

**POSSIBLE ANSWERS FOR:****BUSINESS ECONOMICS HG**

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**SECTION A****QUESTION 1  
COMPULSORY**

- 1.1 C
- 1.2 D
- 1.3 D
- 1.4 A
- 1.5 D
- 1.6 B
- 1.7 D
- 1.8 D
- 1.9 A
- 1.10 B
- 1.11 A
- 1.12 D
- 1.13 A
- 1.14 C
- 1.15 B
- 1.16 D
- 1.17 D
- 1.18 D
- 1.19 B
- 1.20 D

20X3=(60)

## QUESTION 2

### The line organisation structure

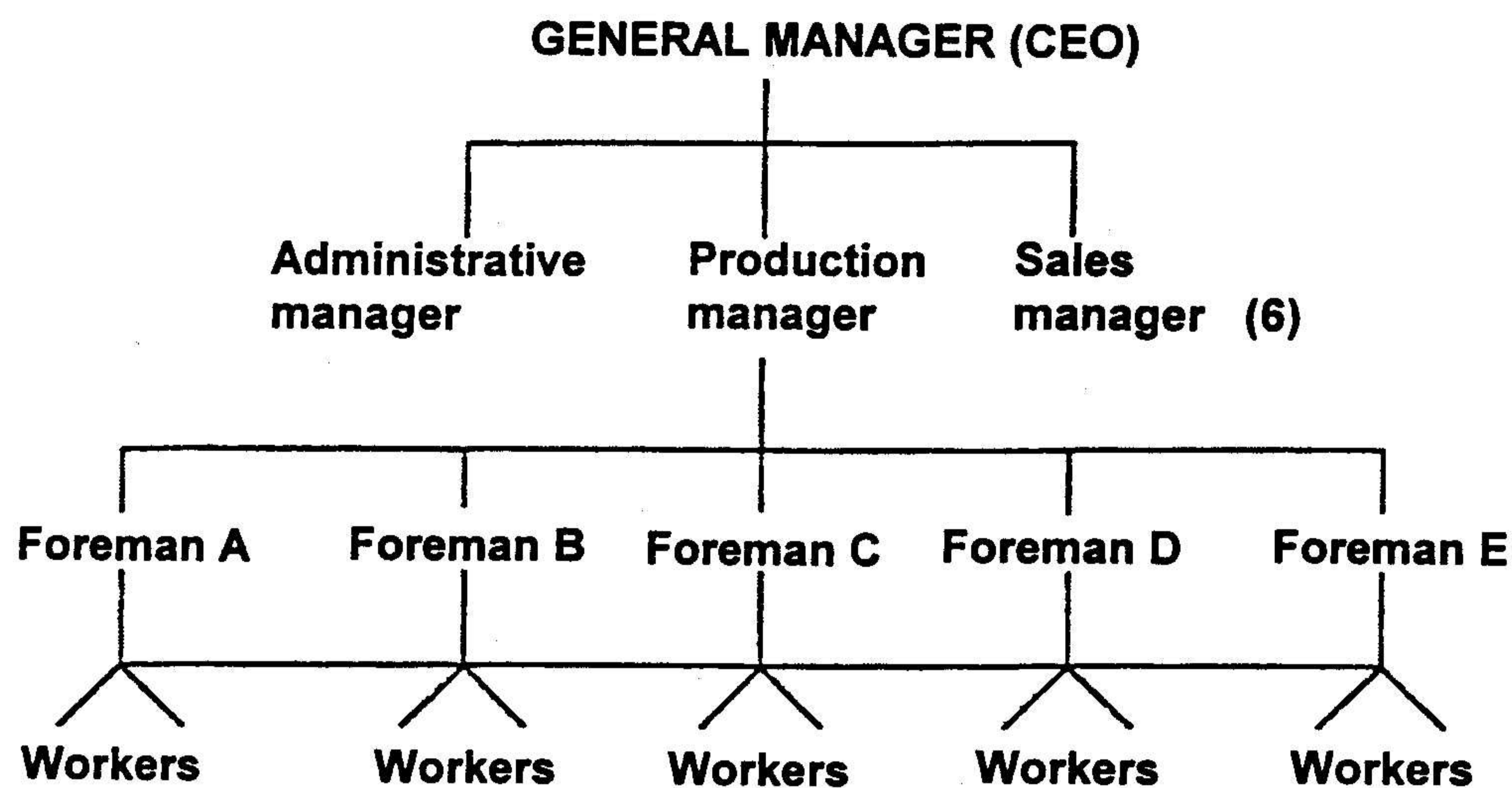
#### Description

This is the oldest and most natural organisation structure.

The diagram below gives an example of a line organisation in a factory.

Notice must be taken of the following points.

1. Orders to subordinates are given by the immediate head, e.g. the manager to the production manager, the production manager to foreman A and foreman A to the workers under his supervision.
2. Only the person gives order. e.g. foreman A to his workers. This gives unity of command and management.



3. A limited number of persons fall under one supervisor, in other words, because of the limited number (span of control), management is easier.
4. The authority of the instructor and the responsibility of the receiver of the order are clearly demarcated.

### The advantages of a line organisation

1. The system is simple, easy to design and easily understood by everyone in the organisation.
2. Only one head or boss gives orders to particular workers. This eliminates confusion.
3. It is easy to determine who carries authority in a department and who has the responsibility of carrying out orders.
5. The organisation lends itself to guide decision-making and action.

### The disadvantages of a line organisation

1. If the undertaking becomes too large, this system becomes ineffective.
2. Gradually certain top officials can become overloaded with work, resulting in weaker management.
3. Problems with coordination lead to ineffective management
4. Certain top executives may later develop into key men, which may create problems if they resign.

