage depending on their type of business, industry, geographic location and other factors.

GROSS PROFIT MARGIN IS DECREASING

If this gross profit margin is decreasing, the business owner should consider factors such as:

Stock management

- Theft of stock or cash sales.
- Errors in stock count or stock valuation.
- Stock write-offs.

Sales management

- Changes in sales mix.
- Increases in discounts given to customers.
- Failure to pass on cost increases to customers.

A reduction in gross profit margin can also point to more fundamental challenges in your business: For example, your product or service for the price you are charging may no longer serve the needs of customers optimally, when compared with other offerings available in the market. In that case, a partial or total rethink of your customer value proposition (CVP) may be required.

Net profit and net profit percentage

Net profit is the amount left after the business owner has settled all expenses, such as paying for his stock or services and related expenses, as well as overheads. R10 000 in our example.

Net profit % =	$\frac{\text{Net profit}}{\text{Sales}} \times 100$	$\frac{\text{R10 000}}{\text{R100 000}} \times 100$	= **10%**

Net profit is influenced by how efficiently overheads are managed, but can also be severely affected if pricing of the business offering and, consequently, gross profit is inappropriate.

PROFITABILITY RATIOS

Return on assets

Return on assets (ROA) shows how well a business is using its assets to make money.

Return on assets =	Net profit after tax / Average total assets	R7 000 / R34 000 X 100	**= 20,5%**

This means that, for each rand invested in assets, the business earned 20,5 cents (or a 20,5% return on its assets).

For example, purchasing a large piece of machinery that does not increase business income rather than a smaller machine that will generate the same income, might negatively impact this ratio and indicate that the smaller machine may be a wiser purchase. However, a business owner may justify the purchase of the larger machine based on matters such as future expansion needs, possible increase in the future cost of the machine and cashflow considerations.

Return on equity

Return on equity (ROE) measures the profit earned for each rand invested in your business. You compute it by dividing net profit after tax by average owners' equity.

Return on equity =	Net profit after tax / Equity (net capital)	R7 000 / R21 000 X 100	**= 33,3%**

The higher the ratio the better.

The higher the ratio the better, as it **indicates growth of owners' investments.** Would you invest in a business where this calculation indicates that it will provide the same investment return as a bank deposit? Clearly not. Why would one take on additional risk for an investment with the same return as that of a low-risk investment? There would have to be exceptional potential over the long term for such a decision to make any sense.

BREAKEVEN RATIO

This ratio is important to determine at what point your business starts to make a profit. In the example the breakeven sales point is R75 000.

Breakeven =	Operating expenses / Gross profit margin	R30 000 / 40%	**= R75 000**

This means that if your turnover is above R75 000, you are making a profit. Any turnover less than the breakeven figure indicates that your business has made a loss in that period.

Statement of Financial Position

Assets		Liabilities And Equity	
Current Assets:		**Current Liabilities:**	
Cash and cash equivalents	1 000.00	Accounts payable	10 000.00
Accounts receivable	3 000.00	Bank overdraft	1 000.00
Stock	20 000.00		
Total Current Assets	**24 000.00**	**Total Current Liabilities**	**11 000.00**
Fixed Assets:		Long-Term Liabilities:	
Equipment	10 000.00	Interest bearing loan	2 000.00
		Total Long-Term Liabilities	2 000.00
Total Fixed Assets	**10 000.00**	**Total Liabilities**	**13 000.00**
		Capital and Reserves	
		Share capital	1 000.00
		Distributable reserves	20 000.00
		Net Capital (Equity)	21 000.00
Total Assets	**34 000.00**	**Total Liabilities and Equity**	**34 000.00**

LIQUIDITY RATIOS

You can use the following two key ratios to measure the ability of your business to convert its current assets to cash. Current assets include cash and other assets or possessions owned by the business that can be converted into cash easily.

Current ratio (or working capital ratio)

This ratio tells you whether your business has enough current assets to meet its short-term financial obligations as they become due.

