

EMS

Economic & Management Sciences

CLASS TEXT & STUDY GUIDE

Jason Collins, Nazlie Mohamed & Habel Adams

GRADE

8

CAPS

3-in-1



THE
ANSWER
SERIES *Your Key to Exam Success*

Grade 8 **EMS** 3-in-1 CAPS

CLASS TEXT & STUDY GUIDE

This Grade 8 EMS 3-in-1 Class Text & Study Guide provides a user-friendly introduction to a subject that often poses a challenge to Grade 8 learners.

All three subject areas are presented in an accessible way with clear explanations complemented by examples and illustrations to build confidence in the learner and educator.

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- Learner-friendly diagrams
- Concept-focussed activities with detailed answers
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MODULE 1

FINANCIAL LITERACY

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ACCOUNTING INTRODUCTION

The focus of this module is one of the aspects of management that is common to all businesses; **ACCOUNTING**. Accounting is the process of recording and processing financial transactions into usable information. A transaction is any exchange entered into by a business involving buying or selling.



Accounting records are prepared for use by the managers in a business to assist them in their managerial duties. In addition to managers, there are other users of the information. They are:

- 1 **OWNER(S)** – to see whether the business is making a profit or a loss.
- 2 **EMPLOYEES** – to gain insight into the business for which they work.
- 3 **INVESTORS** – to see whether they should invest in a business.
- 4 **LENDERS** – to see whether they should lend money to the business.
- 5 **GOVERNMENT TAX AGENCY** – to calculate how much tax is owed by the business.

Accounting is an important aspect of any business and a function that needs to be completed within a legal framework.

**TOPIC
1**

INTRODUCTION TO ACCOUNTING CONCEPTS, EQUATION & CYCLE

ACCOUNTING CONCEPTS

SOLE TRADER

A business owned by only one person, who usually manages it too.

SERVICE & TRADING BUSINESSES

Service Business

Car wash, taxi driver, dressmaker, tour guide, plumber, hairdresser, teacher, caterer, etc.

Service businesses generate income by **performing a service**:

- The **main income** earned by these businesses is called **current income**.
- The **main expense** of performing their service is referred to as **material costs**.



Current income refers to income received by service business for rendering services to customers.



Materials refers to the resources used in providing a service.



Material costs or **materials** may also be referred to as **consumable goods**.

Trading Business (covered in Grade 9)

Fruit stall, coffee shop, garden nursery, pharmacy, bakery, etc.

Trading businesses generate an income by **selling goods** at a **profit** to other businesses/consumers.

PROFIT MOTIVE

- Every business aims to earn a profit.

$$\text{Profit} = \text{Income} - \text{Expenses}$$

REMEMBER

It is important to remember that when Accounting transactions are recorded, they are recorded from the business's perspective.



CLASSIFICATION OF ACCOUNTS

ASSETS	OWNER'S EQUITY		LIABILITIES
Non-Current Assets Fixed Assets <ul style="list-style-type: none"> • Land and buildings • Vehicles • Equipment 	Owner's Personal Accounts <ul style="list-style-type: none"> • Capital • Drawings 		Long-term liabilities <ul style="list-style-type: none"> • Loan • Mortgage bond • Vehicle finance
Current Assets <ul style="list-style-type: none"> • Trading stock • Debtors Control • Bank • Cash Float • Petty Cash 	Expenses <ul style="list-style-type: none"> • Trading license • Material costs • Stationery • Telephone • Water and electricity • Salaries and wages • Packing material • Advertisements • Insurance • Rent expense • Repairs 	Income <ul style="list-style-type: none"> • Current income • Rent income • Commission income 	
			Current liabilities <ul style="list-style-type: none"> • Creditors control • Bank overdraft • SARS

DEFINITIONS OF ACCOUNTS

Assets



Assets refer to possessions bought by the business that can be used for a long time and will enable the business to earn a profit. Assets also include cash.

The table below shows the various types of assets that a business, e.g. a laundromat, can own.

