ECONOMIC AND MANAGEMENT SCIENCES

TERM 3

COMPLETE THE FOLLOWING

CPJ

Exercise 1

Exercise 2

Exercise 3

FORMS OF OWNERSHIP

ACTIVITY 1

- page 116

ACTIVITY 2

- page 118

ACTIVITY 3

- page 120

ACTIVITY 4

- page 123

Ex 1 (Illustrative exercise)

Enter the following transactions in the Cash Payments Journal of Woodhurst Steam Laundry (solution on page 36).

April 19..	
1 Purchased stationery from New Stationers and paid by cheque (no. 001)	R72,50
2 Bought office desks from Walter's Furnishers and paid by cheque (no. 002)	4 244,00
5 Paid rent to Regal Holdings by cheque (no. 003)	600,00
7 Drew cash and paid wages (no. 004)	850,00
10 Bought consumable stores from NCA Laboratories and paid by cheque (no. 005)	375,00
12 Bought envelopes from Packco Stationers and paid by cheque (no. 006)	44,40
14 Drew cash and paid wages (no. 007)	850,00
18 Purchased consumable stores from Atlas Chemical Supplies and paid by cheque (no. 008)	145,90
21 Withdrew cash from bank for wages (no. 009)	850,00
22 Received one carton of adding machine rolls from New Stationers and paid by cheque (no. 010)	36,62
26 Issued cheque to Vetiolli for repairs to old typewriter (no. 011)	110,25
28 Drew cash for wages (no. 012)	850,00
30 Issued cheque (no. 013) to manager, D. Delport, for April salary	1 200,00
Paid telephone account by cheque (no. 014)	25,60
Paid water and electricity account by cheque (no. 015)	174,40
Owner drew cheque (no. 016) for personal use	1 000,00

Exercise 2

Instructions

1. Enter the following transactions in the Cash Payments Journal of Sparks Personal Services. Provide a column for stationery. Close the journal at the end of the week.
2. Post the entries to the Ledger.

April 19..	
1 Purchased land and buildings from Athlone Estate Agents and issued cheque in full settlement of purchase price	R150 000
5 Purchased the following and paid by separate cheque for each:	
Motor vehicle from AM Motors	9 400
Consumable stores from ALE Suppliers	381
Furniture and office equipment from KP Furniture	987
Envelopes and paper from NP Suppliers	121
7 Paid the following expenses by cheque:	
RT Insurance Co (fire insurance)	144
Durban Municipality (licence)	120
BK Printers (printing of letterheads)	124

Exercise 3

Instructions

1. Enter the following transactions in the Cash Payments Journal of MPA Personal Services. Provide columns for stationery and wages. Close the journal at the end of the month.
2. Post the entries to the Ledger.

November 19..	
1 Purchased new office typewriter from ZK Office Suppliers and paid by cheque (no. 531)	R481,50
3 Paid rent to ABC Estate Agents by cheque	750,00
4 Purchased stationery from AK Suppliers and paid by cheque	131,80
7 Drew cash from bank to pay wages	940,00
9 Purchased envelopes from Adams Stationers and paid by cheque	31,72
12 Issued cheque to Safe Insurance Co. for annual premium due	175,23
14 Drew cash from bank and paid wages	940,00
16 Drew cheque in favour of the municipality to settle water and electricity account	98,20
18 Issued cheque to the postmaster to settle October telephone account	75,10
21 Drew cash to pay wages	940,00
24 Purchased consumable stores from KZ Suppliers and paid by cheque	198,40
26 Issued cheque to PO Motors for repairs to motor vehicle	141,10
28 Drew cheque for wages	940,00
30 Paid monthly salary to manager, J. Jones, by cheque	800,00

Cash Payment Journal of ______________ CPJ ____

Doc No.	Day	Name of payee	Fol	Bank							Sundry Accounts Section			
											Amount		Fol	Details

Cash Payment Journal of ______________________________ CPJ____

Doc No.	Day	Name of payee	Fol	Bank						Sundry Accounts Section			
										Amount		Fol	Details

