

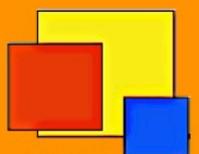
# EMS GRADE 8



Fun Economic & Management Sciences

Grade 8

Written by Barbara Williamson



EZ Learn

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## 3. Management

### 3.1. Group activity



*You will need: A 200 piece puzzle, 10 sheets A4 paper per group, stapler, scissors, 2 sets of crayons, a paint by numbers picture per group (minimum 6 colours), a set of Bendaroos<sup>1</sup> or playdough, a packet of Jellytots per group and toothpicks per group*

Form a group of 5 learners. Spend ten minutes completing each activity below (in any order – rotate resources around the class). Take turns acting as the leader – on completion of all the activities, each group member should have had a turn being the leader.

#### Lessons 1 & 2

##### Activity 1

Complete the puzzle. Once done (or time is up), photograph it.

##### Activity 2

Create 10 paper lanterns. They should be bright and colourful. You may need to refresh your memory of how you made this in primary school!

##### Activity 3

Complete the paint by number.

##### Activity 4

Use the Bendaroos or playdough to create a flower garden. Take a photo of the completed scene.

##### Activity 5

Use the Jellytots and toothpicks to create a replica of the Eiffel Tower. Your structure should be stable.

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<sup>1</sup> [www.bendaroos.com](http://www.bendaroos.com) – Pierre Bezuidenhout 083 314 9244

### Lesson 3 - reflection

1. Which activity was completed most effectively?

2. How did the leader of this group manage the activity?

3. Which activity proved the most difficult and / or was poorly completed?

4. How was this activity managed?

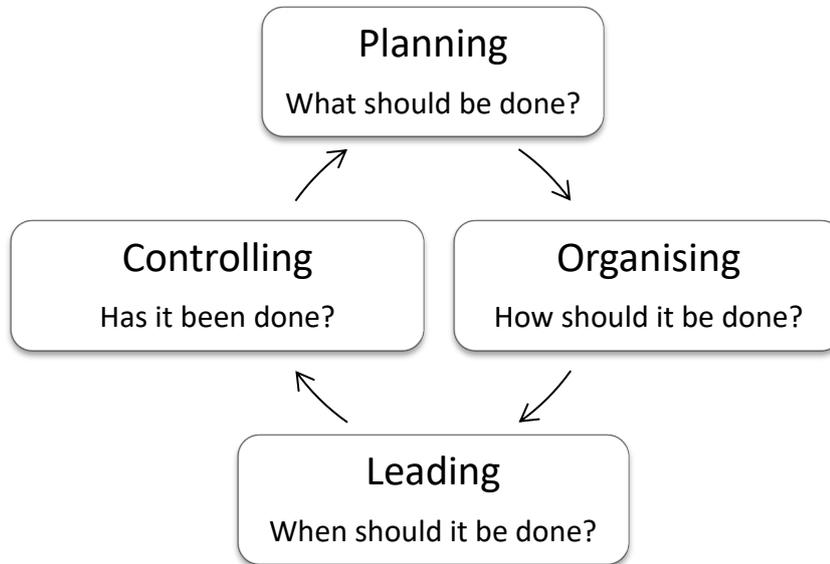
5. Did you notice any difference in the way the different leaders managed the five different activities?

6. Comment on the different management styles you noticed in the different activities.



## Elements of management

Management is the process that managers follow to attain the goals of the organisation by working with and through people, combining all the activities of the business. This is achieved through the following elements of management:



### Planning

Planning involves deciding what will be achieved and how it will be achieved, by establishing goals or objectives and deciding on the path that will be followed in order to achieve them.

### Organising

Organising is the process of creating a structure that allows managers to carry out their plans and meet their goals successfully. The business resources (people, the production process, technology, capital etc.) must be organized. An **organogram** illustrates the activities of the organisation, subdivisions of the organisation, the type of work performed or areas of responsibility, levels of management and lines of authority.

### Leading

Leadership refers to the human relations side of management, as it is directing the behaviour of people. A good leader enjoys respect and loyalty from her subordinates, who in turn will work enthusiastically and willingly towards achieving the objectives of the business.

### Control

Control is the management task of ensuring that the actual activities conform to the planned activities. Performance is compared to predetermined standards and corrective action is taken when it does not conform.