### 2.2 The functional organisation structure

#### Description

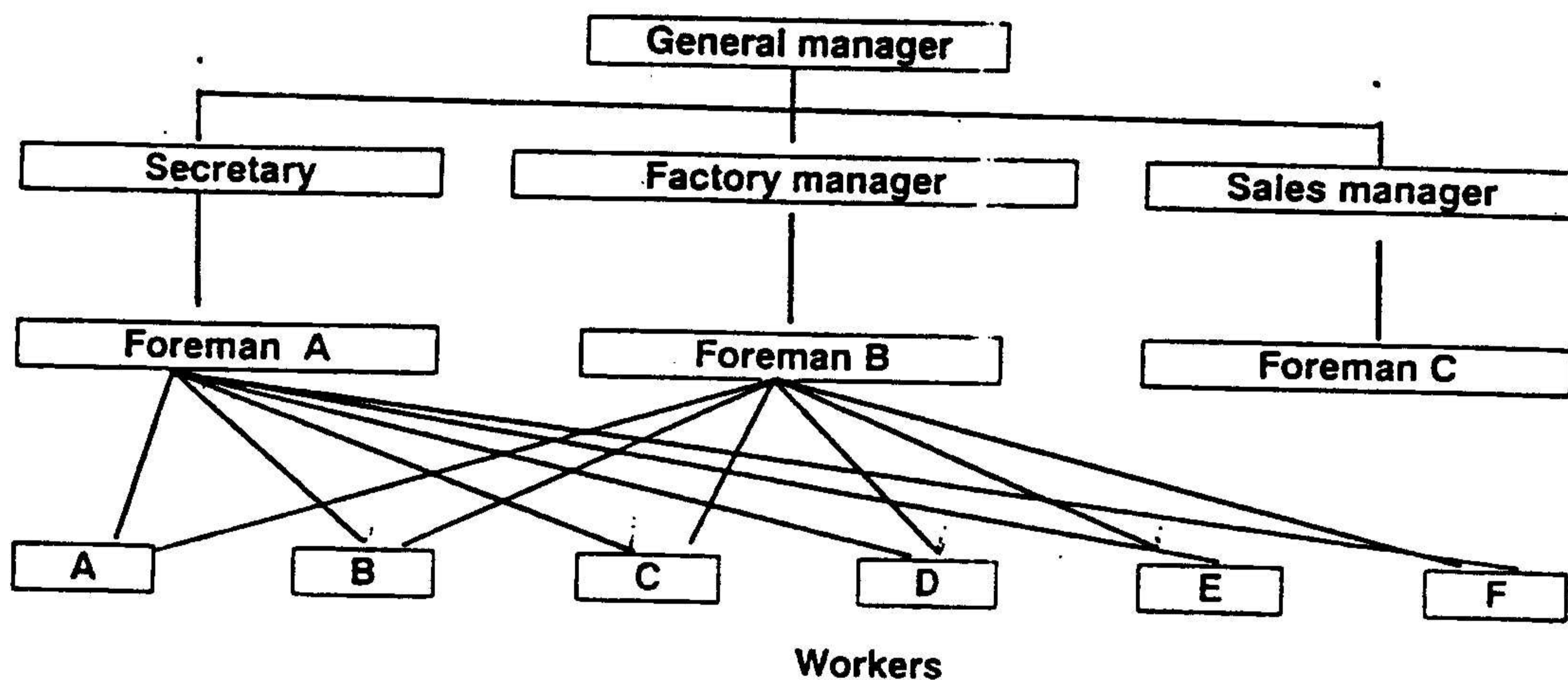
F.W. Taylor was aware of the disadvantages of the line organisation for large enterprises and he attempted to design a better system by using the functional organisation.

By using this system Taylor aimed to

#### Characteristics

- allow the knowledge of skilled persons to filter through to all workers
- ease the burden of the supervisors in the factory
- further demarcate the jobs done by workers and maintain a better division of labour.

The following diagram illustrates the functional organisation.



(8)

An important conclusion which can be made from studying this diagram is that foremen can give orders to all workers.

#### Advantages of the functional organisation

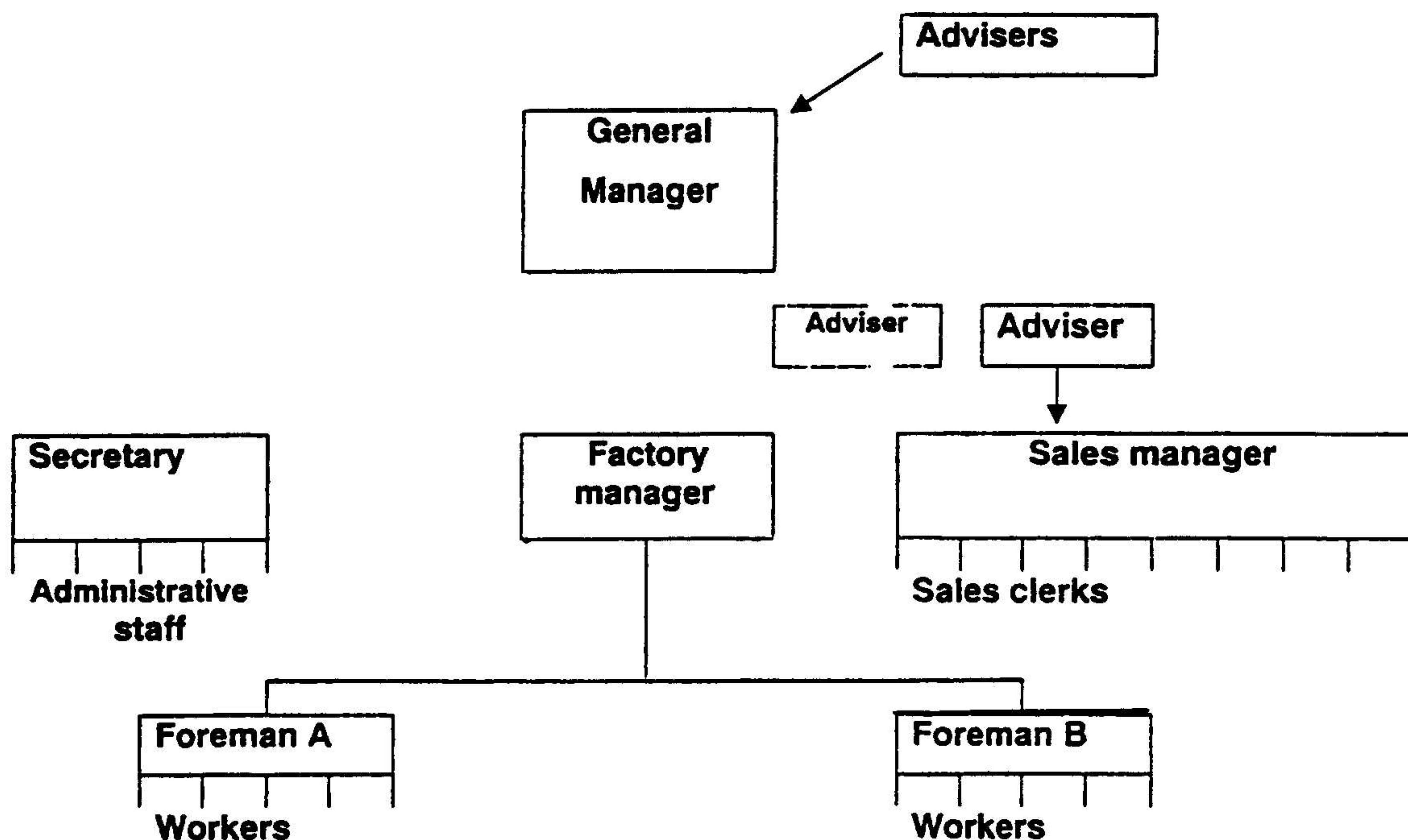
- More foremen who are specialists can give orders to all workers, and greater specialisation is obtained.
- Workers and foremen can be trained more quickly in view of the fact that jobs are more narrowly demarcated.
- Less able workers who earn lower salaries can be used for jobs demarcated as such.
- No excess measure of authority is given to individual persons.