Current ratio =	Current assets / Current liabilities	R24 000 / R11 000	**= 2,18:1**

Most funders will be satisfied with a ratio of 2:1

If the ratio is less than 1:1, it could mean that your business might have difficulty meeting its obligations and may not be able to take advantage of opportunities that require quick cash. Paying off your debt can improve this ratio. You may want to delay purchases or consider longer-term borrowing to repay short-term debt. You may also want to review your credit policies with clients and possibly adjust them to collect receivables more quickly.

Quick ratio (or acid test)

The quick ratio is more conservative than the current ratio because it excludes stock (or inventory) from the calculation.

Quick ratio =	(Current assets - stock [or inventory]) / Current liabilities	(R24 000 - R20 000) / R11 000	**= 0,36:1**

The ideal ratio differs by industry as the nature of stock held will influence how quickly and at what discount you can liquidate your stock.

If the ratio is substantially above 2:1, it might be considered high and it might mean that your capital is being underutilised. This should prompt you to invest more of your capital in projects that drive growth, such as innovation, product or service development, research and development or even international marketing.

Did you know?

- A bank would typically be hesitant to lend to a business with a quick liquidity ratio of less than 1:1.
- **Current assets** are cash holdings and assets that can be converted into cash within the next 12 months.
- **Current liabilities** are debt or invoices that are due for payment in the next 12 months.

SOLVENCY RATIO

There are various solvency ratios you can use to assess your business's ability to meet its long-term financial obligations, as opposed to liquidity ratios which relate to short-term obligations.

Acceptable solvency ratios vary from industry to industry. The below solvency example is a gearing (or debt to equity) ratio.

Gearing ratio =	Total outside liabilities / Equity (net capital)	R13 000 / R21 000	**= 0,6:1**

This ratio provides a view of the extent to which the business has been funded by the business owner relative to other parties such as financiers or creditors (outside liabilities). In the above example the outside funder is carrying less risk than the owner.

While it can differ materially from industry to industry, funders would like to see that the level of own funding measures up with that provided by other parties.

This ratio is important because a company with a high debt-to-equity ratio can have serious fluctuations in net income due to interest expenses while a business with a low ratio is generally regarded as stable.

One would generally find that capital-intensive businesses, such as logistics operators with fleets of vehicles, would have much higher gearing than a business in the services industry.

Any loans to members and/or associate entities are typically deducted from equity in the calculations.

EFFICIENCY RATIOS

Investopedia defines an efficiency ratio as 'a ratio that is typically used to analyse how well a company uses its assets and liabilities internally.' You will calculate these ratios if you want to determine how efficiently you are using your expenses to generate revenue or sales.

Stock turnover

This ratio indicates the efficiency of your stock management and replenishment by indicating how often you 'turn' your stock (sold it all) in a specific period. The higher the ratio the better. In other words, during the specific period under review this business has turned its stock 1,71 times. A good or bad turnover ratio is industry-dependent.

Stock turnover =	Cost of sales / Average stock* (average of opening/closing stock)	R60 000 / (R50 000 + R20 000/2)	= **1,71 times**

* The cost price of the stock, not the retail or selling price of the stock.

If this ratio is low, it might indicate an overstocked position and raise questions around obsolete stock. If your stock levels are too high, unnecessary amounts of working capital is tied up. Imagine the possibilities of having a stock system to perform this calculation per product line if you have more than one product for sale.

Debtor turnover (debtor payment period)

This ratio indicates the efficiency of your debtor collections. If debtors are collected too slowly, it could impact your working capital requirements, raise questions around bad debts and negatively affect cashflow in the business.

This ratio shows the average number of times your debtors book – the amount owed to you by your customers – is turned over. This indicates how many times your products or services are purchased and paid during a financial period, say a year. The sooner a business collects amounts due from its customers, the sooner the cash is available to take care of the business' needs and the less it may need to borrow for timely payment of its own liabilities.

