

EMS

Economic & Management Sciences

CLASS TEXT & STUDY GUIDE

Jason Collins, *et al.*

GRADE

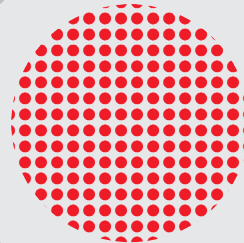
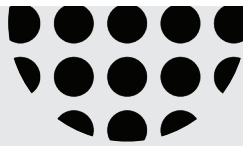
9

CAPS

3-in-1



THE
ANSWER
SERIES *Your Key to Exam Success*



Grade 9 **EMS** 3-in-1 CAPS

CLASS TEXT & STUDY GUIDE

This Grade 9 EMS 3-in-1 study guide makes challenging subject matter easier to understand. All three EMS modules are broken down into practical, bite-sized topics and presented in a user-friendly way.

The logical approach and clarity of the notes guide the learner through each content area, with graded questions and annotated answers to provide ongoing self-assessment.

Key Features:

- Logical, explanatory notes
- Learner-friendly diagrams
- Helpful activities and answers
- Exam paper and memo
- Photocopiable template book

GRADE

9

CAPS

3-in-1

EMS

Economic & Management Sciences

Jason Collins

with valuable contributions by Elmaree Eksteen

THIS CLASS TEXT & STUDY GUIDE INCLUDES

- 1 Comprehensive Notes
- 2 Topic-based Questions
- 3 Full Solutions

*Plus a **bonus** Exam Paper and Memo*

Includes a separate
TEMPLATE BOOK
for MODULE 1
FINANCIAL LITERACY



THE
ANSWER
SERIES *Your Key to Exam Success*

CONTENTS

Exam Assessment	i
-----------------------	---

MODULE 1: FINANCIAL LITERACY 1

TOPIC 1: Cash Receipts Journal (CRJ) & Cash Payments Journal (CPJ) – Sole Trader	6
TOPIC 2: Posting Cash Journals (CRJ & CPJ) to the General Ledger & Preparing a Trial Balance	15
TOPIC 3: Credit Sales & working with Debtors	40
TOPIC 4: Posting to the Debtors Ledger (DL) & General Ledger (GL)	50
TOPIC 5: Credit Purchases & The Creditors Journal (CJ)	66
TOPIC 6: Posting to the Creditors Ledger (CL) & General Ledger (GL)	75
TOPIC 7: Recording Cash & Credit Transactions in Cash & Credit Journals	88



MODULE 2: THE ECONOMY 100

TOPIC 1: Economic Systems	101
TOPIC 2: The Circular Flow	109
TOPIC 3: Price Theory	116
TOPIC 4: Trade Unions	124

MODULE 3: ENTREPRENEURSHIP 127

TOPIC 1: Sectors in the Economy	128
TOPIC 2: Functions of a Business	133
TOPIC 3: The Business Plan	141

MODULE 1 ANSWERS	A1
-------------------------------	----

MODULE 2 ANSWERS	A35
-------------------------------	-----

MODULE 3 ANSWERS	A39
-------------------------------	-----

Exam Paper	EQ1
------------------	-----

Exam Memo	EM1
-----------------	-----

OVERVIEW: THE ACCOUNTING CYCLE 2

TOPIC 1

CASH RECEIPTS JOURNAL (CRJ) & CASH PAYMENTS JOURNAL (CPJ) – SOLE TRADER

Service & Trading Businesses	6
Working with Mark-up Percentages	7
Recording Cash Transactions in the Cash Journals (CRJ & CPJ)	9
Effect of Cash Transactions on the Accounting Equation	12

TOPIC 2

POSTING CASH JOURNALS (CRJ & CPJ) TO THE GENERAL LEDGER & PREPARING A TRIAL BALANCE

Posting from the Cash Receipts Journal (CRJ) to the General Ledger (GL)	15
Posting the Cost of Sales column to the General Ledger	18
Posting from the Cash Payments Journal (CPJ) to the General Ledger (GL)	20
Posting from both Cash Journals (CRJ & CPJ) to the General Ledger (GL)	24
Balancing Accounts and working with Opening Balances	28
Posting the Journals of an existing business with Opening Balances	31
Preparing the Trial Balance of a Retail Business	35

