



**ILEMBE DISTRICT**

**BUSINESS STUDIES  
OPERATION LOCKDOWN  
TERM TWO  
LEARNER SUPPORT MATERIAL  
APRIL 2020**

Additional information:

- 1. This resource material is aligned to the Annual Teaching Plan 2020 and the Examination Guideline 2020.**
- 2. It covers the first two topics for term 2 viz. Investment: Securities and Investment: Insurance.**
- 3. The activities have been extracted from official DBE resources and NSC CAPS papers.**
- 4. The suggested answers have been aligned to our “*DISTRICT 60*” strategy and learners attaining 8 marks (four facts) (where applicable).**
- 5. This resource should be used as a an intervention strategy for the duration of the lockdown period in preparation for the final examination.**

**TOPIC: INVESTMENT: SECURITIES**

Activity 1

Read the scenario below and answer the questions that follow.

Sarah believes in self-wealth creation. She wants to use her savings to buy shares in a South African listed company.

1.1 Name the institution that is responsible for the listing of public companies in South Africa.

Johannesburg Securities Exchange / Johannesburg Stock Exchange

1.2 Explain the functions of the institution named in ACTIVITY 1.1

Raises primary capital

Provides protection for investors

Encourages short term investment

Act as a link between investors and public companies

Serves as a barometer of economic conditions in South Africa

## Activity 2

List a range of available business investment opportunities

Government/ RSA retail savings bonds
Unit trusts
Shares
Fixed deposit

## Activity 3

Discuss the following factors when making an investment decision:

### 3.1 Return on investment

Refers to income from the investment , namely interest/dividends/increased capital growth on the original amount invested
High risk investments yield higher returns

### 3.2 Risk

Shares have low or medium risk over a longer investment period
Shares with higher risk have a greater potential for higher returns
Share prices are linked to factors that investors cannot control e.g. economic conditions/operational success of the company, etc.

### 3.3 Investment term / period

Refers to the duration of the investment which may influence the return on investment
the longer the investment period the higher the returns

### 3.4 Inflation

People are affected by a high inflation rate, because their purchasing power decreases
The return on investment should be higher than inflation rate

### 3.5 Taxation

A good investment will yield good after tax returns
Tax rates are not necessarily the same for different investments

### 3.6 Liquidity

An amount could be invested in a type of investment that can easily be converted to cash
It is used to describe the ease and speed with which investors can convert an investment into cash

#### Activity 4

4.1 Read the scenario below and answer the questions that follow.

Timothy inherited R200 000 from his father's estate. He wants to invest his money in an investment option where there is low risk, guaranteed return, no charges and commission payable.
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4.1.1 Identify the type of investment option that will be suit Timothy. Motivate your answer by quoting from the scenario.

Identification: RSA Retail Savings Bonds/ Government Retail Bonds
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Motivation: He wants to invest his money in an investment option where there is low risk, guaranteed return, no charges and commission payable
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4.1.2 Evaluate the form of investment identified in ACTIVITY 4.1.1

Interest can be received twice a year.
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Interest rates are market related and attract more investors.
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Retail bonds cannot be ceded to banks as security for obtaining loans.
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Retail bonds are not freely transferable amongst investors.
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4.2 Read the scenario below and answer the questions that follow.

#### **LEONS TRUCKING (LT)**

LT renders a quality service to their clients. This resulted in an improved cash flow position for the business. They requested an expert financial consultant to invest their money in a diverse portfolio.
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4.2.1 Identify the type of investment option applicable in the scenario. Motivate your answer by quoting from the scenario.

Type: Unit trust
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Motivation: They requested an expert financial consultant to invest their money in a diverse portfolio.
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4.2.2 Evaluate the form of investment identified in ACTIVITY 4.2.1

Easy to cash in when an investor needs money.
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A small amount can be invested per month.
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Managed by a fund manager who buys shares on a stock exchange/JSE
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Share price may fluctuate.
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4.3 Evaluate the following forms of investment.