### 3.2. Formative assessment

(20 marks, 30 minutes)



Your aunt has suddenly become very busy at work and has asked you to organise your cousin's 5<sup>th</sup> birthday party. She will cover the costs that she approves along the way and will pay you well for your time and effort. In return she expects a party that will run smoothly and delight your cousin. You realise that this task will need to be very carefully managed in order to be successful. Suggest how you will carry out each of the following:

Planning the party

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Organising the party

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Activating and leading

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Controlling

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## Styles of management

People have different personalities and will lead (and respond to leadership) in different ways. The way in which decisions are made and situations are handled will depend on the leadership style of management. The management style used in one business may not work somewhere else. The following are the most common leadership styles:

### Autocratic

The leader makes decisions without consulting employees. Little upward communication takes place. Decisions can be made quickly and the business will appear to be well run by a confident manager. However, this style may lead to employees being overly dependent on their leader. This style works best when managing large numbers of lower skilled workers where discussion would not be practical, or in a time of crisis when decisions need to be made very quickly.

### Permissive (free-reign / laissez-fair)

A permissive leader allows employees to make their own decisions and work with very little guidance or control from above. Communication takes place equally between the leader and the subordinates. This works best in a situation where highly professional, intelligent employees are required to be creative. The problem arises when poor leadership results in a lack of focus and little sense of direction with decision-making being avoided.

### Democratic (participatory)

A democratic leadership style involves listening to the opinions and ideas of subordinates and basing decisions on the views of the majority. This is a combination of the autocratic and permissive leadership styles, and is effective where complicated decisions requiring a range of skills are required. Unfortunately, the two-way communication slows down decision-making.

### 3.3. Class discussion



Think about the different management styles you experience in your different classes.

1. Can you identify the different leadership styles?
2. Can you see why each is effective in the different classes, i.e. why it works?

## Levels of Management

Management takes place throughout a business – from the Chief Executive Officer (CEO) at the top, through the department managers (middle management) to the supervisors of numerous different areas at the lower level.

Lower management will need very specific knowledge of the task at hand, but as one ascends up the ladder, a more general knowledge is needed and an understanding of the business as a whole is vital.

LEVELS	SPECIALISATION	ORGANISATIONAL CHART (organogram)	TYPE OF DECISION
TOP	Less specialised knowledge, broader scientific knowledge of management needed	GENERAL MANAGER 	STRATEGIC (long term)
MIDDLE		DEPARTMENTAL MANAGERS   Prod Mkting Fin	TACTICAL (medium term)
LOWER	Greater degree of specialised knowledge as more people operating at the same level	SUPERVISORS   WORKERS	OPERATIONAL (short term)

<b>Top level</b>	<b>Middle level</b>	<b>Lower level</b>
Mainly executive director and general managers e.g. managing director	Mainly department or functional managers e.g. human resources manager	Foremen/supervisors
Responsible for entire organisation	Translates goals and strategies from top management into specific action programmes for that department	Link between management and workers, responsible for the actual production of goods and services by co-ordinating and supervising workers
Consider the external environment	Market environment and internal issues	Follow prescribed rules and regulations
Make strategic decisions	Make tactical decisions	Make operational decisions
Give direction, establish mission policy, long-term goals & develop strategies	Important planning and control functions, which are medium-term in orientation	Routine decisions, short term orientation
Visionaries – decisions are creative, futuristic and long-term, requiring conceptual skills	Human relations skills are important to lead and motivate employees	Good communication skills and technical knowledge needed
Very involved in planning	Very involved in organising	Very involved in leading and controlling



# 6. The accounting cycle



## 6.1. Activity

You will need: A box of Smarties and a packet of Jelly Tots

Although the accounting equation illustrates the effect of transactions on a business, it would be very tedious to use this method to record all transactions in order to prepare financial statements. A more sensible method is needed that easily shows the balances of the different accounts.

The following examples are those used in the previous Smarties game. This time, however, use Smarties to increase Assets and Jelly Tots to increase Equity and Liabilities.

### Transactions:

1. Owner contributed 5 sweets to start the business.
2. Bought a laptop to do business administration for 2 sweets.
3. Took out a loan of 3 sweets and used them to buy a delivery van for the business.
4. Paid 1 sweet for petrol.
5. Paid 2 sweets to advertise the courier service.
6. Earned 4 sweets from courier services provided to clients.
7. Paid 2 sweets in part repayment of the loan.

You may work in groups, pairs or on your own.

1. Decide which two accounts are affected and identify them in the accounting equation.
2. Decide whether each account will increase or decrease as a result and add sweets accordingly. This time you may NOT remove sweets but have to ADD sweets each time.
3. What do you notice about the way in which you have used your Smarties and Jelly Tots?
4. What do you notice about the number of Smarties and Jelly Tots you have used?