## Disadvantages of the functional organisation

- The span of control of managers can be too great.
- There is no unity of control. This can confuse the workers.
- The operations are difficult to coordinate.
- The system is not very successful.

## 2.3 The line and staff organisation structure.

A line and staff organisation is a system which is really a combination of the line and the functional organisation in order to retain the advantages of both. It may be applied advantageously in the organisation of undertakings of great size. The line function of the line organisation is retained; in other words, only one head



Gives orders to particular workers. But as Taylor has pointed out the necessity for experts (or advisers), positions are created for advisers to advise certain managers. The adviser does not give orders to workers. This system is used by most big organisations and government departments.

## Advantages of the line and staff organisation

It enjoys the advantages of both the line and the functional system

1. It is easily understood by everyone in the organisation.
2. Only one head gives orders to certain groups of workers.
3. The span of control is limited.
4. Authority and responsibility are clearly demarcated.
5. The top and middle management are assisted in decision-making by advisers.
6. Greater division of labour, with all its advantages, is possible.
7. The system lends itself to quicker decision-making and action.

**Disadvantages of the line and staff organisation.**

Disadvantages are often attributed to the fact that the duties of the middle management and their advisers are not defined clearly enough.

1. Advisers sometimes feel unhappy because they have no say in the execution of orders which have arisen from their advice.
2. Advisers sometimes exceed their authority by giving orders to workers, which can lead to confusion.
3. Advisers, as a result of their limited contact with the workers, can become too theoretical.
4. Advisory services can, in the course of time, become too extensive for the actual needs of the company. Salaries are a large item of expenditure.
5. In a large undertaking, the organisation can eventually become very complicated.
6. In the course of time management can inhibit initiative by being too dependent on the advisers.

Any  
40x2

**QUESTION 3****THE PUBLIC COMPANY****THE FORMATION PROCEDURE OF THE PUBLIC COMPANY**

- At least 7 promoters are required to float a Public Company in accordance with the Companies Act.
- The PROCEDURE to register a Public Company with the Register of Companies according to the Companies Act 61/1973 is:-

The following documents are lodged with the Registrar of Companies

- The Memorandum of Association (plus two certified copies)
  - The Articles of Association ( plus two certified copies)
  - A notice of the Registered office address and the postal address
  - Proof of payment of the annual duty
  - A registration fee receipt
  - A list of the directors and their consent to act as directors
  - A written undertaking by each director that he will take up the required number of qualification shares
  - The written consent of an appointed auditor
  - A power of attorney given by the promoters to persons handling the registration
  - Copies of any contracts signed by the business before incorporation
- The Registrar checks that all the registration requirements of the Act are correct
  - Registers the Memorandum and articles of Association and sends a copy endorsed with his seal back to the Company
  - Allocates a Registration number
  - Issues a Certificate of Incorporation
  - At this point the Public Company (Private Company) becomes a legal entity separate from its members. It has been incorporated and has contractual capacity.
  - A Public Company has still to go through the whole procedure of inviting the Public to subscribe for shares and take up debentures using a Prospectus

## THE MEMORANDUM AND ARTICLES OF ASSOCIATION

- These two documents together form the Constitution of the Company.

### The Memorandum of Association

- The NAME of the public company
- The last word in the name must be limited
- The name must be conspicuously and legibly displayed on the outside of the Registered office
- The name must appear on all documentation, correspondence, publications etc.
- The name must be engraved on the Company's seal
- The name must not be undesirable
- It must not contain any word such as State or Government which gives the impression that it has State protection or is a State undertaking
- The name must not be so similar to that of another Company as to be misleading
- The name may be changed by special resolution of shareholders
- Notice of a name change must be given in the Government Gazette

- The OBJECTIVES of the Company.

The Companies Act 61/1973 prescribes that the Memorandum:

- Must state the main object of the Company
- Will do this by stating the type of economic enterprise which will be carried on
- Will state that the Company has unrestricted ancillary objectives in order to reach the main objective
- Will state that a Company has plenary as well as common powers to enable the directors to reach the objectives

- THE LIMITED LIABILITY CLAUSE- This clause states that the liability of the shareholders is limited

- The SHARE CAPITAL Clause

- The amount of share capital intending to be registered and its division into shares of a fixed amount is stated
- The number of shares taken by the promoters is set out. Each promoter must take at least one share

### Signing and Alteration of the Memorandum

- After it is completed, the Memorandum must be signed by at least 7 promoters (subscribers)
- Their full names, occupation, residential, postal and business address must be given. The memorandum must be signed in the presence of at least one witness giving these same details
- The memorandum may be altered by Special resolution of shareholders.