ASSETS		
Fixed or Non-Current Assets		
Assets that the business usually keeps for longer than 12 months		
Land and Buildings	The premises owned by the business – excluding any property that the business rents	E.g. a laundromat has bought the premises from which it operates
Vehicles	All vehicles owned by the business	E.g. the delivery van used by the laundromat
Equipment	Items that are used by the business in order to produce goods/services	E.g. the washing machines and tumble dryers used by the laundromat
Current Assets		
Assets a business owns which are either cash or are expected to be turned into cash during the next 12 months		
Bank	Bank is the record of money in a business which increases when money is earned and decreases when money is spent	
Cash float	Cash in the cash register	
Petty cash	A small amount of money that is used in a business, e.g. stationery	
Trading stock (Grade 9 only)	Trading Stock refers to the items (stock) that a retailer sells	
Debtors control (Grade 9 only)	A debtor is a company or person to whom you sell on credit and they pay their accounts at the end of each month	

Capital

The owner's initial investment in the business is known as **Capital**.



Capital refers to the owner's money used to start a business.

Owner's Equity

OWNER'S EQUITY	
Owner's financial interest in the business Business owes this amount to the owner Net value of the business	
Owner's personal accounts	
Capital	Amount invested in the business by the owner when starting the business
Drawings	Money/stock (goods) that the owner withdraws for their own personal use
Income	
Current income	Income earned by the business for services rendered, e.g. income earned for laundry services
Commission income	Income earned by the business, e.g. selling a house
Rent income	Income earned by the business for renting out land or buildings

- Owner's Equity is not limited to the initial investment made by the owner as it **changes when the business earns an income**.
- Owner's Equity also **increases** when the business's **income increases**. Income **increases the profit** which belongs to the owner.
- Owner's Equity also **decreases** when the business incurs an **expense**. Expenses **decrease the profit** which belongs to the owner.
- **Income INCREASES the Owner's Equity** and **expenses DECREASE the Owner's Equity**.



Owner's Equity refers to the owner's financial interest in the business.



Expenses refer to any item purchased by the business that is consumed (used up) in the running of the business. Expenses include items used to generate an income for the business.

EXPENSES

There are many different expenses that a business can incur.

Material costs	The components used when rendering a service	E.g. detergent used in a laundromat
Wages	The weekly amount paid to employees	E.g. the driver who drops off the deliveries of the laundry
Salaries	The monthly amount paid to employees	E.g. the office administrator at the laundromat
Advertising	All amounts paid in order to promote the business	E.g. placing an advert about the specials at the laundromat in the community newspaper
Water and Electricity	These are 'consumed' by the business	E.g. the laundromat will use lots of water and electricity
Stationery	Pens, pencils and paper used in the business	E.g. all the paper slips that are attached to a laundry order
Insurance	The monthly cost to insure an asset for a specific time period	E.g. insurance on the washing machines, tumble dryers and delivery vehicles
Rent expense	If a business does not own its premises, it may need to rent premises	E.g. the rental paid for the shop space used by the laundry

Liabilities



Liabilities refers to money that the business owes to another person or business.

Often a business does not have enough cash to buy an expensive item; the business will then borrow money to buy the item. The table below shows the various types of liabilities.

LIABILITIES

Long-term liabilities or Non-current liabilities

Long-term or non-current liabilities have to be paid back over a period LONGER than 12 months

Mortgage bond	A loan to buy business premises that is usually paid off over 10 – 20 years	E.g. the land and buildings from which the laundromat operates
Vehicle finance	A loan to buy the required vehicle/s for a business	E.g. the delivery vans used to drop off the laundry
Loans	Money that has been borrowed from a financial institution	E.g. the laundromat bought new industrial irons and took out a loan which will be paid off over 5 years

Short-term liabilities or Current liabilities

Short-term or current liabilities have to be paid within 12 months or LESS

Creditors control	A supplier from which the business buys on credit	E.g. the laundromat buys detergent and softener from Unilever Wholesalers
Bank overdraft	A situation where the bank allows you to spend more money than the balance in your Bank account	E.g. the laundromat used the bank overdraft facility as it did not have enough money to pay wages this week
SARS	Money owed to the government (SARS – South African Revenue Service) on personal income and on profits in the business	E.g. the laundromat has to pay tax on the profits earned

ACTIVITY 1



Calculate the Owner's Equity in each of the following examples:

1. The owner, M. Madenyuka, starts a new business by investing capital of R85 000. The business makes a profit of R44 000 for the year. During the year, M. Madenyuka withdrew amounts totalling R24 000.
2. A. Nketsu invested capital of R100 000 in her business. The business earned R124 500 in income during the year while incurring expenses of R66 500. A. Nketsu withdrew a total of R56 000 during the year.

