

GRADE 7 EMS



FINANCIAL LITERACY

TOPIC 2: INCOME AND EXPENSES

Activity 1

1. Match column A with column B and write the correct letter in column C:

Column A	Column B	Column C
1. Expense	a. Money received by you.	1. ____
2. Income	b. Items that you own that are worth something when they are sold.	2. ____
3. Asset	c. Money that is owed to others.	3. ____
4. Liability	d. Money that is paid directly to others.	4. ____
5. Current asset	e. Money we owe but will be paid in more than a year.	5. ____
6. Current liability	f. Money or value that will be received in more than a year.	6. ____
7. Non-current asset	g. Money or value that will be received in less than a year.	7. ____
8. Non-current liability	h. Money owed that will be paid within a year.	8. ____

2. What is the difference between:

a) An expense and a liability? Give an example of each.

b) An asset and income? Give an example of each.

Net Worth

Net worth is the true worth of a business. We work this out: What we own (Assets) less what we owe (Liabilities). Another name for net worth is Owner's equity. Owner's equity gives the owner of the business an idea of what the value of the business is or what value the owner will receive. Owner's equity = Assets – Liabilities

Look at the example. I take a loan out to buy property worth R1,000 000. I owe R400 000 on the property.

$$\begin{aligned}\text{So, Owner's equity} &= \text{Assets} - \text{Liabilities} \\ &= \text{R1 000 000} - \text{R400 000} \\ &= \text{R600 000}\end{aligned}$$

Therefore, I only own R600 000 of the R1,000 000 property. This is Owner's equity. You can also use this equation: $\text{Assets} = \text{Owner's equity} + \text{Liabilities}$

$$\text{R1 000 000} = \text{R600 000} + \text{R400 000}$$



Activity 2 – Amanda's Tuck shop

1. Read the paragraph below and answer the questions that follow (you may use a calculator):

Amanda owns a tuck shop. She bought a wendy house for R10 000 and converted it into a shop. Amanda still owes her Uncle R6000 for the money he lent her for the wendy house. She pays him R500 per month. She also owes a furniture shop R3500, which she pays R400 per month. She has stock to the value of R4400 in her shop.



- a) Work out Amanda's Owners equity (Net worth).
Owner's equity = Assets – Liabilities

- b) Do you think Amanda's Owners equity is healthy? Give a reason for your answer.

Statement of Net worth: The Balance Sheet

- Businesses usually work out their Owner's equity or net worth using a statement of net worth called the Balance Sheet.
- A Balance Sheet is a financial statement reporting on the company's assets, liabilities and owners equity at a specific point in time.
- The balance sheet shows the assets minus (less) the liabilities of a business to show the Owner's equity.

Or, can be worked out as: $\text{Assets} = \text{Owner's equity} + \text{Liabilities}$.

- The left-hand side (assets) of a balance sheet needs to balance with the right-hand side (liabilities + owner's equity): $\text{Assets} = \text{Liabilities} + \text{Owner's equity}$.
- Assets should be worth more than Liabilities to have a healthy business.

E.g.

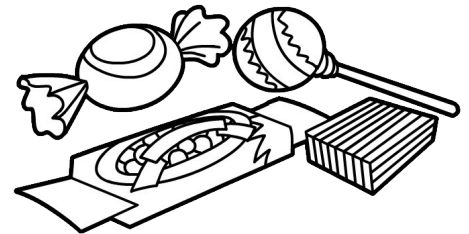
Balance sheet of Shane's shoes

Date: 31 March 2016

Assets		Liabilities	
Current assets	R149 700	Current liabilities	R21 200
Cash	R56 000	Account payable: Bob's polish	R1 200
Stock	R75 000	Account payable: Len's leather	R20 000
Accounts receivable (e.g. debtors owing)	R18 000		
Packaging	R700		
Non-current assets	R363 000	Non-current liabilities	R130 000
Vehicles	R90 000	Notes payable: Mortgage loan	R80 000
Equipment (e.g. cash register, cleaning equipment, shoe brushes, tools, etc.)	R43 000	Notes payable: Vehicle loan	R50 000
Building	R220 000	Total liabilities	R151 200
Furniture (e.g. shelves, desks, chairs, etc.)	R10 000	Owner's equity	R361 500
Total assets	R512 700	Total liabilities + Owners equity	R512 700