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## THE ARTICLES OF ASSOCIATION

Every Company must draw up a document called the Articles of Association

- Guidelines are given in the Companies Act under Table A for Public Companies and Table B for Private Companies.
- The Articles of Association states the rules for managing the internal affairs of the Company and as such is often known as the "housekeeping" document. It deals with the following:
  - Shares, Share certificates and variation of rights
  - Kinds of shares, their rights and powers, issue of share certificates, share transfer conversion of shares to stock etc.
  - Meetings
    - General meetings, notice of meetings, proceedings at meetings, members votes proxies etc.
  - Directors
    - The number, appointment, their remuneration, their qualification, their powers and duties, their borrowing powers, the managing directors appointment and duties, their disqualification, their rotation etc.
  - Dividends and Reserves
    - Declaration of dividends, the rights of types of shareholders, payment etc.
  - Accounting Records
    - Provisions, keeping of records, financial statements, auditing
- Signing and Alteration
  - The articles must be signed by each subscriber to the Memorandum giving the same details and witnessed as laid down for the Memorandum
  - The Articles may also be altered by special Resolution of shareholders

- **Definition:**  
An invitation by a Public Company in the form of a circular or newspaper advertisement, to the public, to buy shares and / or take up debentures in the Company.
- In order to persuade the Public a favourable image of the Company must be given but the Prospectus must still comply with the Companies Act. Schedule 3 states what must be contained in the Prospectus. Penalties are imposed for false statements.

There are certain legal requirements which must be followed when drawing up a Prospectus

- It must be a written invitation
- It must concern securities to be acquired for cash
- The prospectus document must be issued to the Public

The following important matters must be dealt with:-

- A front page statement that the Prospectus has been registered
- The Company incorporation date and address of its registered office
- The contents of the Memorandum of Association
- The main object of the Company
- The names, occupations, addresses of the directors and their proposed remuneration
- The name and address of the manager
- A brief history, present state of affairs and the prospects of the Company
- Share capital details
- Details of options or preferential rights to shares
- Amounts paid or to be paid to promoters
- Preliminary expenses
- Details of any contracts entered into before Prospectus issue
- Details of the share and/or debenture offer
- The minimum subscription details required to raise funds to cover
- Purchase price of property bought or to be bought
- Preliminary expenses payable
- Repayment of any borrowed funds
- Working capital

Before a Prospectus can be registered the following is required:

- It must be signed by every director and lodged with the Registrar within 14 days of signing
- If underwriters are involved a copy of the underwriting agreement and a sworn declaration by the underwriter of his ability to carry out his obligations must be lodged
- Experts quoted in the Prospectus must give their written consent
- Bankers, Auditors and attorneys must give written consent to act as such

- The Prospectus must be lodged with the Registrar and a registration date obtained.
- It can then be issued to the Public within 3 months of this date
- The public must apply for shares within 4 months of this date.

- A Statement in Lieu of Prospectus is a summary of the full Prospectus it may be lodged in certain cases when a Prospectus is not issued

- The Prospectus is issued to the public using newspapers and banks and finance houses in return for a commission
- The public then apply for shares and once the minimum subscription is obtained the following is lodged with the Registrar:
- a sworn declaration that the minimum subscription has been taken up and allotted
- a sworn declaration that the directors have taken up and paid for their qualification shares.

- Once all this is approved the Registrar of Companies issues a Certificate to commence Business which allows the Public Company to commence activities.



## QUESTION 4

### 1. PUBLICITY

- Publicity can be defined as the stimulation of demand for a product or service on a nonpersonal basis by feeding news regarding the product to a publisher (press) or receiving favourable reports of it over radio or television.
- The seller does not pay for it.
- Business firms naturally also seek to obtain free publicity in the news media in order to publicise the firm and thereby promote the image of the products.
- The sales of its products are thus indirectly promoted.
- Although such publicity is free, the undertaking has very little control over the nature of the publicity it gets or the message, which is publicised.
- Publicity has greater news value or credibility than advertising
- It can therefore be very effectively applied if it is handled judiciously.
- The publicity can be very favourable or positive and on the other hand it can be negative or very damaging, if matters develop unfavourably.
- For this reason large undertakings create public relations departments which must maintain contact and good relationships with all persons, firms or institutions regarded necessary for the realisation of the objectives of the undertaking.

#### Distinctive qualities of publicity

##### – Higher degree of credibility

Reports on the products or services in the media seem to have a higher degree of credibility than if advertised by the business enterprise.

##### – Message is news and not sales talk

Publicity reaches prospective buyers who as a rule avoid salesmen or do not read advertisements. This is achieved because the message is conveyed to prospective buyers as news rather than a sales effort.

##### –Image booster

Publicity contributes to the boosting of a favourable image of the business enterprise and stimulates the demand for its products – services that are not paid for.

### 2. THE PRINCIPLES OF ADVERTISING

##### – Only goods of quality must advertised

In the long run it does not pay to advertise inferior goods. Consumers are indignant at having been misled.

##### – A thorough knowledge of the goods is important

A thorough knowledge of the origin, quality, composition, and characteristics of a commodity is necessary before a successful advertisement can be drawn up

##### – A striking design, feature or slogan, which is typical of the article, must be thought out.

Its repetition in advertisements will make a lasting impression and eventually will acquire great publicity value.

- The group relation must be stressed.

When an article that belongs to a family of related articles is advertised, the group relation must be stressed. If, for instance, a car is advertised, its relation with its manufacturers must be stressed.

- Incorrect information must be avoided.

The article must possess the merits ascribed to it in the advertisement.

- Competitors must never be criticised.

Advertisers must never run down the goods of competitors or harm their reputation in any way. This is in bad taste and may have a boomerang effect.

- Every advertisement must strive to improve the image and reputation of the firm so that the public will want to do business with that firm, because, like people, a business also has a personality and an image of its own.

- The correct type of advertisement and advertising medium must be chosen. This will be determined by the type of goods and by whom those goods are used. Agricultural machinery is advertised in agricultural journals and women's wear in women's journals.