TOPIC 3

CREDIT SALES & WORKING WITH DEBTORS



Selling on Credit – The Theory	40
The National Credit Act (NCA)	41
Recording Credit Sales in the Debtors Journal (DJ)	43
Debtor's Returns of Credit Items – Debtors Allowances	44
Recording of Receipts from Debtors	47

TOPIC 4

POSTING TO THE DEBTORS LEDGER (DL) & GENERAL LEDGER (GL)

Format of the Debtors Ledger	50
Posting from the Journals to the Debtors Ledger (DL)	51
Posting from the Journals to the General Ledger (GL)	55
Effect of Transactions relating to Debtors on the Accounting Equation	63

TOPIC 5

CREDIT PURCHASES & THE CREDITORS JOURNAL (CJ)



Credit Transactions	67
Recording in the Creditors Journal (CJ)	67
Recording of Returns to Creditors in the Creditors Allowances Journal (CAJ)	70
Recording of Payments to Creditors in the Cash Payments Journal (CPJ)	72

TOPIC 6

POSTING TO THE CREDITORS LEDGER (CL) & GENERAL LEDGER (GL)

Format of the Creditors Ledger (CL)	75
Posting from the Journals to the Creditors Ledger (CL)	76
Posting from the Journals to the General Ledger (GL)	80
Effect of transactions relating to Creditors on the Accounting Equation	86

TOPIC 7

RECORDING CASH & CREDIT TRANSACTIONS IN CASH & CREDIT JOURNALS

Source documents	88
Posting Cash and Credit Journals to the General Ledger	90
Posting Cash and Credit Journals to Debtors and Creditors Ledgers	94
Effect of Cash and Credit Transactions on the Accounting Equation	95
Preparing a Trial Balance from the General Ledger	96

OVERVIEW: THE ACCOUNTING CYCLE

Accounting is a process through which we keep a record of each and every transaction the business makes during a consecutive twelve month period. This period is called a **financial year**.

The **ACCOUNTING CYCLE** (see p. 3) describes this process:

- 1 A **TRANSACTION** or business deal takes place.
- 2 Each transaction is recorded on **SOURCE DOCUMENTS**, e.g. invoices, receipts, etc.
- 3 The source documents are classified according to the type of transaction and then entered in **JOURNALS** (in date and number order).

Journals are often called the 'books of first entry' as transactions are first entered in a journal.
- 4 The journals are totalled every month and the monthly totals are posted (transferred) to **GENERAL LEDGER** accounts.
- 5 The **TRIAL BALANCE** is compiled. This is a list of all the General Ledger accounts showing the debit or credit balance/total of each account for a financial year. The total of the debit amounts must be equal to the total of the credit amounts.



NOTE: The following stage of the accounting cycle, **6: FINANCIAL STATEMENTS** will only be covered in Grade 10 - 12 Accounting.



Journals are often called the 'books of first entry' as transactions are first entered in a journal.

Once a year, two **FINANCIAL STATEMENTS** will be completed.

- **Income Statement** which shows the net profit or loss (**financial performance**) for the year.
- **Balance Sheet** which shows the net wealth (**financial position**) of the business on the last day of the financial year.
- The net wealth is equal to the Owner's Equity, i.e. it is the difference between the total assets and total liabilities of the business.



REMEMBER!

Owner's Equity = Total Assets - Total Liabilities

A STEP-BY-STEP GUIDE TO THE ACCOUNTING CYCLE

Many businesses choose to use 1 March to 28/29 February as their financial year.

A linear representation of a financial year is illustrated below.



*The **Income Statement** and **Balance Sheet** are prepared at the end of each financial year. They **summarise** the entire year's information.*



A diagram that illustrates the Accounting Cycle is shown on p. 3. The **6 STEPS** of this **ACCOUNTING CYCLE** are described on p. 4 - 5.



STEP
1STEP
2

TRANSACTION & SOURCE DOCUMENTS

The source document will be an indication of the **type of transaction** that was recorded.

These source documents are used to prepare the **Journals**.