Cash Payment Journal of ______________________________ CPJ _____

Doc No.	Day	Name of payee	Fol	Bank						Sundry Accounts Section			
										Amount		Fol	Details

Cash Payment Journal of Woodhurst Steam Laundry – April 2019 **CPJ** 4

EXERCISE 1

Doc No.	Day	Name of payee	Fol	Bank		Stationery		Wages		Sundry Accounts Section			
										Amount		Fol	Details
EFT 1	1	New Stationers		72	50	72	50						
EFT2	2	Walters Furnishers		4244	-					4244	-		Furniture and Equipment
EFT3	5	Regal Holdings		600	-					600	-		Rent expense
EFT4	7	Cash		850	-			850	-				
EFT5	10	NCA Laboratories		375	-					375			Consumable stores
EFT6	12	Packco Stationers		44	40	44	40						
EFT7	14	Cash		850	-			850	-				
EFT8	18	Atlas Chemical Supplies		145	90					145	90		Consumable stores
EFT9	21	Cash		850	-			850	-				
EFT10	22	New Stationers		36	62	36	62						
EFT11	26	Vetiolli		110	25					110	25		Repairs
EFT12	28	Cash		850	-			850	-				
EFT13	30	D. Delport		1200	-					1200			Salary
EFT14		Cash		25	60					25	60		Telephone account
EFT15		Cash		174	40					174	40		Water and electricity
EFT16		Cash		1000	-					1000	-		Personal use
				11428	**67**	**153**	**52**	**3400**	**-**	**7875**	**15**		

EXERCISE 2

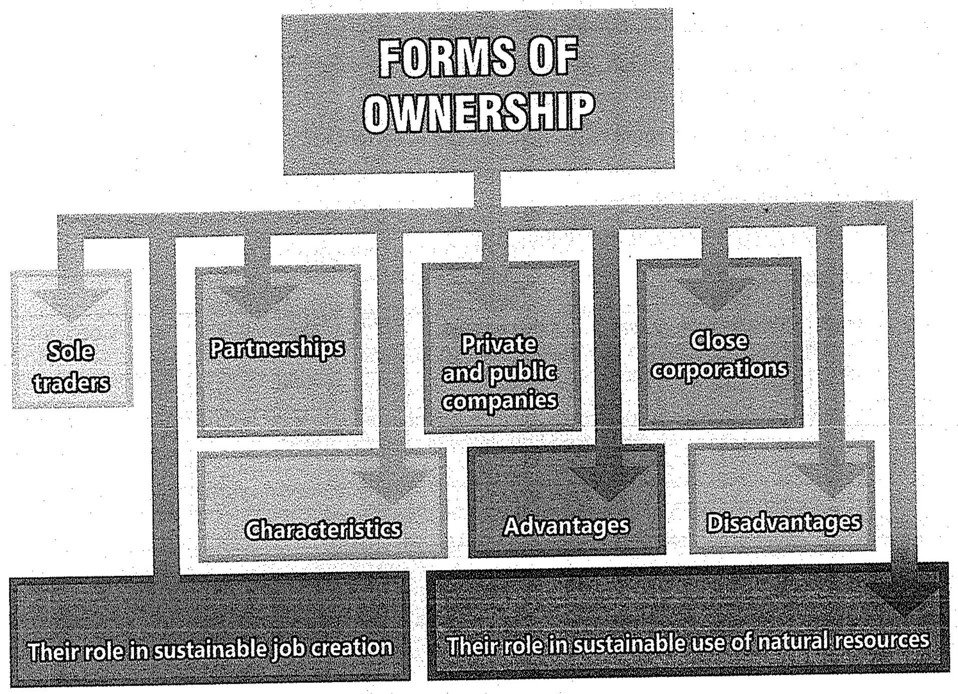
Cash Payment Journal of Sparks Personal Services – April 2019 **CPJ** 4