Debtor turnover =	Average debtors* / Average sales X 365	R3 000 / R100 000 X 365	= **10,95 days**

* Average debtors is the average amount owed to you by your customers. This business receives all payments from the debtors on average every 10,95 days. The period should be as short as possible. Larger periods can indicate a poor collection process causing cash flow problems and bad debt.

Creditor turnover (creditor payment period)

This ratio measures the number of days it takes a business to settle the amounts it owes to trade creditors, i.e. how quickly is the business paying out money to suppliers and creditors compared to how quickly it is receiving its money from customers. It excludes amounts outstanding in respect of instalment sale or finance or lease agreements.

Creditor turnover =	Average creditors* / Purchases X 365	R10 000 / R30 000 X 365	= **121,7 days**

* Average creditors is the average amount you owe to your trade creditors or suppliers.

This business pays its creditors on average every 121,7 days. If its settlement period with suppliers is 90 days, it can be assumed that this business is experiencing cashflow problems or has a poor credit management system in place. It is always interesting to compare this ratio with the debtors ratio to establish the relationship between the two.

5

GLOSSARY

If you find the many financial terms and banking speak confusing, you are not alone. Business owners often have neither the time nor the desire to become experts in finance, but would rather focus their energy on what matters namely improving the operations, creating new products and innovating customer experiences with the ultimate goal of growing the business.

The next pages give you a brief description of key terminology frequently used in finance and banking.

GLOSSARY

Accounts payable
A record of all short-term (less than 12 months) invoices, bills and other liabilities that must still be paid. Examples of accounts payable include invoices for goods or services, bills for utilities and tax payments due.

Accounts receivable
A record of all short-term (less than 12 months) payments expected from customers that have received the goods/services but have not yet paid. These types of customers are called debtors and are generally invoiced by a business.

Accrual accounting
An accounting system that records transactions at the time they occur, whether the payment is made now or in the future.

Affordability
The bank's calculation of your monthly surplus cash (income minus expenses minus debt service cost).

Amortisation
The practice of reducing the value of assets to reflect their reduced worth over time (also see depreciation).

Assets
Assets are things you own. These can be cash or something that can be converted into cash such as property, vehicles, equipment and inventory.

Audit
A physical check performed by an auditor or tax official on a business' financial records to check that everything is accounted correctly.

Bad debts
Moneys owed to you but are unlikely to be paid to you in the foreseeable future.

Balloon payment
A final lump sum payment due on a loan, instalment or lease agreement. Credit agreements with a larger final balloon payment have lower regular repayments over the term of the loan.

Bank reconciliation
A crosscheck that ensures the amounts recorded in the cashbook match the relevant bank statements.

Bottom line
Total money earned by a business after tax and other deductions (also see net profit after tax).

Business property / assets
Fixtures and fittings, goods, plant and equipment, livestock and more.

Capital
Includes wealth in the form of money or property owned by a business or contributed by the business owner or other persons.

Cashbook
A daily record of all cash and cheques received or paid out by a business.

Cashflow
The measure of actual cash flowing into and out of a business.

Collateral
Collateral refers to property or assets that a lender can take possession of if a loan cannot be repaid (also see security).

Cashflow - Incoming
Money that is flowing into the business.

Cashflow - Outgoing
Money that is flowing out of the business.

GLOSSARY

Credit
A lending term used when a customer purchases goods or services with an agreement to pay at a later date (e.g. an account with a supplier, a store credit card or a bank credit card).

Credit history
A report detailing an individual's or business's past credit arrangements. A credit history is often sought by a lender when assessing a loan application.

Credit limit
A rand amount that cannot be exceeded on a credit card or is the maximum lending amount offered on loan or overdraft.

Creditor
A person or business that allows you to purchase goods or services with an agreement to pay at a later date. A creditor is also anyone you owe money, such as a lender or supplier.