TYPE OF TRANSACTION	SOURCE DOCUMENT	JOURNAL
Cash received	Receipt Cash register roll/Cash sale slip Bank statement	CRJ
Payments made	Cheque counterfoil Bank statement	CPJ
Credit sales	Invoice (duplicate)	DJ
Goods returned by debtors (Debtors Allowances)	Credit note	DAJ
Credit purchases	Invoice (original)	CJ
Goods returned to creditors (Creditors Allowances)	Debit note	CAJ

STEP
3

THE JOURNALS

- The journals are known as **the books of first entry** as they use the information on the source documents to record transactions in the accounting system for the first time.
- Source documents are grouped together with the aim of organising the transaction information by date and by type (see table above).
- In Grade 9, we only deal with the following journals:

CASH Journals

- Cash Receipts Journal (CRJ)
- Cash Payments Journal (CPJ)

CREDIT Journals

- Debtors Journal (DJ)
- Debtors Allowances Journal (DAJ)
- Creditors Journal (CJ)
- Creditors Allowances Journal (CAJ)

STEP
4

THE GENERAL LEDGER

- The General Ledger is a summary of the information contained in the journals.
- Column totals** and **sundry column entries** from the journals are posted or transferred to General Ledger accounts which are collectively known as the General Ledger.
- This action brings together information that is kept separate in the various journals, e.g. the increase and decrease in the Bank Account.
- Each account represents a particular item, for example:
 - 'Bank' will only contain information about money received/paid
 - 'Wages' will only show amounts paid for wages during a financial year, etc.
- Each ledger account or **T-account** has a **debit** side (left) and **credit** side (right). These left and right sides facilitate the **double entry principle**.

Ledger accounts are known as **T-accounts** due to their shape with debit and credit on either side.



LEDGER ACCOUNT	
DEBIT SIDE	CREDIT SIDE

- Double entry principle:** For each debit entry (a '**debit**') in one account there must be a credit entry (a '**credit**') in a different account.
- This ensures that the sum of debits will be equal to the sum of credits. This helps to identify errors and/or fraudulent entries.
- General Ledger accounts are used to prepare **Financial Statements** so they are divided up into two sections:

BALANCE SHEET SECTION

- owner's equity (capital and drawings)
- assets (e.g. equipment)
- liabilities (e.g. creditors control)

NOMINAL SECTION

- income (e.g. sales)
- expenses (e.g. wages)

- The Nominal Section form part of the **Income Statement** and the Balance Sheet Section are reflected in the **Balance Sheet**.

In addition to the General Ledger, we also use the **Subsidiary Ledgers**.

- The Subsidiary Ledgers are the **Debtors Ledger** and the **Creditors Ledger**.
- Each debtor and creditor will have their own account in these ledgers.
- Each individual transaction with the debtor/creditor is posted from the journals in date order.
- Each Debtors/Creditors Ledger account has a 3-column format (unlike the T-accounts in the General Ledger) to show the **ongoing balance**.
- The last amount in the **balance column** will show how much is owed by the debtor or to the creditor.

STEP
5

THE TRIAL BALANCE

The drawing up of the Trial Balance follows on the completion of the General Ledger.

- The Trial Balance is also divided into the same two sections: the **Balance Sheet Section** and the **Nominal Section**. 
- It is a **summary** of the balances/totals in the General Ledger accounts.
- Each account is represented as a **one line entry**, with either a **debit** or a **credit balance** or **total**.
- All the amounts in the **Nominal Section** are the **totals** for the full financial year whereas the amounts in the **Balance Sheet Section** are the **balances** over the entire existence of the business (except the Drawings account).
- The sum of the **debit** amounts should **equal** the sum of the **credit** amounts to ensure that the financial statements are accurate.
- The Trial Balance is only a **list of ledger accounts** and does not reflect any financial result. It cannot be presented as an official document as it gives no indication of the financial performance or financial position of the business. Therefore **financial statements** (see step 6 alongside) are drawn up using the amounts from the Trial Balance.