ANSWERS p. 113

ASSETS vs EXPENSES



An ASSET is an item of value that is owned by a business. An EXPENSE is an item that is consumed when used. The VEHICLE is an asset while the FUEL is an expense. As the car is driven, the fuel is consumed, however the car remains unchanged.

ACTIVITY 2



Classify the following as either Expenses or Assets:

Vehicles, Bank, Fuel, Equipment, Salary, Advertising, Material costs, Land and Buildings, Stationery, Wages

ASSETS	EXPENSES

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TOPIC 1 GOVERNMENT

DEFINITION OF GOVERNMENT



- Roles of government
- Different levels of government

GOVERNMENT'S INTERACTION WITH HOUSEHOLDS

- The government buys factors of production from households
- The government levies taxes on households

GOVERNMENT'S INTERACTION WITH BUSINESS

- The government provides resources and services to business
- The government creates an orderly and lawful business environment
- The government provides support and advice to business
- The government earns tax from business



2 DEFINITION OF GOVERNMENT



Government refers to the group of individuals who act together in order to exercise control over a country.



In South Africa, the **government** is elected through a democratic process by the citizens of the country. Citizens are allowed to vote in National Elections once they turn 18 years of age. The government comprises of representatives of the citizens of the country and act on their behalf.

In June 2022, Stats SA estimated that the South African population was 60,6 million. The government is therefore tasked with a huge responsibility in ensuring and promoting the wellbeing of more than 60 million people. The government performs many different roles including law-making, providing goods and services and protection of citizens.



ROLES OF GOVERNMENT

Some of the main roles are:

Making and enforcing laws

The government **makes** and **enforces laws** to promote order in society. Examples include:

- you may only vote in an election when you are at least 18 years of age
- you cannot purchase alcohol if you are under 18 years of age
- you can only drive a vehicle if you have a driver's license which you can get at 18 years of age

Providing public goods and services

The government provides **public goods and services** that citizens need to lead functional and productive lives. Examples include:

- healthcare clinics and hospitals
- education facilities such as schools, universities and technikons
- roads, traffic lights, airports and railway stations



Public goods and services are provided by the government for all citizens of a country. A **public good** is tangible, e.g. a road, whereas a **public service** is non-tangible, e.g. a doctor's diagnosis of an illness.

*All of these public goods are referred to as **infrastructure**.
The more developed the infrastructure of a country,
the more functional it becomes.*



Protecting citizens

The government protects citizens from internal and external threats. Examples include:

- police protection (from internal threats) is necessary so that citizens feel safe in their communities
- army protection (from external threats) is necessary when a country is at war with other countries

DIFFERENT LEVELS OF GOVERNMENT

The South African government has three levels to efficiently and effectively perform its functions:

- **National** government
- **Provincial** government
- **Local** government



National government

National government is also known as **central government**. National government has supreme rule over South Africa. National government deals with issues that affect the entire country. Examples include: foreign affairs, safety and security, unemployment and international trade.

National Government has **three branches**:

- **Legislative branch** (makes laws) – responsible for making the laws of the country and consists of the South African Parliament.
- **Executive branch** (leads the country) – leads the country and consists of the President, Deputy President and Ministers.
- **Judicial branch** (serves justice) – ensures that justice is served if laws that are made by Parliament are broken. It consists of the Constitutional court, the Supreme court, the High court and the Magistrates' courts.

Provincial government

Provincial government is also known as **regional government**.

In South Africa, there are nine provinces and each provincial government deals with issues that affect that particular province. Each province's provincial government is led by a premier.