- The advertisement must be of a simple and attractive design. Clear print, concise wording, a striking design, a clever illustration or a catchy phrase will be more effective than lengthy explanations that take a long time to read.

- Advertising expenses must be kept as low as possible and the amount available for advertising must be spent as effectively as possible.

- Weak advertisements cost as much as good advertisements, but the opposite effect is achieved. Consumers can be discouraged to buy the product and then decide to rather buy the competitor's product.

### 3. THE ETHICS OF ADVERTISING

- Since the beginning of history people have lived by rules of some kind.
- At first these rules were very simple because human wants and problems were simple
- Gradually the rules became more complex and were formalised into binding laws.
- Society has developed certain moral codes or codes of ethics.
- Ethics may be defined as a body of social rules related to the work of a particular group of people, e.g. businessmen, advertising agencies or practitioners, etc.
- Most businessmen strive to be honest. The problem is to get all businessmen to accept sound principles of moral conduct in their dealings with each other and the public.
- Businessmen and their advertising agencies should adopt a code of ethical behaviour towards the public; they should always be honest in their dealings.
- In the field of selling, ethical standards have not always been high. This is exemplified by the caveat emptor attitude – "let the buyer beware"

### **Business practice, which are regarded unethical**

- Using false and deceptive advertising
- Selling rebuilt or second-hand goods as new article
- Making false statements about a competitor's goods
- Giving goods deceptive names
- Comprehensive voluntary controls over advertising have been built up since 1945.
- There are few statutory controls but where these have been available, as in the case of the complicated ethical drug business, appropriate laws have been passed.
- Through the National Press Union and the Association of Accredited Practitioners in Advertising all printed media have a voluntary code of control which enable undesirable or untruthful advertisements to be removed speedily and efficiently.
- The SABC has equally effective controls over advertising over the air.
- In addition, advertisers, with the media and the advertising profession, have established the Advertising Standard Authority, comparable to that of the United Kingdom.
- Through its various committees this authority has total control over all advertising, and a reasonable request to any medium to remove an undesirable advertisement is usually heeded.
- The code of standards set by the authority is adhered to by members of the Association of Accredited Practitioners in Advertising, the SA Printing and Allied industries Federation, the National press Union, the South African Society of Marketers, the SABC and other similar bodies.

### **4. THE REQUIREMENTS OF A GOOD ADVERTISEMENT**

- **Attract attention**  
The design, i.e. form, colour, illustration or wording, must be striking and focus and hold attention.
- **Arouse interest**  
Once the advertisement has caught the attention of the reader or viewer, he must become interested in the commodity. He must be convinced that the article advertised will be of value to him and satisfy an urgent need.
- **Create a desire for the possession of the article**  
The interest of the reader or viewer in the article must be stimulated until he desires to have it.
- **Lead to action**  
The advertisement must be so convincing and the desire to possess the article must become so strong that the reader or viewer decides to buy it.
- In order to achieve this result, illustrations, humorous presentations and catchy expressions are used.
- An appeal is made to the basic instincts of man, such as the desire for wealth, strength, beauty, health, popularity, honour, comfort, and so on.

#### 4. TELEVISION AS AN ADVERTISING MEDIUM

- This is a very popular medium, which reaches a very large section of the community.
- The appeal is directed to both eye and ear,
- and live demonstrations can be given.
- Movement is effectively illustrated
- Programmes take the form of:
  - Short advertising programmes,
  - Commercial flashes at the beginning and the end of programme
  - Service programmes in which goods are discussed and illustrated.

Any  
40x2=(80)

### QUESTION 5 HANDLING OF INFORMATION

#### ACCOUNTING RECORDS

- *Accountancy* deals with the principles and methods of recording business transactions with a view to:
  - keep an up-to-date record of all business transactions
  - compile the financial statements and reports at set times
  - exercise control over the accuracy and completeness of the administrative work
- Although accounting records are adapted to the needs of the different business enterprises, the following accounting systems can be identified.
  - (a) *The sales and debtors system.* Used for the recording of all orders received as well as means of payment received in settlement of accounts.
  - (b) *The purchases and creditors system.* Used to record orders forwarded to creditors and transactions to settle creditor's accounts
  - (c) *The stock recording system.* It entails the administration of the goods received, the price calculation, the completion of stock records, the issue of stocks to the sales department, etc.
  - (d) *The administration of salaries and wages.* Used for the recording of salaries, wages and other financial benefits.
  - (e) *The administration of cash and other means of payment.* Used for the recording of cash, cheques, bills of exchange, other means of payment and fixed assets.
- It is obvious that high standards should be maintained in the recording of business because the integrity of the enterprise, the management and the staff is at stake.

## COST ACCOUNTING

### *The importance of effective cost accounting:*

- The scientific and accurate handling of information for management purposes is one of the most important tasks of the administrative function.
- The calculation of production costs forms the basis for the planning of all production and marketing activities.
- When a factory and the range of products are being planned, the manufacturing costs must be accurately calculated to determine the competitiveness of the new products in the existing market.
- When the production of a factory is in full swing, the management must be furnished on a monthly basis, with accurate *production and costing statistics* by the *cost accounting department*, where the manufacturing costs of each article manufactured is calculated with a view to the fixing of the selling price.
- It is inevitable that the cost accounting department should operate very closely with the *purchasing department* as well as the *production (technical) department*.
- All manufacturing and marketing enterprises must have an effective *cost accounting system* to avoid faulty price calculations being made which could lead to poor management decisions in connection with purchases, sales, labour, financing, etc.
- The aim of an enterprise must at all times be to improve its cost accounting system to ensure the maximum profits being made.
- The cost components must be analysed, allocated and calculated to determine the cost of production of manufactured goods and the selling price thereof as accurately as possible.
- As accounting as a field of study cannot accommodate cost accounting, the specialised field of study *cost accounting* came into being.
- A large business enterprise makes provision for a *cost accountant*, who is in charge of the *cost accounting department*, on its staff establishment.