STEP
6

THE FINANCIAL STATEMENTS

*The Financial Statements indicate the **financial performance** of the business and present the **financial position** of the business.* 

The Financial Statements include:

- The **INCOME STATEMENT**
 - The Income Statement is prepared using the **Nominal Section** of the Trial Balance.
 - In the Income Statement all income accounts are added together to calculate **total income**.
 - Likewise, all expense accounts are added together to calculate **total expenses**.
 - The total expenses amount is subtracted from the total income amount in order to calculate **net profit/loss** for the year.
 - The following is a summary of the Income Statement:

$$\text{TOTAL INCOME} - \text{TOTAL EXPENSES} = \text{NET PROFIT/LOSS}$$

- The **BALANCE SHEET**
 - This statement uses the **Balance Sheet Section** of the Trial Balance to show the financial position of the business on a particular date, usually the last day of the financial year.
 - The Balance Sheet is divided into two sections:
 - **Assets** – what the business owns
 - **Owner's Equity and Liabilities** – where the business found the money to buy the assets
 - It is called a Balance Sheet, because the **totals** of these two sections must balance or be equal.
 - The Balance Sheet is thus a reflection of the Accounting Equation:

$$\text{ASSETS} = \text{OWNER'S EQUITY} + \text{LIABILITIES}$$

MODULE 2

THE ECONOMY

TOPIC 1

ECONOMIC SYSTEMS



A Comparison of Economic Systems	101
A Planned Economy	102
A Market Economy	103
A Mixed Economy	104
The Global Economy	105

TOPIC 2

THE CIRCULAR FLOW

Participants in the Circular Flow of a Closed Economy	109
Markets	110
Flows	111
Sector Models	111
Circular Flow in an Open Economy	113

TOPIC 3

PRICE THEORY

Demand	116
Supply	119
Market Equilibrium	121

TOPIC 4

TRADE UNIONS

Concept of a Trade Union	124
History of Trade Unions in South Africa	124
Roles and Responsibilities of Trade Unions	124
Effect of Trade Unions on Businesses	125
Contributions of Trade Unions to Sustainable Growth and Development	125

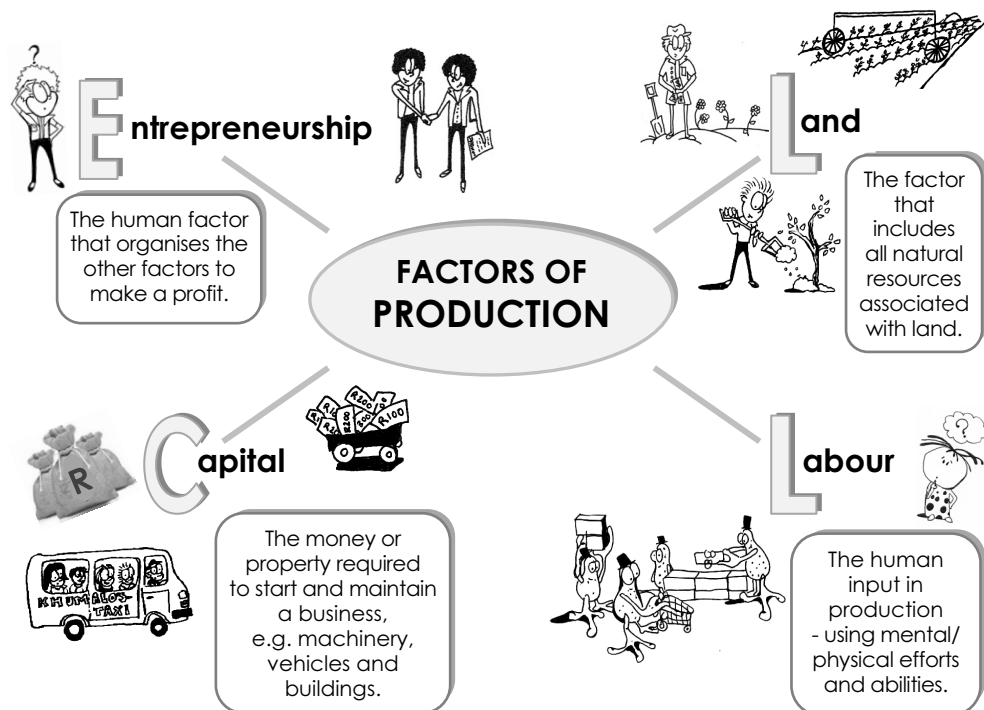
ECONOMIC SYSTEMS

An economic system refers to the way in which a country runs its **economy**.

It is a system that determines how resources – the **factors of production** – are allocated and used in production to satisfy the needs and wants in a country.

Four factors of production must be present to produce goods and services.