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WHAT I HAVE (Smarties)	WHERE IT CAME FROM (Jelly Tots)	
ASSETS	EQUITY	
	-	+
<div style="border: 1px solid black; padding: 10px; margin-bottom: 10px;">Vehicles</div>	<div style="border: 1px solid black; padding: 10px; margin-bottom: 10px;">Advertising</div>	<div style="border: 1px solid black; padding: 10px; margin-bottom: 10px;">Capital</div>
<div style="border: 1px solid black; padding: 10px; margin-bottom: 10px;">Equipment</div>	<div style="border: 1px solid black; padding: 10px; margin-bottom: 10px;">Vehicle expenses</div>	<div style="border: 1px solid black; padding: 10px; margin-bottom: 10px;">Current income</div>
<div style="border: 1px solid black; padding: 10px; margin-bottom: 10px;">Bank</div>	<div style="background-color: black; color: white; padding: 5px; margin-bottom: 10px;">LIABILITIES</div>	
	<div style="border: 1px solid black; padding: 10px; margin-bottom: 10px;">Loan</div>	

## Recording transactions

Preparing financial statements by having to look at each individual transaction and its effect on the accounting equation would be very tedious for a business which has many transactions. All financial transactions of a business therefore need to be recorded in such a way that they easily become meaningful information from which financial statements can be prepared and decisions can be made. We record the effect of each transaction on the accounting equation using "accounts" to group similar items together. As seen previously, some of these accounts are asset accounts, others are equity and liability accounts.

### Debits and credits

The accounting system that is used today was created a long time ago by Luca Pacioli. He laid accounts out on a page, calling the left side the **debit** side, and the right side the **credit** side. The accounts increase on one side and decrease on the other. The catch is that assets will increase on the debit side, but equity and liabilities on the credit side – because of being on the opposite side of the accounting equation. Since both sides of the accounting equation must at all times be equal, "debit" on one side of the equation indicates an increase, while on the other a decrease occurs, shown by a "credit".

ASSETS		OWNER'S EQUITY + LIABILITIES	
Debit	Credit	Debit	Credit
+	-	-	+

As a result, for every transaction one account will be debited and one account credited with equal amounts. At all times, the total debits should equal the total credits.

### T-accounts

T-accounts can be used to show the effect of transactions on each account. They are a simplified version of general ledger accounts (which will be learnt later), and show only the value of the effect, and the other account involved for each transaction (general ledger accounts also show the date and folio numbers). When recording transactions, it is important to remember that TWO accounts are always affected - one account must be debited and another credited with equal amounts.



## 6.2. Example

### Transactions

1. The owner introduces R150 000 capital into the business.
2. Equipment is purchased from Office Mart and paid for - R50 000.
3. Owner transferred R2 000 to his personal account.
4. Current income earned, R10 000.
5. Advertising paid for, R3 000.

### Accounting Equation

	ASSETS		=	OWNER'S EQUITY		+	LIABILITIES	
	Effect	Reason		Effect	Reason	Effect	Reason	
1	+ 150 000	Bank increases		+ 150 000	Capital increases			
2	+ 50 000	Equipment increases						
	- 50 000	Bank decreases						
3	- 2 000	Bank decreases		- 2 000	Drawings			
4	+ 10 000	Bank increases		+ 10 000	Current income			
5	- 3 000	Bank decreases		- 3 000	Advertising expense			

### T- Accounts

ASSETS				OWNER'S EQUITY + LIABILITIES			
debit		credit		debit		credit	
+		-		-		+	
Equipment				Capital			
2. Bank	50 000					1. Bank	150 000
Bank				Drawings			
1. Capital	150 000	2. Equipment	50 000	3. Bank	2 000		
4. Current income	10 000	3. Drawings	2 000				
		5. Advertising	3 000	Current income			
						4. Bank	10 000
				Advertising			
				5. Bank	3 000		

Transactions are summarised – it is easy to see the net effect on each account.

For example, the amount of money left over in this example can be calculated as follows:  
 Bank increases (debits) – bank decreases (credits)  
 = 150 000 + 10 000 – 50 000 – 2 000 – 3 000  
 = 105 000 available in the bank account.

Capital and current income increase equity, and so are credited.  
 BUT  
 Drawings and Advertising expense decrease equity, and so are debited.



### 6.3. Exercise

Record the following transactions using T-accounts:

1. Owner introduces R160 000 as capital into the business.
2. Purchased vehicle and transferred R145 000 by EFT.
3. Loan received from Trust Bank, R80 000.
4. Owner transferred R2 000 out of the business bank account for his own use.
5. Earned R15 000 for services rendered.
6. Paid the business telephone account, R500.