EXAMPLE In 2021 the Eastern Cape experienced a severe drought and the Eastern Cape provincial government was tasked with the responsibility of dealing with it.

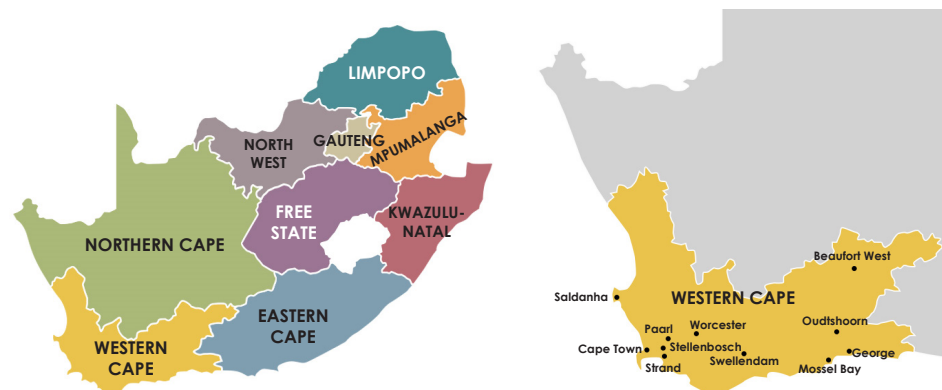
Local government

Each of the nine provinces is divided into municipalities. The municipalities consist of districts, towns or cities that are all governed by a local government.

South Africa has 278 municipalities each of which deal with issues that affect their particular district. Municipalities report to the provincial government.

Examples of their roles include refuse removal, electricity supply and housing.

National Government	Provincial Government
controls the country	controls a province



Local Government
controls municipalities



ACTIVITY 1



1. In which year did South Africa become a democracy? (1)
2. Who was the first democratically elected President of South Africa? (1)
3. Provide **one** example of a law that specifically applies to your age category. (2)
4. Choose the correct word between brackets:
 - 4.1 South Africa has (nine/ten) provinces.
 - 4.2 National government is also known as (central/main) government.
 - 4.3 Refuse removal in Soweto is administered by (provincial/local) government.
 - 4.4 (National/Provincial) government makes laws that affect the entire nation.
 - 4.5 (Malls/Pavements) are an example of public goods. 5 × 1 (5)
5. Which province in South Africa has the biggest population but is the smallest in size? (1)

[10]

ANSWERS p. 125



GOVERNMENT'S INTERACTION WITH HOUSEHOLDS

The government provides **public goods and services** that are needed for households and businesses. The **resources** required by government to enable the provision of these goods and services, are known as the **factors of production**.

There are **four** factors of production:

- Capital
- Entrepreneurship
- Land
- Labour

Land is also referred to as **Natural resources**.



Factors of production refer to the resources that are used within the production process to provide goods and services.

Use **CELL** to remember the 4 factors of production.



FACTOR OF PRODUCTION	DEFINITION	EXAMPLE	REMUNERATION (payment)
Capital	all the money and goods that are invested in the business so that production can occur	machinery vehicle equipment	interest
Entrepreneurship	individual identifies trade opportunities and takes the risk to start a business and organises the other factors of production	owner/s	profit
Land	all the natural resources (inputs) that are used within the business so that production can occur	farm factory mine	rent
Labour	all the mental/physical effort (skilled/ unskilled) that is used in the business so that production can occur	workers (employees)	salaries/ wages

- **EXAMPLE** Luvuyo Madenzuka (**entrepreneur**) owns a small farm (**land**) where she produces olives and bottles olive oil. She currently employs five workers (**labour**) and has recently landed a contract to supply a restaurant with her olive produce. She has approached a bank to secure a loan (**capital**) to expand her productivity on the farm.

THE GOVERNMENT BUYS FACTORS OF PRODUCTION FROM HOUSEHOLDS

Households are individuals who live together and own the factors of production (capital, entrepreneurship, land and labour).