An economy is the state of a community in terms of inter-related activities of production/ consumption of goods and services as well as the supply of money and limited resources.



We will look at three major types of economic systems:

Economic System		Main Focus?
1 Planned Economy (Command)	=	government
2 Market Economy (Free market)	=	demand & supply
3 Mixed Economy	=	government AND demand & supply

In order to determine which economic system a country has, we need to ask four questions:

1. **What** is being produced?
2. **How much** is being produced?
3. **How** is it being produced?
4. **For whom** are the goods being produced?



A COMPARISON OF ECONOMIC SYSTEMS:

PLANNED (COMMAND) ECONOMY	MIXED ECONOMY	MARKET (FREE MARKET) ECONOMY
North Korea Cuba China	South Africa France Iceland	Singapore Australia New Zealand

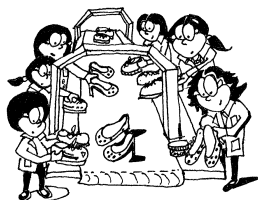
In reality, there are no pure planned or free market economies.

All economies exist somewhere between the two extremes of **total government control** and **zero government control**.

- Economies that are mostly controlled by the government are known as **Planned Economies**.
- Economies that are mostly controlled by demand and supply are known as **Market Economies**.
- Economies that share equal aspects of both are known as **Mixed Economies**.

Ask these questions to determine the economic system

1. **What** is being produced?
2. **How much** is being produced?
3. **How** is it being produced?
4. **For whom** are the goods being produced?



Market economy

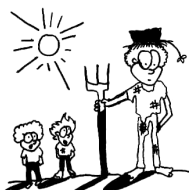
Demand and supply control the economy.

ECONOMIC SYSTEMS



Planned economy

Government controls the economy.



Mixed economy

The forces of demand and supply in conjunction with the government control the economy.

A PLANNED ECONOMY

In a planned economy the **government (state)** is responsible for making all the economic decisions.

The government decides:

- **what** will be produced
- **how much** will be produced
- **how** it will be produced
- **for whom** it will be produced

