

MODULE 2

INDIGENOUS AND INFORMAL BOOKKEEPING SYSTEMS

NOTE TO THE TEACHER:

Learners should have some prior knowledge of a formal accounting system from what they learnt in Grade 8 and 9. If there are gaps in this knowledge we advise that you work through module 1 before starting with the indigenous bookkeeping systems

The objective of the indigenous bookkeeping system is for learners to understand and appreciate that not all businessmen have a thorough accounting knowledge but with some basic concepts can still run their own businesses. Particularly in days of high unemployment this is an option that should always be considered. Therefore the following tasks should expose the learners to this valuable insight.

However after completion of this module and we move back to formal accounting it is important to let the learners understand the advantages they enjoy by having this necessary knowledge. Thus we urge you to refer back to informal bookkeeping systems throughout the year.

One of the major problems experienced by all businessmen, formal and informal, is a lack of control. Thus we urge you to integrate this module with internal controls. Modules 14 and 15 cover these topics extensively but you are urged to incorporate these tasks throughout the year. It would even better for you to obtain current topics from your community to emphasise the need for good internal controls and ethics.

TASK 2.1 Question & Answer

2.1.1.1	What equipment (assets) she will need to start her business?
Kettle or urn; table; cups (unless she uses paper cups); extension cords; etc.	
2.1.1.2	How to determine the costs of making the coffee and / or tea?
The spoon of coffee, tea bag, paper cup, plastic teaspoon, sugar, water, milk.	
2.1.1.3	What other factors she should consider in deciding whether to buy the items from the local spaza shop or whether to go to town and buy directly from the wholesaler?
She might be able to buy it cheaper from the wholesaler but she will have to pay for transport. If she then buys in bulk she will need somewhere secure to store. She will also need more money to buy in bulk. Any other suggestions made by the learners.	
2.1.1.4	How to determine the selling price of each cup of coffee / tea if she wants to double her money?
Work out the cost per cup and then double the price.	
2.1.1.5	Advice on whether you think she can charge prices that will ensure she makes more than double her money. Do you agree with her? Discuss and give her reasons to explain your answer.
Yes or No with reasons. NO. It could be considered unethical to make too much profit particularly from people who do not have the cash resources. Or YES. If she is prepared to take the initiative she can charge what she wants and it is up to her customers as to whether to pay these prices or not.	
2.1.1.6	Sarah is concerned that she will have her equipment and stock stolen. What effect will this have on her profits? Why?
She will lose profits as her costs will be higher but she will have no income.	
2.1.1.7	What measures would you advise Sarah to take to restrict her losses due to theft?
Learners to discuss and come up with suggestions: Be able to lock the items in a container. Get assistance so that she is not distracted and keep watch. Etc.	

TASK 2.2 Calculations

ITEMS	CALCULATION	COST PER CAN
Cold drinks	$192 \div 24$	R8
Ice	$18 \div 24$	R0.75
Transport – cold drinks	$R38.40 \div (24 \times 4)$	R0.40
Transport – ice	$R4.80 \div (24 \times 5)$	R0.04
TOTAL COST		R9.19
SELLING PRICE	$R9.19 \times 2$	R18.38

TASK 2.3 Labour costs

2.3.1	Besides the costs of the cold drinks in 2.2 what other costs should Ben consider in calculating the profits of the business?
Learners to discuss and come up with their own suggestions: Labour; insurance; storage; etc.	
2.3.2	If Ben was to employ somebody to assist him in his business discuss how you think Ben should pay the person. Explain your decision.
Learners to come up with their own suggestions: Pay a rate per hour. Pay a rate per can of cold drink sold. Pay a fixed rate. Learners to give reasons for their answer. This would bring in ethics of a person been paid and not really working for their money.	
2.3.3	What about Ben's own labour? Do you think he should pay himself? Why?
Learners to discuss. Yes as he is working in the business and should pay himself. No he is earning the profit so it comes to the same thing.	
2.3.4	How would these decisions affect the costs of Ben cold drink business?
It would increase his costs.	
2.3.5	If Ben still wanted to make the same profit as before what effect would this have on the selling price of the products?
Would increase the selling price.	
2.3.6	Do you think his customers would pay the increased price? Discuss.
Yes if they really needed the drink. No the price might be too expensive.	

TASK 2.4 Question & Answer

2.4.1	Discuss the terms formal and informal businesses.
FORMAL: The business affairs are set up in an ordered and logical manner generally based on accepted accounting practice.	
INFORMAL: These types of businesses are generally smaller and are not set up in ordered way and do not always adhere to accepted accounting practice. Many of these businesses are the informal traders who are operating small businesses in order to make a living.	
2.4.2	Find at least 5 examples of each type of business in your local community.
Learners are to look for 5 examples of each type of business in their community. Allow them to share the list with each other and ensure that they understand the difference and why each falls into that category.	