<b>ASSETS</b>				<b>OWNER'S EQUITY + LIABILITIES</b>			
debit		credit		debit		credit	
+		-		-		+	
Vehicles				Capital			
Bank				Drawings			
				Loan			
				Current income			
				Telephone			





# The accounting cycle

A business will usually have many more transactions to keep track of than could easily be recorded in the simple T-accounts you have used so far. In order to manage the larger volume of work, transactions are usually tracked and recorded through the following **accounting cycle**.

## Source documents

- Receipts are issued when money is received by the business
- A cash invoice or cash register roll is used for cash sales
- Proof of payment of EFTs (for both receipts and payments)
- Cheque counterfoils record payments made
- Invoices for both credit sales to debtors and credit purchases from creditors (grade 9)

## Journals

- Cash receipts journal summarises cash receipts
- Cash payments journal summarises cash payments
- Debtors journal summarises credit sales (grade 9)
- Creditors journal summarises credit purchases (grade 9)

## General ledger

- This is basically made up of T-accounts in a more detailed format
- The total effect of transactions on each account
- Account balances or totals indicate the actual value or total effect

## Trial balance

- Checks that both debit and credit entries have been entered

## Financial statements

- Statement of Income shows financial performance i.e. net profit
- Statement of Financial Position reflects the accounting equation

## Using technology

Transactions may be recorded manually using pen and paper in large cash books and ledger books, as was always done in the old days, or using available technology. For very small businesses, a system may be created in Excel where, for example, transactions are entered in journals and then formulae used to generate the trial balance and financial statements. In this case the formulae would represent what takes place in General Ledger accounts. A number of accounting packages such as Quickbooks or Pastel are also available for small to large businesses. Entries are made into source documents and then processed by the system to generate reports needed by management i.e. account information, financial statements and a variety of other information such as sales by customer etc.

### 6.6. Summative assessment

(50 marks, 30 minutes)



#### **Question 1**

Accounting concepts

(10 marks, 5 minutes)

Mr. Smart started his business 2 months ago with R50 000, and borrowed a sum of money to be paid back over two years. At present he has a vehicle that originally cost R30 000, equipment to the value of R15 000, trading stock costing R10 000 and R5 000 cash. A number of people owe him money for goods bought on credit – the total amount being R8 000. Since starting his business, Mr Smart has made a profit of R12 000. He has not needed to draw any money out of the business as yet.

- 1.1. The total value of Smart traders' non-current assets is
  - A. R130 000
  - B. R68 000
  - C. R60 000
  - D. R45 000
- 1.2. The total value of the business' current assets is
  - A. R60 000
  - B. R35 000
  - C. R23 000
  - D. R15 000
- 1.3. Mr. Smart's investment in this business is worth
  - A. R130 000
  - B. R68 000
  - C. R62 000
  - D. R12 000
- 1.4. The amount of the loan was
  - A. R14 000
  - B. R12 000
  - C. R8 000
  - D. R6 000
- 1.5. Mr. Smart's investment was R50 000, and the profit made R12 000 in these two months. What is the return on investment?
  - A. 12% per month
  - B. 24% per month
  - C. 24 % per year
  - D. 72% per year

**Question 2**

Accounting equation

(12 marks, 6 minutes)

Show the effect of the following transactions on the accounting equation (the business uses a mark-up of 200%):

- 2.1. R75 000 is contributed to a new business by its owner.
- 2.2. A loan is received from Nedbank, R10 000.
- 2.3. A computer is bought and paid for, R7 000.
- 2.4. Current income, R6 000.
- 2.5. Bought stationery, R1 500.
- 2.6. Owner took stationery for his own use, R500.

	ASSETS		=	OWNER'S EQUITY		+	LIABILITIES	
	Effect	Reason		Effect	Reason		Effect	Reason
1								
2								
3								
4								
5								
6								

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**(Please turn over for Questions 3 and 4)**

**Question 3**

T-accounts

(18 marks, 14 minutes)

3.1. Record the transactions in Question 2 in T-accounts.

(12)

ASSETS				OWNER'S EQUITY + LIABILITIES			
debit		credit		debit		credit	
+		-		-		+	
Computer equipment				Capital			
Bank				Drawings			
				Loan			
				Current income			
				Stationery			

3.2. Answer the following questions:

3.2.1. How much money is available in the bank account?

(2)

3.2.2. Calculate the total profit made by this business so far.

(4)

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