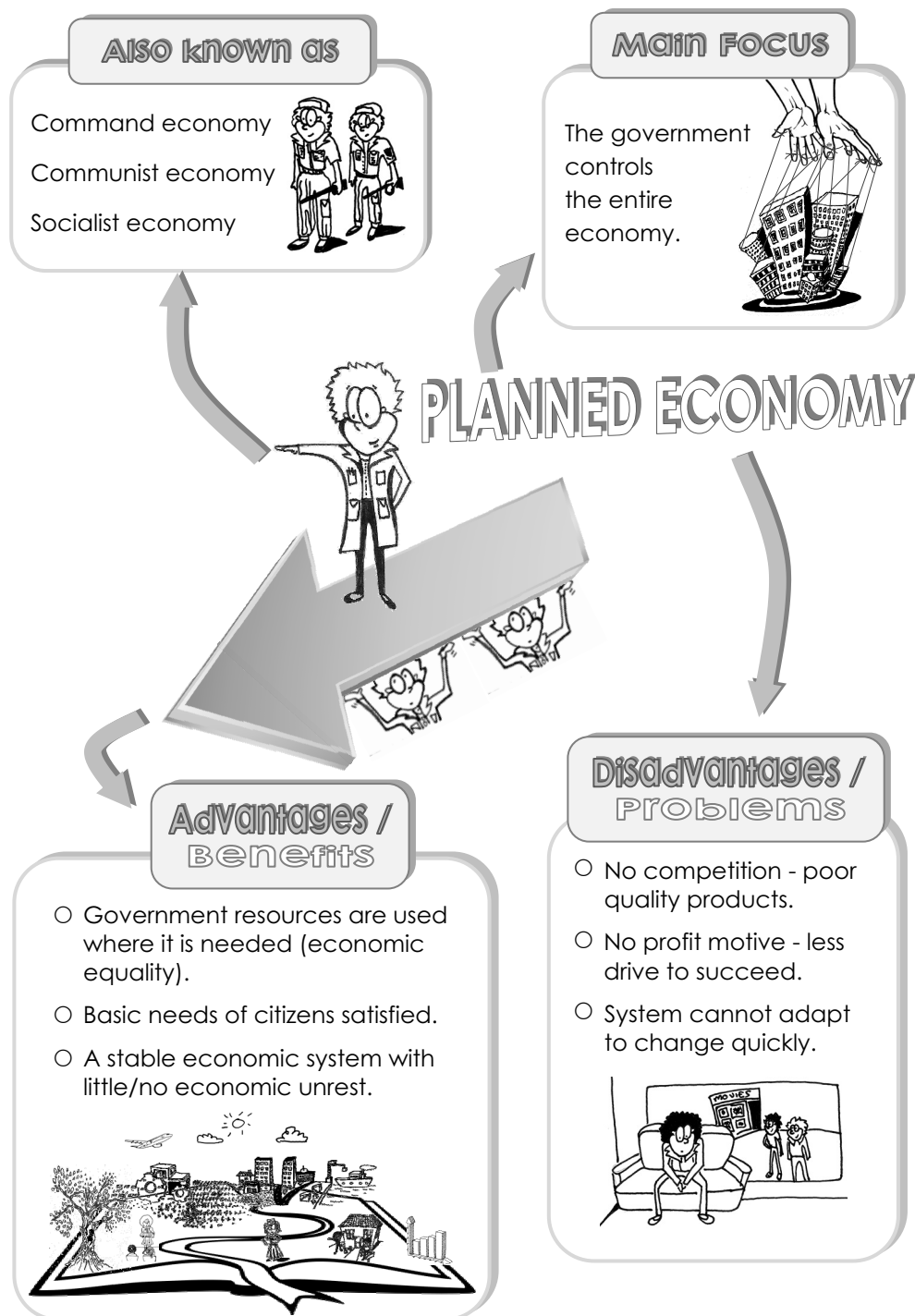


The government/state achieves this by controlling the **factors of production**.

- **LAND:** All resources are owned by the government.
- **LABOUR:** The government is the only employer.
- **CAPITAL:** Capital is controlled by the government.
- **ENTREPRENEURSHIP:** The government acts as the entrepreneur.

A PLANNED ECONOMY

ADVANTAGES 	DISADVANTAGES 
○ The government strives for economic equality by directing resources to areas where they are really needed. ○ The government's focus on social needs results in basic needs of citizens being satisfied. ○ Healthcare, education and equality are seen as more important than production and profit. ○ It is a stable economic system with little/no economic unrest.	○ It is impossible for the government to replace the decision-making capabilities of the private sector. This results in a less competitive economy. ○ The lack of profit motive results in a far less competitive and therefore less productive economy. ○ No competition results in less new product development and improvements. Production is less efficient. This happens at the expense of the consumer. ○ The government is slow to adapt to change.



A MARKET ECONOMY

In a market economy the market forces of **DEMAND** and **SUPPLY** are allowed to determine the following:



- **what** will be produced
- **how much** will be produced
- **how** it will be produced
- **for whom** it will be produced

Private individuals and companies own and control the **factors of production**. Resources and products are traded based on demand and supply.