TASK 2.5 Joe: Calculations, Balance Sheet, Theory

2.5.1 Re-arrange the information in any form that you would find easier to work with.

Learners can make use of a spreadsheet (manual or excel), cash journals or directly into the General Ledger in order to complete this task.

2.5.2 Calculate the profit made by Joe in April.

$$R3\ 712 - 2\ 080 - 160 - 204 - 150 = R1\ 118$$

2.5.3 Calculate the cash balance at the end of April.

$$R843 \\ (3\ 712 - 160 - 2\ 230 - 204 - 110 - 65 - 20 - 30 - 50)$$

2.5.4 STATEMENT OF NET WORTH (BALANCE SHEET) OF JOE AS AT 28 APRIL

ASSETS	1 038
Bank	843
Equipment (110 + 65 + 20)	195
TOTAL ASSETS	R1 038
EQUITY AND LIABILITIES	
Equity	1 038
Profit	1 118
Less Drawings (50 + 30)	(80)
TOTAL EQUITY AND LIABILITIES	R1 038

2.5.5

(a) Why is the profit and the cash balance different?

Cash is actual money coming in and out while profit is a calculated figure showing the difference between income and expenses. Thus equipment and personal items will not affect the profit.

(b) Why is it important that Joe told you that the cell phone was used for business purposes?

As the cell phone was for business use, it would be used in the calculation of the business profit. If it was for private use then, as per the Business Entity rule, this would have to be allocated to personal expenses and would not have an affect on the profit of the business.

(c) Why is it necessary to deduct the donation of vegetables from the vegetables bought when determining the profit?

As these vegetables are donated and not sold, a profit cannot be made on it. It is a loss to the business.

(d) Why are the movie ticket and T-shirt not taken into account when calculating the profit of the business?

The business entity rule says that you must keep the business and private affairs separate.

TASK 2.6 Case study

2.6.1 Do you think Tulani is a successful business man? Give TWO reasons for your answer.

YES

- He is still running his business after three years.
- He was able to increase his assets such as stock to the value of R19 700; bank balance of R78 500 and vehicle of R28 000.
- He is able to pay wages to two of his employees and still give his wife a regular monthly income.

2.6.2	Calculate the following:																														
	2.6.2.1 Total amount paid to his wife for household expenses.																														
Amount paid in : 1 st year : 12 x R3 000 = R36 000 2 nd year : 12 x R4 000 = R48 000 3 rd year : 12 x R5 000 = R60 000 Total for 3 years : R36 000 + R48 000 + R60 000 = R144 000																															
	2.6.2.2 Total wages paid to Philip for the two years he worked																														
Amount paid in 1 st year : 50 x R300 = R15 000 Amount paid in 2 nd year : 50 x R350 = R17 500 Total paid for 2 years : R15 000 + R17 500 = R32 500																															
	2.6.2.2 Total wages paid to Philip for the two years he worked																														
Amount paid in 1 st year : 50 x R300 = R15 000 Amount paid in 2 nd year : 50 x R350 = R17 500 Total paid for 2 years : R15 000 + R17 500 = R32 500																															
	2.6.2.3 Total salary paid to Dudu for the last six months																														
Total paid in six months : 6 x R600 = R3 600																															
	2.6.2.4 Total profit for the three years the business has existed.																														
All cash received was for sales and he had paid cash for all his purchases. Therefore the value of his present assets would represent his profits to date. Total profit : R19 700 + R78 500 + R28 000 = R126 200																															
2.6.3	Calculate the total amount paid for goods purchased in the last three years.																														
<table> <tr> <td>Payments to date</td> <td>:</td> <td>Wife monthly allowance</td> <td>:</td> <td>R144 000</td> </tr> <tr> <td></td> <td>:</td> <td>Repayment to brother:</td> <td>:</td> <td>2 000</td> </tr> <tr> <td></td> <td>:</td> <td>Wages</td> <td>:</td> <td>32 500</td> </tr> <tr> <td></td> <td>:</td> <td>Salary</td> <td>:</td> <td>3 600</td> </tr> <tr> <td></td> <td>:</td> <td>Motor expenses (9 600 + 14 400)</td> <td>:</td> <td>24 000</td> </tr> <tr> <td></td> <td>:</td> <td>Assets value</td> <td>:</td> <td>126 200</td> </tr> </table> <p>TOTAL PAYMENTS : R332 300</p> <p>Total payments would represent his total profit since all payments for expenses and assets would come from profits.</p> <p>That means he must have purchased goods to the value of R332 300 and sold these goods for double the price. Therefore total sales would be R664 600 less cost of sales of R332 300 giving a profit of R332 300. From R332 300 payments amounted expenses of R206 100 and assets R126 200.</p>		Payments to date	:	Wife monthly allowance	:	R144 000		:	Repayment to brother:	:	2 000		:	Wages	:	32 500		:	Salary	:	3 600		:	Motor expenses (9 600 + 14 400)	:	24 000		:	Assets value	:	126 200
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2.6.4	Do you think that Philip should get any wages for the two weeks that he does not work each year? Give a reason for your answer																														
Yes. This is a legal requirement that an employee receive leave. The employee is entitled to a wage / salary during his leave.																															
2.6.5	Tulani's wife has suggested that they should buy a brand new van which will cost R180 000 and sell their old van. Do you agree with the suggestion of Tulani's wife? Fully explain your answer.																														
The business is doing very well as the net profit in three years amounted to R126 200. The second hand van is old and expenses would increase in respect of repairs and maintenance. This is more so in a rural area where roads are not always well maintained. The new van costing R180 000 can be bought and paid for in the following way: Proceeds from sale of old van: at least 50% of value of R28000 = R14 000 An amount from the present bank account: 50% of R78 500 = R39 250 Arrange for a bank loan of balance to be paid over 36 months = R126 750																															