## BUDGETS

- The concept *budget* can be defined as an accurate estimate of expenditure – capital as well as operating expenses – which will in all probability be incurred during the financial period.
- The budget is regarded, from an administrative point of view, as an important *management instrument* which can give reliable guidance in financial matters to the management of the enterprise.
- Budgets of various departments of the enterprise, e.g. the production, purchasing, marketing, personnel departments, etc. can be used as *management instruments* by different heads of departments. These departmental budgets are combined into a comprehensive budget for the enterprise as a whole and can be used for medium (3 years) and long-term (5 years and more) planning purposes.

- Cash budget –  
It is drawn to plan the working capital requirements of the undertaking
- Capital budget  
Contains information on what fixed assets the firm would require for the next five years.
- Budgets as a *management instrument* facilitates the provision of *budgetary control* for:
  - control of administrative activities
  - control of the production process
  - control of stocks
  - control of marketing activities
  - the determination of financial needs
  - the determination of the liquidity and the solvency of the enterprise
  - arrangement of loans
  - the maintenance of a sound cash flow
  - control of costs and expenditure

### STATISTICS AS A VALUABLE SOURCE OF MANAGEMENT INFORMATION

- The concept *statistics* means the *science of collecting, classifying, using and interpreting numerical data*.
- Statistics is a method used in commerce and industry to collect information, e.g. on production; sales; imports and exports; price indices; with a view to the identification of definite trends which could assist management in managing and decision-making.
- It is significant that government departments and large business enterprises make provision for a *statistics service* and that extensive use is made of statistics and tabular and diagrammatic format in annual and financial reports.
- When an enterprise has reached a final decision on a suitable statistical basis for its purposes, it should be kept intact for years to enable the statisticians to use the existing statistics to identify trends on which management decisions can be based.
- The Central Statistical Service collect, process and make available statistics reflecting economic activities to commerce and industry in the RSA for *research purposes*.
- Large business enterprise, universities and technicians have recently developed *management information systems* to furnish management regularly with reliable management information. Statistics form the foundation stone of these systems.

### RELEVANT ADMINISTRATIVE ACTIVITIES

Relevant administrative activities may include:

Correspondence; handling of mail;

Filing; copying and duplicating;

Indexing;

Postal services; a library for research purposes; an archive for the filing of documents for the legally prescribed number of years.

Any 40x2=

(80)

**TOTAL SECTION A: 160**

## QUESTION 6

## FINANCIAL FUNCTION

6.1

6.1.1  $\frac{\text{C. ASSETS} - \text{STOCK}}{\text{C. LIABILITIES}}$

$$\frac{142\,000 - 12\,000}{84\,000}$$

1.6:1 OR 1.55:1

(6)

6.1.2  $\frac{\text{C. ASSETS}}{\text{C. LIABILITIES}}$

$$\frac{142\,000}{84\,000}$$

1.69:1 OR 1.7:1

(6)

6.1.3 (a) Satisfactory / Favourable

(3)

(b) Unsatisfactory / Unfavourable

(3)

6.2

(1) *Size*The need for working capital grows with the *size of the business*(2) *Stage of development*

Growing businesses require more working capital than well-established ones.

(3) *Time of production*

If the final product of a manufacturing concern takes a long time to complete, e.g. a ship, a large amount of working capital is tied up in the half-finished product.

(4) *Rate of turnover of stock or manufactured goods*

The faster the goods are disposed of, the more quickly the money comes in again for the purchase of new stock and the payment of working costs

(5) *Buying and selling terms*  
Firms that buy on credit and sell for cash require a minimum and working capital, because the cash sales pay for the credit purchases

(6) *Seasonal consumption*  
Producers of seasonal goods, such as summer clothes or coal, are faced with the difficulty of having to keep their factories or mines working the whole year.

(7) *Seasonal production*  
Crops are harvested during one season only, but they are consumed the whole year round.

(16)

- 6.3 -- The total credit sales  
-- The average term laid down for settlement of account, e.g. 30,60,90 or 120 days  
-- The standards or requirements set for debtors in considering applications for credit.  
-- Whether a cash discount is allowed to debtors when accounts are paid before due date.

4x2=(8)

6.4 (a) Redeemable debentures

The loan is repayable after a specified number of years.

(b) Irredeemable debentures

The loan is never repayable, but interest is paid annually to debenture holders. The names of the debenture holders are entered in a debenture register. Interest cheques are sent to these debenture holders.

3x4(12)

(c) Debentures to bearer  
Not registered on any person's name and is transferable by handing over.

- 6.5 -- Depreciation was deducted to avoid unrealistic values which might be misleading to management, financial institution and shareholders.  
-- Management must be aware of the possible causes of wear and tear, obsolescence of machinery and discoveries, a fall in the value of the means of production on account of weak economic conditions, and decrease in the demand for the goods which might make the means of production practically useless  
-- Diminishing balance method  
-- Cost-price method

3x2=(6)  
[60]



## QUESTION 7

## PRODUCTION FUNCTION

- 7.1 -- The production control is relatively inflexible and breakdowns in the machinery can result in extensive delays in production.
- Due to the fixed tempo of production fluctuations in the demand for a particular product cannot be handled easily.
- A considerable investment of capital in single purpose machinery can, if the product be altered, only be converted at a considerable expense
- A considerable investment of capital in specialised single –purpose machinery and equipment must be made.