Doc No.	Day	Name of payee	Fol	Bank		Stationery				Sundry Accounts Section			
										Amount		Fol	Details
EFT1	1	Athlone Estate Agents		150 000	-					150 000	-		Land and building
EFT2	5	AM Motors		9400	-					9400	-		Motor vehicle
EFT3		ALE Suppliers		381	-					381	-		Consumable stores
EFT4		KP Furniture		987	-					987	-		Furniture and equipment
EFT5		NP Suppliers		121	-	121	-						
EFT6	7	RT Insurance Co		144	-					144	-		Insurance
EFT7		Durban Municipality		120	-					120	-		Licence
EFT8		BK Printers		124	-	124	-						
				161277	**-**	**245**	**-**			**161032**	**-**		

Cash Payment Journal of MPA Personal Services – November 2019 CPJ 11 EXERCISE 3

Doc No.	Day	Name of payee	Fol	Bank		Stationery		Wages		Sundry Accounts Section			
										Amount		Fol	Details
EFT 531	1	ZK Office Suppliers		481	50					481	50		Furniture and Equipment
EFT 532	3	ABC Estate Agents		750	-					750	-		Rent expense
EFT 533	4	AK Suppliers		131	80	131	80						
EFT 534	7	Cash		940	-			940	-				
ETF 535	9	Adams Stationers		31	72	31	72						
ETF 536	12	Safe Insurance co		175	23					175	23		Insurance
EFT 537	14	Cash		940	-			940	-				
EFT 538	16	Cash		98	20					98	20		Water and electricity
EFT 539	18	Postmaster		75	10					75	10		Telephone account
EFT 540	21	Cash		940	-			940	-				
EFT 541	24	KZ Suppliers		198	40					198	40		Consumable stores
EFT 542	26	PO Motors		141	10					141	10		Motor vehicle repairs
EFT 543	28	Cash		940	-			940	-				
EFT 544	30	J Jones		800	-					800	-		Salary
				6643	**06**	**163**	**52**	**3760**	**-**	**2719**	**53**		

12. Entrepreneurship: Forms of ownership



Unit 51 Forms of ownership

Before we study the different ways to own a business, we need to understand the concept of ***legal* liability****, which is one of the most important issues when owning a business and choosing a form of ownership.

An adult person is legally responsible or liable for his or her actions. If someone steals something, the law says that whoever does so is responsible for that action and should be punished, as it is wrong to steal. If you were to borrow money from someone, you would be legally responsible for paying that money back. Most businesses have debt because they borrow money. There are laws which make it clear who is legally responsible for this debt, whether the owner, owners or the business itself. Legal responsibility or liability is dealt with differently in each form of ownership.

The form of ownership should be suited to the particular circumstances and the following factors have to be considered by business owners:

- the size of the business and the need for capital
- whether or not the owners will manage the business
- the possibilities of a change in ownership and the need for ***continuity**** of the business
- the legal requirements which include the difficulty and expense involved in setting up the business as well as managing and dissolving the business
- the amount of tax to be paid
- the legal liability or legal responsibility of the owners for the business debts
- how the profits and losses are shared.

Word Box

legal: recognised by, or to do with, the law
liability: responsibility
continuity: state of being uninterrupted, unbroken, to carry on

Key concept:
When a new business undertaking is planned some important factors must be considered. These include the intended size of the business, the nature and extent of the business activities and the need for finance.

Unit 52 Sole trader

A sole trader, also known as sole proprietorship or, simply, proprietorship, is a type of business entity that is owned and run by one individual.

Characteristics

- There is one owner who is called the sole ***proprietor****.
- The owner is responsible for all aspects of the business. This includes legal responsibility for the business debts.

- The owner usually manages the business although some sole traders appoint a manager.
- If the business does not earn enough money to pay its debts, the owner is legally responsible and will have to pay the money back from his or her own personal money.
- The owner provides the capital and is entitled to all the profits.
- The owner does not have to pay tax on the profits of the business, only on the money she or he earns from owning the business.
- There are no formal documents required to create the business.
- If the owner dies or retires the business cannot exist on its own. Therefore it can be said that this type of business has no continuity of existence.
- This form of ownership is popular in the retail trade, for example a florist, coffee shop or spaza shop.
- The sole trader is also a suitable form of ownership for professional people such as accountants and architects and skilled people such as plumbers and electricians.
- The sole trader has unlimited liability. This means that the owner's personal possessions, such as house, vehicles and furniture, can be sold to cover expenses should the business fail.