TASK 2.7 Interview

This task can be done in a group, pairs or individually. It is important that all learners are involved in the interview in order to ensure that the assessment standard is covered.

Learners should realise that business people adapt the recording system to suit their own need and might even find some that do not keep any records. The important thing is for the learners to realise the different methods that are being used and to be able to assess whether the method achieves the necessary outcome.

Presentations can be either verbally or written depending on time. You could even use the rubric for peer assessment of the presentations if conducted verbally.

Suggested criteria for the interview / presentation / poster

Criteria	Level 1	Level 2	Level 3	Level 4
Questionnaire	Just copied questions from above and did not consider the type of interview that was to be conducted	Some questions considered the type of interview but largely just copied	Good questionnaire that considered the type of interview	Very good questionnaire that incorporated relevant questions for the interview
Information	No evidence of information collected	Some aspects supported by information	Relevant information has been collected	Extensive information has been collected
Decisions	Inadequate decisions made	Some attempt to make decisions	Good decisions made based on information obtained	Excellent decisions made displaying insight into the information obtained
Presentation	Very poor presentation	Some attempt to make a reasonable presentation	Excellent presentation made	An outstanding presentation made displaying insight
Poster	Poor poster that did not represent the type of business that was interviewed	Aspects of the poster were acceptable	Generally good poster that depicts the business	Excellent poster that depicted the results of the interview

TASK 2.8 Study of informal sector

Suggested criteria for the study

Criteria	Level 1	Level 2	Level 3	Level 4
Information	No evidence of information collected	Some aspects supported by information	Relevant information has been collected	Extensive information has been collected
Decisions	Inadequate decisions made	Some attempt to make decisions	Good decisions made based on information obtained	Excellent decisions made displaying insight into the information obtained
Presentation	Very poor presentation	Some attempt to make a reasonable presentation	Excellent presentation made	An outstanding presentation made displaying insight

TASK 2.9 Ethical and internal control issues affecting indigenous or informal trading

Before undertaking this task, it is advisable to inform the learners about what is meant by ethics in business, fraud and internal control (you may refer to Modules 13 and 14).

2.9.1	Brenda's activity is illegal and unethical . She can be arrested for copying material that is copyrighted. She might also get her customers into trouble with the law.
2.9.2	Sbu will have an internal control problem regarding his stock and his cash. He will need to secure this during the day and overnight. It is an advantage that he pays the suppliers one day later which means that he does not need capital to start his informal business.
2.9.3	Joan should not compromise the quality of her product as it is very popular. By using cheaper ingredients, customers might notice the difference and avoid buying from her in future.
2.9.4	Arthur's aggressive approach is not ethical and will not gain him any goodwill from his potential customers. He should try a different approach, e.g. a humorous approach or dress in amusing clothes.
2.9.5	Milly needs R200 capital to start her business. She will encounter problems over control of her stock because her sales are dependent on the weather. If her ice-creams don't sell, she will probably not be able to return them or sell them later as ice-cream deteriorates quickly. She will need good equipment to retain the quality of the ice-creams .

CHECKLIST

Skills	Yes – proficient	Requires more attention	Complete
Interview persons who are using informal or indigenous bookkeeping systems to gather all information.			
Understand the difference between formal and informal bookkeeping systems.			
Understand what factors influence the costs in an informal business.			
Understand how to calculate the selling price.			
Understand the advantages enjoyed by an informal trader.			
Understand the disadvantages felt by an informal trader.			
Ethical and internal control issues affecting indigenous or informal trading.			