4.3.1 Shares

Can be freely transferred/ traded on the JSE.
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Investing in shares provides protection against inflation.
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Investing in shares can provide solid returns at retirement age.
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Shareholders have voting rights at the annual general meeting(AGM)
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4.3.2 Fixed deposit

Investors can choose the investment period that suits them.
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Principal amount plus interest earned is paid out on the maturity date.
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The period of investment can be over a short/medium/long term.
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Interest is earned at a fixed rate regardless of changes in the economic climate.
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## Activity 5

Explain the following types of shares:

### 5.1 Ordinary shares

Receive dividends when profit is made.
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Normally the higher the net profit, the higher the dividends.
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Shareholders have a right to vote at the AGM.
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### 5.2 Preference shares

A fixed rate of return is paid on this type of shares.
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Dividends are payable according to the type of preference share.
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These share enjoy preferential rights to dividends/repayment over ordinary shares
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### 5.3 Bonus shares

Payment in the form of shares to shareholders.
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Issued as compensation for unpaid dividends.
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Shareholders receive these shares without being required to pay for them.
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### 5.4 Founders shares

Issued to the founders and incorporators/promoters of the company.
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They receive dividends after all other shareholders are paid.
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## Activity 6

Name the types of preference shares

Ordinary preference shares
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Participating preference shares
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Non-participating preference shares:
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Cumulative preference shares:
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Non-cumulative shares:
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Redeemable preference shares:
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Non-redeemable preference shares:
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Convertible preference shares:
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Non-convertible preference shares:
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## Activity 7

Outline the rights of:

### 7.1 Ordinary shareholders

Vote at the Annual General Meeting.
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Receive interim and annual reports.
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Attend the Annual General Meeting to learn about the company performance.
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Claim on company asset in the event of bankruptcy after all other creditors and preferential shareholders have been paid
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### 7.2 Preference shareholders

Receive dividends regardless of how much profits are made.
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Receive interim and annual reports.
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They are paid first/enjoy preferential rights to dividends.
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Participating preference shareholders have the right to share in surplus profits.
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They only have voting rights at the AGM under particular circumstances.
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Activity 8

Read the scenario below and answer the questions that follow.

Luckyboy won R600 000 in a Lotto draw. He decided to invest the money in fixed deposit at Savings Bank. The bank offered him TWO options.  
 OPTION ONE:  
 The money could be invested at 10% per annum simple interest over three years  
 OPTION TWO:  
 The money could be invested at 10% interest compounded annually for three years

8.1 Distinguish between simple and compound interest

Simple interest	Compound interest
Yield less return on investment	Yield high return on investment
Total amount of interest earned on investment is less.	Total amount of interest earned on investment is high.
The principal amount remains the same over the entire period of investment.	The principal amount grows with the addition of interest to it

8.2 Calculate the amount of interest that Luckboy will earn after three years if he chose OPTION ONE..

$P \times R \times T$
$=R\ 600\ 000 \times 10\% \times 3$
$=R\ 600\ 000 \times 01. \times 3$
$=R\ 180\ 000$

8.3 Calculate the amount of interest that Luckboy will earn after three years if he chose OPTION TWO.

$P \times (1+r)^n$
$=R\ 600\ 000 (1+10\%)^n$
$=R600\ 000 (1+0.1)^3$
$=R\ 798\ 600$
Total interest earned = $R798\ 600 - R600\ 000$
$= R198\ 600$

8.4 Advise Luckyboy on the option that he should choose. Motivate a reason for your answer.

Chosen option no. TWO
Motivation: Compound interest yield a higher interest of R 198 600 than the simple interest of R180 000.