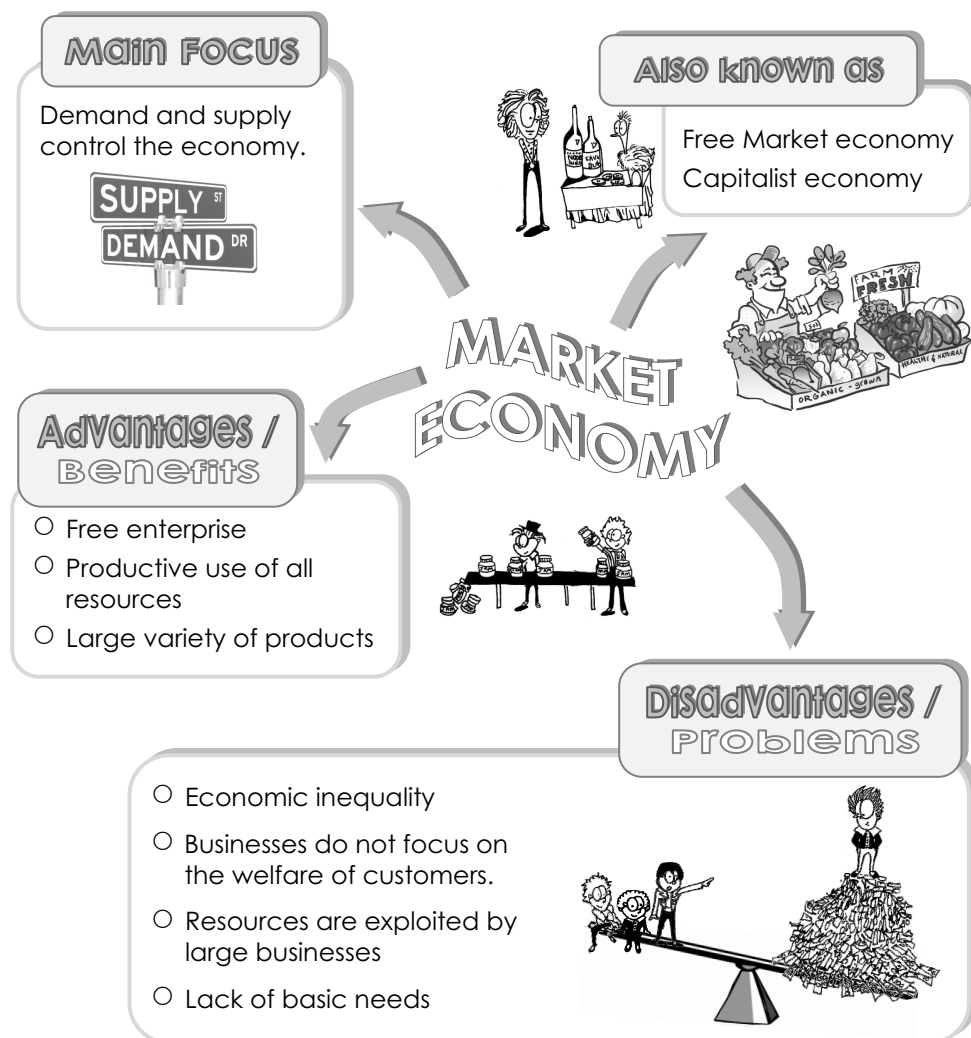
- **LAND:** Private ownership of natural resources.
- **LABOUR:** People free to work where they choose.
- **CAPITAL:** Individuals control flow of capital.
- **ENTREPRENEURSHIP:** Individuals free to start own business.

A MARKET ECONOMY

ADVANTAGES 	DISADVANTAGES 
○ Entrepreneurs are free to start their own business enterprises, thus creating wealth and a better standard of living. ○ Capital is used to start these private businesses. ○ Capital is used productively in private businesses as they are profit driven. This 'drive' is the profit motive. ○ Private enterprises compete with one another and are therefore forced to be as productive as possible. This leads to a more efficient use of resources.	○ The free market system promotes economic inequality. Those who have access to capital have a marked advantage and get rich, while others remain poor. ○ Markets focus more on profit and less on the welfare of the economically vulnerable (i.e. unemployed and retired people). ○ The forces of demand and supply can result in the exploitation of labour as workers may not receive fair wages. ○ Non-profitable goods and services such as healthcare and education are not provided.

A MARKET ECONOMY (continued)

ADVANTAGES 	DISADVANTAGES 
The forces of demand and supply are free to control the economy. The result is a diverse range of products that are supplied to satisfy the needs of the consumer.	Harmful goods and services may be available to consumers as the government has little control over what is produced.



A MIXED ECONOMY

Most countries have mixed economic systems as characteristics of planned and market economies are combined/'mixed'. In a mixed economy the economic decisions are made by both **government** and **private individuals**.

The characteristics of a mixed economy are as follows:



- The government provides the framework in which the economy exists, e.g. laws and infrastructure.
- Ownership of natural resources is shared between individuals and the government.
- Demand and supply determine what products/services are sold and the price at which they will be sold. However, the government intervenes when necessary, e.g. legally prescribes minimum wages.
- The government provides services such as education, healthcare, defence and policing.

A MIXED ECONOMY

ADVANTAGES 	DISADVANTAGES 
- Businesses are free to satisfy needs and wants in the economy in a more efficient and profitable manner than the government. - An effective tax system enables governments to satisfy needs and wants that are not profitable enough for businesses to satisfy. - While businesses are able to strive for profit maximisation, the government is able to focus on economic equality. - Private businesses may make contributions to citizens' welfare.	- Too much government intervention can hamper economic growth and force businesses to exit the market due to poor profitability. - Too little government intervention can lead to a lack of economic equality. - It may be difficult for governments to balance their level of economic activity to ensure most effective functioning. - Government may become too involved in the economy through regulations/laws, which make them bureaucratic and open to corruption.