All **households** need an income to fulfil their needs and wants. Most households have at least one **factor of production** that they are able to sell and earn an income. This factor of production is usually **labour**. Households sell their labour and in return, they earn a **salary or wage**.

The government can also be called the **state** or the **public sector**.



The **government** provides **public goods and services** and therefore assumes the role of the **producer**. The government will need all the necessary resources to produce public goods and services.

- **EXAMPLE** If the government decides to build a new hospital, it will need factors of production. Governments purchase factors of production from households and use them to produce public goods and services.

Teachers and doctors who work for private schools and hospitals are employed in the **private sector** whereas teachers and doctors who are employed by the government, work in the **public sector**.



Households who are employed by the government are known as **civil servants**. Civil servants sell their labour to the government and in return earn a monthly salary.

Examples of civil servants include doctors working at government hospitals, traffic officers, police officers, and teachers working at government schools.

When the government builds a new hospital, it will need land for the building. If the land is privately owned, the government will either buy the land from the owner, or they may decide to rent it from the owner.

The government needs billions of rands annually for all their expenditure in terms of providing public goods and services, so sometimes they may need to borrow capital.

When the government provides public goods and services, it assumes the role of the **entrepreneur**.

Public corporations are government-owned, run and controlled businesses that provide public goods and services.

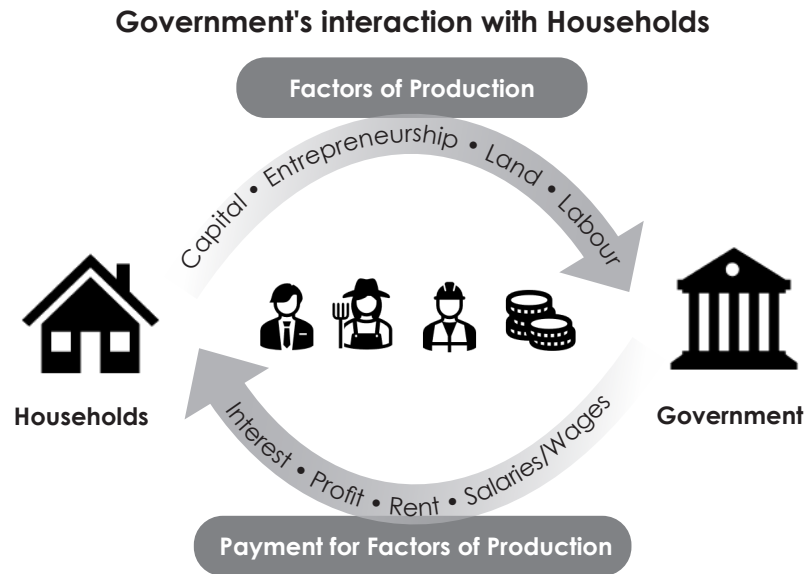


Public corporations are also referred to as **state-owned enterprises (SOEs)**. Privately-owned businesses aim to make maximum profits, but government-owned enterprises are not motivated to earn a profit. Their main role is to ensure that citizens have access to goods and services that ultimately benefit them and improve their standard of living.

Examples of state-owned enterprises include Transnet (providing public transport) and ESKOM (providing electricity).



The interaction of the government with households is schematically represented below.



- Households **sell** their **factors of production** (capital, entrepreneurship, land and labour) to the government.
- In return they **receive** an **income** in the form of: interest, profit, rent and salaries or wages.



THE GOVERNMENT LEVIES TAXES ON HOUSEHOLDS

In order to provide public goods and services, the government needs money to produce them. This money is raised through **taxes** that it charges households and businesses.

Taxes are compulsory payments made by households and businesses to the government.



Types of taxes

In South Africa, the South African Revenue Service (SARS) is responsible for all tax-related matters. There are three categories of taxes that are collected from households: **personal income tax**, **consumption tax** and **excise tax**.



*Revenue is just another word for income!
We refer to the charging of taxes as the levying of taxes as this is the correct economic term.*

Personal income tax

Personal income tax is levied on salaries and wages earned by households and is also known as Pay As You Earn (PAYE). South Africa uses a progressive rate of income tax which means that households who earn a higher salary will be levied with a higher rate of taxation than their lower earning counterparts.