Credit rating
A ranking applied to persons or businesses based on their credit history, which represents their ability to repay a debt.

Current asset
An asset in cash or that can be converted into cash within the next 12 months.

Current liability
A liability that is due for payment in the next 12 months.

Debtor
A person or business that owes you money.

Depreciation
The practice of reducing the value of assets to reflect their reduced worth over time (also see amortisation).

Dormant account
Dormant account means an account on which there has been no activity for a period, which can lead to the closure or 'freezing' of the account.

Factoring (also known as debtor discounting)
Factoring entails a bank or factor company buying a business's outstanding invoices at a discount and then collecting amounts due from the debtors. Factoring is a way to get quick access to cash, but can be quite expensive compared with traditional financing options.

FAIS
The Financial Advisory and Intermediary Services Act, which provides protection for you by prescribing how financial services, such as advice and intermediary services, should be rendered to you.

FICA
The Financial Intelligence Centre Act, which was introduced to fight financial crime such as money laundering, tax evasion and terrorist financing activities.

Finance
Money used to fund a business or high-value purchase.

Financial year
A 12-month period used for reporting, which can be a calendar year or a period aligned with the tax year.

Financial statements
Financial statements provide a summary of a business's financial position for a given period. Financial statements can include a profit and a loss statement, a statement of financial position and a cashflow statement.

Fixed asset
A physical asset used in the running of a business.

Gross Profit
The amount left after the business owner paid for stock or services and related expenses and that can be used to settle operating expenses.

GLOSSARY

Interest
The extra money you pay when you take out a loan or receive when you save or invest.

Interest rate
A percentage used to calculate the cost of borrowing money or the amount you will earn on money you save or invest. Rates vary from product to product and generally the higher the risk of the loan, the higher the interest rate. Rates may be fixed or variable and are usually linked to the bank's prime lending rate.

Inventory (or stock)
Inventory or stock refers to goods or material purchased by the business for onward sale or use in the manufacturing process.

Liability
A financial obligation or amount owed.

Liquidity
Liquidity refers to the state of having available cash or assets that can be converted to cash easily.

Loan
A finance agreement in terms of which a business borrows money from a lender and then pays it back in instalments (plus interest) within a specified period.

Loan-to-value ratio (LTV)
Your loan amount shown as a percentage of the market value of the property or asset that will be purchased. The ratio helps a lender work out if the loan amount can be recouped should a loan go into default.

National Credit Act (act no. 34 of 2005)
To promote a fair, transparent, competitive, sustainable, responsible, efficient, effective and accessible credit market and protect consumers.

Net Profit
Net profit (before tax) is the total gross profit minus all business expenses.
Net profit after tax (net income) is the total money earned by a business after tax and other deductions.

Overdraft facility
A finance arrangement in terms of which a lender allows a business to withdraw more than the amount in credit in an account.

Overdrawn account
A credit account of which the credit limit has been exceeded or a bank account of which more than the remaining balance has been withdrawn.

Overdue account
An account that has not been settled or of which the limit in terms of the agreed term and conditions has been exceeded.

Personal property or asset
Personal property or asset covers any property owned by an individual and can include cars, boats, planes, land, buildings and furniture.

Security
Security refers to property or assets that a lender can take possession of if a loan cannot be repaid (also see collateral).

Statement of comprehensive income (also known as an income statement)
A financial statement listing sales and expenses and used to work out the gross and net profit of a business.

Statement of financial position (also known as a balance sheet)
A snapshot of a business on a particular date. It lists all of a business's assets and liabilities and works out the net assets.

Valuation
A valuation is a judgement about how much something is worth. A valuation can be done informally, when you value the fair market value of your house, or professionally by a registered valuator who undertakes a full and proper valuation of your house in accordance with specified rules and regulations. The same applies to the valuation of businesses and other possessions.

Working capital
Working capital is the cash available to a business for day-to-day expenses.

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For more information about Nedbank's new product offers talk to one of our Nedbank consultants.

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