4x2=(8)

7.2.1 Mass production

7.2.2 Batch production

7.2.3 Jobbing or batch production

3x2=(6)

## 7.3.1 PRIMARY COSTS

$$\begin{aligned}
 &= \text{Direct labour} + \text{Direct raw material} \\
 &\quad \text{R } 136\,080 + \text{R } 153\,090 \\
 &\quad = \text{R } 289\,170
 \end{aligned}$$

(4)

## 7.3.2 UNIT COST

Primary costs + Overhead costs  
Units manufactured

$$\text{R } 289\,170 \quad + \quad \text{R } 324\,490$$

$$= \frac{\text{R } 613\,660}{10\,000} \quad \text{OR} \quad \frac{\text{R } 612\,360}{10\,000}$$

$$= \text{R } 61,37 \quad \text{OR} \quad 61,24$$

(6)

## 7.3.3 TOTAL COSTS

$$\begin{aligned}
 &\text{Primary costs} \quad + \quad \text{Overhead costs} \\
 &\text{R } 289\,170 \quad + \quad \text{R } 324\,490 \quad \text{OR} \quad \text{R } 323\,190 \\
 &\quad \text{R } 613\,660 \quad \text{OR} \quad \text{R } 612\,360
 \end{aligned}$$

(4)

- 7.4 -- Structural safety
- Fire protection
- Protection of workers against machinery
- Safety aspects in factory legislation
- General safety and conservation of environment
- Wear gloves, helmets and gumboots

5x2=(10)

- 7.5 -- It encourages workers to continue to produce quality products.  
 -- It can serve as the basis for the introduction of reliable wage incentive schemes  
 -- Dealers and consumers are assured that the quality of goods they purchase is of the required standard.  
 -- Production costs can be reduced through the elimination of poor products.  
 -- The continuous testing of quality and standards can lead to improved product design and quality. 5x2=(10)
- 7.6 -- Less physical exertion and exhaustion  
 -- Less handling of materials, parts, etc.  
 -- Less movement required to bring together all the necessary materials at the work place.  
 -- Fewer accidents because incorrect placings, which cause accidents, are eliminated.  
 -- Pleasant working conditions ensure a happy, productive work force.  
 -- It promotes productivity and, therefore, greater earnings. 6x2=(12)  
[60]

### QUESTION 8

- 8.1 Factors to consider when making a choice of form of ownership
- **Size of the enterprise and the nature of the product(s) or service(s)**
    - The size of the product is determined by the nature of the products or services that will be made available to consumers
    - A large business enterprise requiring a big capital outlay is envisaged, for example a motor manufacturing company. A public company will be most suitable form of ownership.
  - **Ability of the business enterprise to survive independent of the owner(s) continuity of the enterprise**
    - When a business enterprise is established, it is usually accepted by the owner(s) that the activities of the enterprise will be continued indefinitely.
    - The continuity of some of the forms of ownership is certain.
    - The death or withdrawal of a member or a shareholder does not affect the continuity of the close corporation or the company.
  - **Degree of control**
    - The form of ownership, which will be selected, depends, inter alia, on the degree of control the owner(s) wants. If he wants to take all the decisions and manage the business enterprise on his own, it must be a sole proprietorship.
    - If he, however, prefers to combine the management skills of a number of people, then he can, for example, decide on a close corporation or a partnership.
    - If he, however, does not want to be involved in the management of the business enterprise, but only as a shareholder thus delegating the management function, a company can be established.

- **Legal formalities with the establishment of a business enterprise**
  - It is judiciously simple to start a sole proprietorship.
  - A big advantage of a close corporation is the simplicity of registration.
  - The establishment of a company is, however, much more complicated.
  - A company is also compelled to draw up audited financial statement annually and submit them to the Registrar of Companies.
  
- **Liability for the debts of the business enterprise**
  - The owner of a sole proprietorship is fully liable for the debts of the business enterprise, which means that he may also lose his personal assets if the enterprise should fail.
  - In the case of partnership the partners are jointly and severally liable for the debts of the business enterprise.
  - The liability of the shareholders of a company is, however, limited.
  
- **Amount of capital required**
  - The size and type of business undertaking naturally determine the amount of capital that is going to be required.
  - If not much capital is needed, a sole proprietorship can be established.
  - If, however, more capital is required than what a single person can supply, a partnership can be established where up to twenty partners can make a contribution or a private company where fifty shareholders can contribute.
  - Especially a public company makes it possible to raise considerable amounts of capital for larger scale enterprises and also to acquire capital for later extensions.
  
- **Tax implications**
  - The tax liability of the various forms of ownership differs.
  - Sole proprietorship and partnership pay tax in their private capacity.
  - Close Corporations and companies pay the same rate. Dividend is not taxed.

## 8.2

### 8.2.1 DISADVANTAGES OF CLOSE CORPORATIONS

- All members must agree to the disposal of member's interest.
- It is impossible to sell a CC to a company because it would first have to be converted to a company.
- Although an audit of a CC's financial statements is not a statutory requirement a bank may require an audit to be done when a CC applies for a loan.
- Members are restricted to ten. This can be an inhibiting factor when a business enterprise wants to expand.
- A member of a CC can be personally liable to the CC for breach of fiduciary duty and for losses suffered by the CC as a result of the failure on the part of a member to act with skill and care.
- Because of limited liability of members, expansion and growth may also be hampered by the lack of capital or the ability to attract outside finance.
- Members do not have to contribute money, so the ability of the corporation to acquire capital is limited, because members can contribute movable or immovable property or a service instead of money.

5x2=(10)

### 8.2.2 ADVANTAGES OF A CLOSE CORPORATION

- The registration of a CC is easy and no formalities are required in its continuing and consequently the cost is significantly lower.
- A CC is not required to hold meetings.
- Annual financial statements need not to be audited with the result that no audit fees will be incurred.
- There are no directors and no separation of ownership from management.
- It is easy and inexpensive to change the founding statement.
- The interest of the members need not be in proportion to their contributions and this interest may also be varied.
- The liability of members is limited.
- Income, which is distributed to members, is exempted from income tax.
- Unlimited continuity

Any  
5x2=(10)

### 8.3

#### Control of credit

- \* By increasing or lowering discount rate.
- \* By open-market transactions.
- \* By increasing or decreasing the cash reserves.
- \* Disciplinary measures.
- \* Stabilising rates of exchange.
- \* Credit rationing.
- \* Repo rate

5x2=(10)

### 8.4

#### Granting of short and medium-term credit

- \* Granting of loans for equipment and improvement. The loans are repayable after periods which usually extend from 5 to 01 years.
- \* Seasonal credit  
Advances are made to farmers to finance their farming operations. Such advances pay for seed, bags, etc.
- \* Advance to buy livestock  
Holds a mortgage on such livestock as security / farmers are not allowed to sell the livestock.