EXAMPLE An individual who earns R50 000 a month will pay 25% per month in income tax, while someone who earns R10 000 per month will pay 7% per month in income tax.

Consumption tax

Consumption tax is levied when goods and services are bought and consumed.

The most common form of consumption tax is Value-Added Tax (VAT) which is currently levied at 15%. VAT is added onto all goods and services sold (except VAT-exempt products which will be discussed later). This tax is collected by businesses and paid to SARS on the consumer's behalf.

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ENTREPRENEURSHIP

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TOPIC
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FACTORS OF PRODUCTION

INTRODUCTION

- Concepts

NATURAL RESOURCES (LAND)

- Non-renewable resources and renewable resources
- The importance of natural resources as a factor of production

LABOUR

- Categories of labour
- The importance of labour as a factor of production
- The role of labour (workers) in the business
- Fair employment practices

CAPITAL

- Money capital and real capital
- The importance of capital as a factor of production

ENTREPRENEURSHIP

- Characteristics of entrepreneurs
- The importance of entrepreneurship as a factor of production



3 INTRODUCTION TO FACTORS OF PRODUCTION

Production is the process of creating goods and services to satisfy the needs and wants of society and of the various participants in the economy.



Production needs to take place for a functional economy to exist. Basic inputs are required for production to take place. These basic inputs are known as the **factors of production** which will be elaborated in this section. To produce goods and services, the factors of production need to be combined correctly.

There are four factors of production:

- Land / Natural Resources
- Labour
- Capital
- Entrepreneurship



CONCEPTS

Production	Production is the process of creating goods and services to satisfy the needs and wants of society and of the various participants in the economy.
Factors of production	The factors of production are the basic inputs required for production to take place.
Natural resources	Natural resources are most often described as the gifts of nature and are commonly known as land.
Labour	Labour refers to all mental and physical efforts of human beings in the production process in return for remuneration.
Capital	Capital refers to all the money that is invested in the business so that production can occur.
Entrepreneurship	Entrepreneurship is the process of combining natural resources, labour and capital into products and services.
Entrepreneur	An entrepreneur is an individual who takes calculated risks and is able to identify business opportunities in the market.
Remuneration	The reward or payment provided for the use of the factor of production.
Capital goods	Capital goods such as machinery, tools, equipment, and property, as well as updated technological resources are used to produce a variety of consumer goods and services.
Basic Conditions of Employment Act (BCEA)	The BCEA provides a framework and guideline for the terms and conditions of employment for employers and employees.

NATURAL RESOURCES (LAND)

Natural resources are most often described as the gifts of nature and are commonly known as **land**.



NATURAL RESOURCES



REMUNERATION
rent

- These gifts of nature include all aspects of nature originating from below the earth, on top of the earth, including the sea and the sky.
- Natural resources include: mineral deposits in the ground, water, wildlife, vegetation and marine resources.
- Natural resources are scarce, i.e. there is a limited quantity available.
- A price is attached for the use of natural resources because they are not freely available.
- Natural resources differ from region to region and from country to country because climatic conditions differ around the world.
- The climatic conditions around the world also influence the availability, quality and quantity of natural resources.
- Natural resources are an essential element required in production and people use them in various ways.
- Natural resources often cannot be used in their natural form and require some form of processing to serve as a product or to be meaningful for **consumers**.

Consumers are people who purchase goods and services from the business.



- Natural resources therefore, need to be transformed to satisfy the needs and wants of consumers.
- The remuneration for natural resources is **rent**.

NON-RENEWABLE RESOURCES AND RENEWABLE RESOURCES

Non-renewable resources

Non-renewable resources cannot be replaced once they have been extracted.

Example

Once Brent crude oil is extracted from the earth, it can never be replaced again.



Renewable resources

Renewable resources can be replaced once they have been extracted.

Example

Cattle and crops can be replaced by nature once they have been used.

The reckless use of renewable resources may result in the exhaustion thereof – therefore they must be used in a responsible way so that they are available for future generations.