MAIN FOCUS

Government allows demand and supply to control the economy, but regulates the economy by providing basic goods and services.



MIXED ECONOMY



Disadvantages / Problems

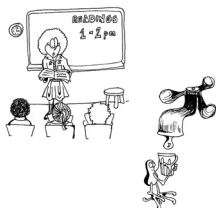
- Government cannot attain the right level of involvement in the economy.
- Too much government involvement may result in **poor economic growth**.
- Too little government involvement may result in **economic inequality**.



Advantages / Benefits

- Free enterprise and profit motive.
- Government provides goods and services.
- Government focusses on economic equality.
- Businesses can focus on profit.

SARS
South African Revenue Service



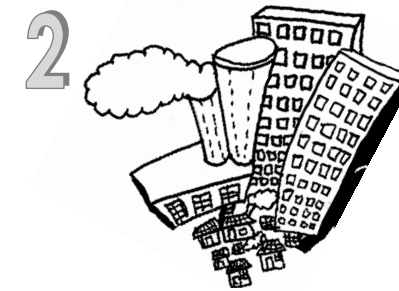
THE GLOBAL ECONOMY

- Local economies are made up of three participants:

1. **HOUSEHOLDS**
2. **BUSINESSES** and
3. **GOVERNMENT / STATE**



HOUSEHOLDS



BUSINESSES



GOVERNMENT



- If we add a fourth participant – 'the rest of the world', **the foreign sector**, international trade is possible.

This is the nature of world economics today. All countries engage in international trade to some degree. The increase in this trade and economic integration is called **globalisation** - when the economies of different nations interact and influence one another.



Globalisation: The increased integration of businesses and governments across the world.



MODULE 3

ENTREPRENEURSHIP

3

TOPIC 1

SECTORS IN THE ECONOMY



Three Economic Sectors	128
Types of Businesses in each Sector	128
Interrelationship between the Three Economic Sectors	129
Sustainable use of Resources in the Three Economic Sectors	129
Role of the Three Sectors in the Economy	130
Types of Skills needed in the Three Economic Sectors	130

TOPIC 2

FUNCTIONS OF A BUSINESS

Business Function Areas	133
General Management Function	133
Financial Function	135
Purchasing Function	136
Production Function	136
Marketing Function	137
Human Resources Function	138
Administration Function	139
Public Relations Function	140

TOPIC 3

THE BUSINESS PLAN

Components of a Business Plan	141
Description of the Business	141
SWOT Analysis	142
Marketing Plan	143
Financial Plan	143
Management Plan	144
Additional documents	144



TOPIC

1

SECTORS IN THE ECONOMY

INTRODUCTION

The economic term, GDP, stands for Gross Domestic Product. It refers to the value of finished goods and services produced in a country in a specific period, usually a year.

The South African GDP

350,09 billion USD (2015)

VS

The GDP of the USA

18,558 trillion USD (2015)

GDP includes only finished or consumer goods. These are goods that are bought in the **TERTIARY** sector of the economy. Households are consumers as they buy consumer goods and services.

1 billion = 10^9

1 trillion = 10^{12}

In this topic we explore the sectors in the economy.

THREE ECONOMIC SECTORS

We identify the different economic sectors by the type of economic activity that takes place in each one.

1. The PRIMARY Sector

All industries and businesses that extract raw materials from the natural environment.

2. The SECONDARY Sector

All industries and businesses that process raw materials or manufacture goods.

3. The TERTIARY Sector

All industries and businesses that provide services or sell goods.



Industry:

A group of businesses that conduct a similar economic activity, e.g. gold industry or financial services.

TYPES OF BUSINESSES IN EACH SECTOR

1

The PRIMARY Sector



Fishing



Farming



Forestry



Mining

2

The SECONDARY Sector



Construction



Oil Refineries



Manufacturing



Food Processing

3

The TERTIARY Sector



Retail



Restaurants



Financial Services



Tourism