(10)  
[60]

## QUESTION 9 ADMINISTRATION / MARKETING

### 9.1

#### 9.1.1

#### ADVANTAGES

**ADVANTAGES**

- Work methods and procedures are more uniform.
- Duplication is eliminated.
- Fewer duplicate copies of documents are needed.
- During peak hours, work can be more efficiently handled.
- Specialisation in office activities.
- Better division of labour.
- Work processes are simplified.

5x2=(10)

**9.1.2 DISADVANTAGES**

- Office activities can become unwieldy
- Widely dispersed office activities can hamper centralisation
- The technical nature of some work do not favour centralisation.
- Confidentiality of some information may be jeopardised.
- Large number of office workers can lead to impersonal relations.

4x2=(8)

**9.2 FACTORS INFLUENCING PRICE DETERMINATION**

- Form of market
- The form of market, in which the marketing manager will be operating or be marketing his products, is of vital importance. For example monopoly.
- The nature of the demand
- Price determination is also affected by the elasticity of demand, e.g. foodstuffs, is inelastic.
- The availability of substitute goods
- Another factor that may affect price determination, is the availability of substitute goods, e.g. margarine.
- Normal trade practices
- In commerce certain normal trade practices are applicable when certain transactions are concluded, e.g. price bonus of 10%
- Fixed prices of products
- It must be kept in mind that some products, especially agricultural products, prices are fixed and that the product has to be sold at this price.
- The behaviour (reaction of the consumer)
- Consumers only have limited purchasing power at their disposal and, if excessive prices are charged, they cannot purchase or will refrain from buying those goods.
- The attitude (reaction) of the distributors (dealers)
- A relatively high price may discourage distributors from the active promotion of the product.
- The production and distribution costs
- This important factor must inevitably have strong influence on price determination because manufacturer must, recover the production and distribution costs through selling price.

6x3=(18)

## 9.3

- Lack of adequate financial resources to finance the distribution of the goods.
- The need to use the available capital to provide a better return on investment.
- Lack of knowledge and experience in effecting final distribution.
- Lack of a sufficiently wide assortment of own goods or related lines to ensure economical marketing.
- The existence of distribution channels which are intended specifically to deal in related lines and to break bulk.
- A consumer market scattered over a large area.
- Selling. Most manufacturers are small and have very limited financial resources. They can manufacture a good product but need someone to sell it.
- Dividing or bulk buying. The wholesaler buys the large quantities from a manufacturer and resells in smaller quantities.
- Management services and advice. The wholesaler gives expert advice to the retailer in respect of shop lay-out, advertising, stock control and accounting procedures which eventually benefits the manufacturer.
- Risk bearing. A wholesaler buys the goods and by taking title to the manufacturer's product he reduces the manufacturer's risk.
- Storage. Wholesalers give both place and time utility to secondary goods through their warehouses.
- Financing. Manufacturers are too far removed from the retailers to risk granting credit and are unable to obtain the accurate credit information gained by the wholesalers. The wholesaler grants credit to retailers and thereby provides financial help to manufacturers.
- Transportation. The wholesaler does not only minimise transportation expenses for manufacturers and customers but also renders other transport services to customers.

5x2=(10)

## 9.4

## 9.4.1 Commission agent

- Acts on behalf of anyone who requires their services.
- They are not connected to one particular firm.
- They do not acquire ownership, the goods handled by them are very often stored in their warehouses.
- They keep, divide and can supply the goods
- They sell goods at the prices agreed upon with their principals.
- If they sell the goods on credit, they usually bear the risk of non-payment.
- For this risk they may receive a special commission called del credere commision.

Any  
3x2=(6)

### 9.4.2 Factory Representative

- May represent one or more manufacturers in a specific territory.
- He handles non-competitive but related lines of goods.
- He has, however, limited authority with regard to prices and terms of sale.
- He is in business for himself and receives commission on his total sales.
- Factory agents usually have warehouses from where deliveries are made and where goods on consignment are housed.
- Motor and truck distribution is conducted mainly through factory agents.

Any  
4x2=(8)  
[60]

## QUESTION 10 GENERAL MANGEMENT / INSURANCE

### 10.1 CONTROL

- \* Definition 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.

#### Steps in A Control System

- \* Clear, measurable performance standards must be set
- \* Test the actual production against these standards –
- \* Compare actual with predetermined performance – analyse differences
- \* Take corrective action if the standards differ

#### Methods of Control

- Inspection at strategic points – e.g. observation and testing
- Regular auditing and control – financial statements, production figures
- Budgeting – to keep expenditure under control
- Set measurable standards and limits
- Manuals containing standard instructions, rules and orders
- Censuring and reprimanding negligent workers
- Disciplinary action against negligent workers

Preventative: mishaps and problems are avoided and therefore the need for corrective action is minimised e.g. service / employment contract

Corrective: Incorrect performance is steered back to the predetermined levels e.g. repair on a breakdown.

15x2=(30)

## 10.2

### 10.2.1

#### Authority

- Right allocated to a person by virtue of his qualities and capabilities.

### 10.2.2

#### Span of control

- Number of workers over whom a supervisor has to exercise control

### 10.2.3

#### Delegation

- The process of assigning job activities and corresponding authority to individuals.

### 10.2.4

#### Responsibility

- The obligation to perform an assigned task to the best of one's ability

### 10.2.5 Coordination.

- The process of intergrating the different activities of individuals and departments.

(10)

## 10.3 Reinsurance

- Insurance companies are often unable to retain for their own account the full risk of large or particularly hazardous policies.
- They place the portion of the risk, which they cannot retain with a professional reinsurance company.
- This company in turn will spread worldwide among other insurance or reinsurance companies any portion of the risk which exceeds the amount they themselves can retain.
- The premium charged may be fixed or variable depending on the method of reinsurance.
- The general public has no access to reinsurance companies.
- **Provide an example**

Any  
5x2=(10)



#### 10.4 CESSION OR ASSIGNMENT

- The right a person has to a policy may be transferred to another person
- The insured makes a cession of his right to the policy in favour of somebody else.
- This is done by means of a clause written into a policy.
- The policy on a house may be ceded to the bondholder,
- or the policy on a person's life may be ceded to a bank as security for a loan.

5x2=(10)  
[60]