Advantages

- It is easy and inexpensive to create and easy to dissolve.
- Quick decisions can be made as the owner manages the business and can easily adapt to changing circumstances.
- The owner has a personal interest in the business and may develop personal relationships with customers and get to know their special needs.
- The owner may get personal ***rebates**** when taxed on the money earned from the business.

Disadvantages

- The owner is legally responsible for all the business debts so he could lose all his personal possessions if the business is unsuccessful. This means that he has unlimited liability.
- The amount of capital that can be raised for expansion is limited to what one person can borrow.
- The owner may have limited skills in certain areas.
- The business depends on the owner's life, health and skills and long-term projects cannot be started.

- All responsibility, risks and decisions rest on one person who may work very long hours and become stressed.
- The owner cannot usually offer employees job ***security**** or promotion so it may be difficult to attract good staff.
- There is no continuity of existence which means that, if the owner dies, the business will not continue.

Word Box

proprietor: owner
rebates: refunds, discounts, deductions
security: safety, protection

Key concept:

For a business to have continuity of existence it must be able to exist even if the owner dies.

ACTIVITY 1

Sole Traders

Work in a group for this activity. Write the answers in your exercise book.

1. Why do you think promotion possibilities for employees are limited in a business that has only one owner?
2. Does the owner of a sole proprietorship usually manage the business him/herself?
3. What usually happens to a sole proprietorship if the owner dies?
4. What does it mean when an owner has unlimited liability for the debts of his or her business?
5. Say whether the following statements about a sole proprietorship are true or false:
   a. The owner can lose his or her personal possessions if there is no money in the business to pay the business debts.
   b. The creation of a sole proprietorship is complicated.
   c. A sole proprietor can make quick decisions.
   d. One person takes all the risk.

Unit 3 Partnerships

A partnership is an agreement, preferably in writing, between two but not more than 20 people to carry on a lawful business in which each person contributes something to a ***common cause**** in the form of money, labour or skills with the objective of making a profit for the benefit of the partners.

Characteristics

- A partnership is owned by between two and 20 persons.
- The partners can contribute capital, goods, skills or labour to the business.
- It is easy to start a partnership as no formal ***procedures**** need to be followed. To avoid conflict it is advisable that a partnership agreement is drawn up and signed by all the partners.
- Partners are ***jointly**** and ***severally**** liable for the debts of the partnership. This means that if one partner cannot pay a debt the other partners become liable for the debt.
- A partnership agreement is a legal agreement between the partners that can be written or ***verbal**** and will comprise the following information:
  - ✓ names and details of all the partners
  - ✓ each partner's contribution to the business including money, skills and assets
  - ✓ the duties of each partner in the running of the business
  - ✓ rewards in the form of bonuses or salaries
  - ✓ how profits and losses will be shared
  - ✓ the procedure to follow if the partnership is dissolved.
- Partners contribute the capital according to the partnership agreement. This capital can be increased, reduced or easily withdrawn.
- The partners share management control.
- If one of the partners leaves or dies, the partnership has to end which means it has no continuity of existence.
- All partners are legally responsible for the business debts and will have to pay them from their personal money. This means the partnership has unlimited liability.
- Partners share profits and losses according to the partnership agreement.
- Partners can also collect salaries and bonuses according to the partnership agreement.
- The partners pay personal tax on their share of the profits.
- Groups of doctors, dentists or lawyers may form partnerships.

Advantages

- A partnership is easy and inexpensive to establish and to dissolve because it is not ***regulated**** by many laws.
- More capital is available in a partnership than in a sole proprietorship depending on the number of partners.
- The risk is spread and there should be less personal stress.
- Combining skills leads to greater efficiency.
- Access to loans may be easier because the partners are responsible for debts. Creditors know they can recover any debts from more than one person's personal assets.
- All partners manage and have a personal interest in the success of the business.
- There may be certain tax advantages compared with other forms of ownership because partners are taxed in their personal capacity on their share of the profit.