## TOPIC: INVESTMENT: INSURANCE

### Activity 1

Explain the meaning of:

#### 1.1 Compulsory insurance

Refers to insurance that is required by law before business/individuals may engage in certain activities
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Compulsory insurance is intended to safeguard the welfare of everyone concerned
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#### 1.2 Non-compulsory insurance

Insurance that is voluntary/the insured has a choice whether to enter into an insurance contract
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It is not required by law but it can provide protection for business and individuals
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### Activity 2

Give examples of compulsory and non-compulsory insurance

Compulsory insurance Unemployment Insurance Fund Road Accident Fund Compensation for Occupational Injuries and Diseases	Non-compulsory insurance Short term insurance(Theft, Fire) Long term insurance/ Life insurance
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### Activity 3

3.2 Classify each statement below into *compulsory or non-compulsory insurance*.

- a) Mala claimed from the Unemployment Insurance Fund when she was retrenched from work.
- b) Val claimed from the Road Accident Fund when she was injured in a car accident.
- c) Trinica insured her life to provide for her children upon her death.
- d) CTI Interiors insured their employees against injuries sustained in the workplace.
- e) CSI Auto Trimmers insured their plant and equipment against theft and fire.

a) Compulsory insurance
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b) Compulsory insurance
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c) Non-compulsory insurance
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d) Compulsory insurance
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e) Non-compulsory insurance
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Activity 4

Read the scenario below and answer the questions that follow.

TINY TOTS TRADERS (TTT)  
TTT bought stocks for R400 000, but insured it for R300 000. A fire in the store destroyed stock to the value of R200 000.

4.1 Name the insurance clause that is applicable to the scenario.

Average clause

4.2 Calculate the amount that TTT will receive as compensation from the insurer. Show all calculations.

$\frac{\text{Amount insured}}{\text{Market value}} \times \text{Damages/Loss}$   
  
 $\frac{\text{R 300 000}}{\text{R 400 000}} \times \text{R 200 000}$   
 =R 150 000

Activity 5

Differentiate between assurance and insurance (also provide suitable examples)

Assurance	Insurance
Based on the principle of security/certainty	Based on the principle of indemnity
Applicable to long-term insurance	Applicable to short term insurance
Specified event is certainty but the time of the event is uncertain	It covers a specified event that may occur
The insurer undertakes to pay an agreed sum of money after a certain [period has expired/on the death of the insured person which ever occur first.	The insured transfers the cost of the potential loss to the insurer at a premium
Examples:	Examples:
Retirement Annuities, Life insurance/Endowment policies	-Theft/ Burglary/ Fire/ Money in transit

Activity 6

Elaborate on the following types of compulsory insurance:

6.1 Unemployment insurance fund (UIF)

- Employees contribute 1% of the basic wage to UIF
- The UIF provides benefits to workers who have been working and become unemployed for various reasons
- Business contribute 1% of basic wages towards UIF, therefore reducing the expense of providing UIF benefits themselves.

## 6.2 Road Accident fund (RAF) / Road Accident Beneficiary Scheme (RABS)

<ul style="list-style-type: none"> <li>RAF/RABS insures road users against the negligent of other road users.</li> </ul>
<ul style="list-style-type: none"> <li>The amount that can be claimed for a loss of income is limited by legislation.</li> </ul>
<ul style="list-style-type: none"> <li>RAF/RABS is funded by a levy on the sale of fuel/diesel/petrol.</li> </ul>

## 6.3 Compensation for Occupational Injuries and Diseases Act (COIDA)

<ul style="list-style-type: none"> <li>The fund covers occupational diseases and workplace injuries.</li> </ul>
<ul style="list-style-type: none"> <li>Compensate employees for injuries and diseases occur at work.</li> </ul>
<ul style="list-style-type: none"> <li>The fund covers employers for any legal claim that workers may bring against them.</li> </ul>

### Activity 7

State the types of unemployment insurance benefits

Illness benefits/ sickness/disability
Maternity benefits
Adoption benefits
Dependency benefits

### Activity 8

Give examples of short-term and long-term insurance

Short –term insurance	Long-term insurance
Property insurance	Endowment policy
Money in transit	Life cover policy/ Life insurance
Theft	Disability policy
Fire	Trauma insurance
Burglary	Funeral insurance

### Activity 9

Explain the following principles of insurance:

#### 9.1 Indemnification / Indemnity

<ul style="list-style-type: none"> <li>Protects the insured against the specified event that may occur.</li> </ul>
<ul style="list-style-type: none"> <li>Usually applies to short term insurance as the insured is compensated for specified harm/loss.</li> </ul>
<ul style="list-style-type: none"> <li>The insured must be placed in the same position as before the occurrence of the loss/damage.</li> </ul>



## 9.2 Security / Certainty

<ul style="list-style-type: none"><li>• Aims to provide financial security to the insured at retirement/the dependent of the deceased.</li></ul>
<ul style="list-style-type: none"><li>• A predetermined amount will be paid out when the insured reaches a predetermined age/or gets injured due to a predetermined event.</li></ul>
<ul style="list-style-type: none"><li>• Applies to long term insurance where the insurer undertakes to pay out an agreed upon amount in the event of loss of life.</li></ul>

## 9.3 Utmost good faith

<ul style="list-style-type: none"><li>• Insured has to be honest in supplying details when entering in an insurance contract.</li></ul>
<ul style="list-style-type: none"><li>• Both parties/insurer and insured must disclose all relevant facts.</li></ul>
<ul style="list-style-type: none"><li>• Information supplied when claiming should be accurate/true.</li></ul>

## 9.4 Insurable interest

<ul style="list-style-type: none"><li>• An insurable interest must be expressed in financial terms</li></ul>
<ul style="list-style-type: none"><li>• Insured must have a legal relationship with the insured object in the contract.</li></ul>
<ul style="list-style-type: none"><li>• Insured must prove that he/she will suffer a financial loss if the insured object is damaged/lost/ceases to exist</li></ul>

### Activity 10

Explain the importance / advantages of insurance to business

<ul style="list-style-type: none"><li>• Transfers the risk from the business/insured to an insurance company/insurer.</li></ul>
<ul style="list-style-type: none"><li>• Protects businesses against dishonest employees.</li></ul>
<ul style="list-style-type: none"><li>• Protects businesses against losses due to death of the debtor.</li></ul>
<ul style="list-style-type: none"><li>• Protects the business against theft/loss of stock or damages caused by natural disasters such as storm damage and floods.</li></ul>

### Activity 11

Explain the meaning of:

#### 11.1 Insurable risk

<ul style="list-style-type: none"><li>• These risks are insured by insurance companies.</li></ul>
<ul style="list-style-type: none"><li>• Insurance companies decides on the likelihoods of an event then decide if they want to insure the risk</li></ul>
<ul style="list-style-type: none"><li>• Examples: Theft, Burglary, Fire, Money in transit, Injuries on premises, Natural disaster/storms/wind/rain/hail</li></ul>

## 11.2 Non-Insurable risk

<ul style="list-style-type: none"><li>• These risks are not insured by insurance companies as insurance cost/risks are too high/remains the responsibility of the business.</li></ul>
<ul style="list-style-type: none"><li>• The insurance company cannot calculate the profitability of the risk and therefore they cannot work out a premium that the business must pay</li></ul>
<ul style="list-style-type: none"><li>• Examples: Changes in fashion, Nuclear weapons/War, Changes in technology, Irrecoverable debts, shoplifting during business hours.</li></ul>

### Activity 12

Explain the meaning of average clause.

The insurer will pay for insured loss/damages in proportion to the insured value.
This means that the insured is responsible for a part of the risk that is not insured
A stipulation said by the insurer which is applicable when property/goods is under insured/insured for less than its market value.

### Activity 13

Explain the meaning of under insurance.

Occurs when property or assets are insured for their full market value.
The property/asset is insured for less than the current/actual value of the property/assets.
The insurer usually applies the average clause to calculate the amount of money that must be compensated to the insured if the goods/ assets are under insured
If a business is insured for an amount that is under the actual market value of goods or service, the insured/business will only be paid out for the amount that the goods/ assets are insured for.

### Activity 14

Explain the meaning of reinstatement.

This stipulation is applicable when property/goods are over insured.
The re-instatement value will not be higher than the market value of the loss.
-Insured is returned to almost the same financial position as before the loss occurred.
It is a stipulation whereby the insurer may replace loss/damaged property/goods instead of reimbursing the insured.

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