Disadvantages

- Partners have a personal legal responsibility for the debts of the partnership. If one cannot pay, others must pay his or her share of the debt. Partners are jointly and severally liable for the debts of the partnership.
- The partnership has unlimited liability.
- If one of the partners leaves or dies, the partnership must be dissolved and a new agreement drawn up between the remaining partners. There is therefore no continuity of existence.
- Transfer of ownership may be a problem as all partners must agree on a new partner.
- Quick decisions cannot always be made if other partners must be consulted first.

Key concept:

If a partnership gets into debt and one partner cannot pay his or her share of the debt, the other partners are required to pay that partner's share as well as their own share of the debt.

Word Box

common cause: shared purpose
procedure: set of steps
jointly: together
severally: individually
verbal: spoken, oral, not written down
regulated: controlled

ACTIVITY 2

Partnerships

Work with a partner for this activity and write the answers in your exercise book.

1. If there are not enough funds in a partnership to pay its debts, what will happen?
2. If one of the partners cannot pay his or her share of the debt, who will have to pay it?
3. What will happen in a partnership if one partner decides to emigrate?
4. How does a business benefit if the owners manage the business?
5. Give three advantages that a partnership has compared with a sole proprietorship.
6. Give three advantages of a sole proprietorship compared with a partnership.
7. What disadvantage does a partnership have that a sole proprietorship does not have?

Unit 34 Close corporation

A Close Corporation is a business which is owned and managed with a minimum of one and a maximum of 10 people who are responsible for the management of the day to day affairs of the company. To form a close corporation, a founding statement is required. The document has to be signed by every person who is to become a member of the close corporation. The founding statement must contain the following:

- ✓ the full name of the close corporation with capital 'CC' after the name
- ✓ the postal and physical address of the close corporation
- ✓ the main business of the close corporation
- ✓ the full names, identity numbers and dates of birth of every member
- ✓ the percentage interest that each member has in the close corporation
- ✓ the details of each member's contribution to the business, including cash, assets or services
- ✓ the written consent, name and address of the qualified accounting officer
- ✓ the date of the financial year-end.

Characteristics

- There can be one to 10 owners of a Close Corporation. They are called members.
- To protect and inform the public, the name of the business must end in CC, for example, Famous Frames CC or Colin's Cars CC.
- A CC is relatively easy to establish. A new CC must be legally registered with the government's Registrar of Close Corporations.
- It is advisable to have a cooperation agreement in writing to avoid conflict.
- Members "interest" or investment is expressed as a percentage.
- Members manage the business.
- If a CC goes into debt, only the business is legally responsible for the debt. This means that the members will not have to pay the money out of their personal wealth. This means that the CC has limited liability.
- If a member of the CC retires or dies, the business can continue to function. There is continuity of existence.
- The profits of a CC are taxed at the same rate as companies.
- The CC must appoint an accounting officer to prepare its financial statements.
- Profits are distributed in the form of ***dividends**** and members can also receive a salary as well as a bonus.

Advantages

- A CC is relatively easy to establish and manage compared with a company.
- Members are generally not legally responsible for the debts of the CC. The CC has limited liability.
- Owners manage the business and are therefore more enthusiastic and hard-working than employed managers would be.
- A CC has continuity of existence.
- A CC is a ***flexible**** form of ownership as the founding statement can be easily changed at any time with the agreement of the members.

Word Box

dividends: sums of money paid regularly (usually every three months) by a company to its shareholders out of its profits
flexible: adaptable, able to change, supple

- A CC is easier and less expensive to establish and manage than a company as only a few laws must be complied with.
- A CC does not have to have meetings.
- A CC does not need to publish financial statements.

Disadvantages

- A CC must have a founding statement before the CC can commence business.
- A CC must have an accounting officer.
- Owners of a CC can be held responsible for debts if they do not run the business according to the CC act.
- Capital for a CC is limited to what 10 people can raise or contribute.
- Members of a CC may not freely sell or transfer their interests: they need permission from other members to do so.
- Conflicts of ideas and ambitions can arise within a CC and reduce efficiency. Success depends on the relationship between the members.

Key concept:
The cooperation agreement of a Close Corporation (CC) may specify the responsibilities of members or how authority will be shared.

ACTIVITY 3

Close Corporations

Work with a partner for this activity. Write the answers in your exercise book.

1. State whether the following sentences are true or false:
   a. In a CC the owners manage the business.
   b. The owners of a CC are called partners.
   c. If the CC does not have enough funds to pay its debts, the owners must pay the debts.
   d. When an owner of a CC dies, the business can continue.
2. Write down the question numbers in column A and choose a word from column B for each one. You may use a word more than once.

Column A	Column B
a. Legally responsible for the debts of a CC	Members
b. Legally responsible for the debts of a partnership	Owner/s
c. Legally responsible for the debts of a sole proprietorship	Shareholders
d. Manage/s a partnership	Sole proprietor
e. Manage/s a CC	Partners
f. Manages a sole proprietor	The business

Unit 35 Private and public companies

In all the above forms of ownership, the owners manage the business. There are many people who would like to invest in a business but do not want to be involved in the day-to-day running of it. These people can buy shares in a company which makes them a shareholder or part owner of a company. Companies came into existence when people started to form businesses that required very large amounts of money.

Companies

Characteristics

- There are two types of companies, private companies and public companies.
- Shareholders may sell their shares to another person, making a profit or a loss on their original purchase prices.
- A company does not cease to exist: new shareholders may join the company and old shareholders may leave the company. It has continuity or ***perpetual**** succession.
- Shareholders appoint directors to manage the company.
- Shareholders exercise their authority through voting at an annual general meeting.
- Shareholders share in the profits of the company. They are paid a dividend.
- Shareholders have limited liability for the debts of the business.
- Procedure for establishment and management is complex

Word Box

perpetual: continuous, on-going, everlasting
net profit: profit after costs have been deducted

especially for public companies as the shareholders need protection.

- Companies pay tax on their ***net profit****.

Private companies

- They must have (Pty) Ltd after the name.
- They must have at least one director.
- One to 50 shareholders provide capital.

Public companies

- They must have Ltd after the name, e.g. Hulamin Ltd.
- They must have at least two directors.
- They have a minimum of seven but no limit to the maximum number of shareholders who provide capital.
- The company may apply to be included in the official list of the Johannesburg Stock Exchange (JSE Ltd.) so that its shares can be bought and sold more easily by investors.

Advantages of companies

- The company is a legal person so the owners are not legally responsible for the company's debts.
- The company has continuity of existence.
- Large amounts of money can be raised (especially by public companies who may have a JSE listing) enabling large projects to be undertaken.
- Shares of public companies can be easily sold to anyone at the current price.

Disadvantages of companies

- Shares of private companies cannot be sold by owners without the permission of the other shareholders.
- Companies are expensive to set up and manage as many laws must be complied with.
- Managers/ directors are employed to manage the business and may not have the same motivation to succeed as owners would have.
- Public companies must make all information available to the public which could be useful for their competitors.

Key concept:
The Johannesburg Stock Exchange (JSE Ltd.) acts as a type of marketplace for investors to buy and sell the shares and other securities of public companies that are on the JSE's official list.

ACTIVITY 4

Private and public companies

Work with a partner for this activity and write the answers in your exercise book.

1. Peter and Sipho started making coffins in a garage using money they had both saved to buy some second hand equipment and wood. What form of ownership do you recommend for their business? Explain why.
2. Because the coffins are well made and good value for money, demand for them has increased over the past year and Peter and Sipho have decided to move to bigger premises and buy better equipment. To do this they will have to get a bank loan. However they do not want to be held legally responsible for the business debts. Should they change the form of ownership? If so what do you recommend? Why?
3. Write down the question numbers in column A and choose a word from column B for each one.

Column A	Column B
a. approval is needed from other shareholders when selling shares	Public company
b. there are 2 to 20 owners	Close corporation
c. very large amounts of capital needed	Partnership
d. there are 1 to 10 members	Private company