Activity 3 - Balance sheet

- Sort the items in the table below into current and non-current assets and liabilities for Rainbow Serve by putting an 'x' in the correct column:



Items	Assets		Liabilities	
	Current	Non-current	Current	Non-current
Cash register: R1 300				
Mortgage loan: R242 000				
Cash in bank account: R85 000				
Stock: R105 000				
A delivery van: R89 700				
Display racks account: R6 680				
Debtors owing us money (6 monthly): R32 000				
A shop that we owe money to: R12 800				
Packaging leftover: R8 700				
Freezer worth: R22 000				
Building: R520 000				
Furniture: R20 000				
Delivery van loan: R33 000				

- Work out the balance sheet for Rainbow Serve for 31 December 2016 on the following page. You can use a calculator.

Assets		Liabilities	
Current assets		Current liabilities	
Non-current assets			
		Total liabilities	
		Owner's equity	
Total assets		Total liabilities + Owner's equity	

b) Do you think Sally has a good net worth? Give a reason for your answer. (2)

Income and Expenses

Activity 6

1. Complete:
 - a) Income is the money that is _____ by a business for example _____.
 - b) An expense is when money is _____ out by a business for example _____.
 - c) The aim of a business is to make a _____. Profit = _____ - _____.
 - d) If the expenses are _____ than the income, then the business will have made a loss.
 - e) Profit is usually calculated on a _____ to _____.



2. What sort of income are you receiving now?

3. What sort of expenses do you have now?

Activity 7

1. In pairs, list the types of income and expenses the following businesses will have:
 - a) A furniture store

 - b) A cosmetic store

2. Think of a business that you would like to have for Entrepreneur's Day. List the income and expenses that you will have.

Activity 8

1. Study the income and expenses for Jacks Shoe Shop for the year and answer the questions that follow.

Item	Income	Expense
Mortgage loan on building: R120 000		
Electricity: R50 000		
Delivery trucks: R110 000		
Furniture for customers: R20 000		
Salaries: R245 000		
Shelves bought: R18 000		
Employees uniforms: R5 600		
Telephone bill: R17 800		
Drawings: R60 000		
Stock sold (Sales): R960 000		
Office supplies (stationery): R2 300		
Cash register: R2 000		
Cleaning supplies: R3 000		
Water account: R7 000		
Shelves sold: R6 000		
Shoe stock bought (Cost of sales): R200 000		
Total:		

- Put the amounts under the correct columns, listed 'Income or Expense' above.
- Calculate the column for the total expenses and income received.
- Did the shoe shop make a profit or a loss that year? Calculate.

d) Is that a good profit to make for the next year?

e) If Jacks shoe shop made a loss, what advice would you give the owner?

Activity 9: Case study – Frank’s Entrepreneur’s Day

1. Read the paragraph below and answer the questions that follow:

For Entrepreneur’s Day, Frank decides to sell popcorn at R3,00 a packet. Frank makes 100 packets to sell. The popcorn costs R50,00, the oil R15,00, salt and vinegar spice R12,00, zip lock packets R50,00 and the R10,00 rent. Frank pays for the items with his pocket money.

a) What is Frank’s expected income? (1)



- b) What are Frank's expenses? (5)

- c) How much did Frank pay for his expenses? (1)

- d) How much profit does Frank expect to make? (2)

- e) Do you think Frank will make a profit? Give a reason for your answer. (1)

Savings and Investments in Business

Activity 10

1. Watch the You tube video: 'Basics of investing – should I save, or should I invest' - and answer the questions that follow:



- a) What should we plan for?

- b) What can you do with your money?

- c) Why do we put money aside?

- d) What is inflation?

- e) Do bank's interest rates keep up with inflation over time?

- f) What is investing?

- g) What do you expect from investing in a financial asset?

- h) What can you do if all goes well with an asset?

- i) What do we call the difference between the money that you invest and the amount that you receive?

- j) According to this video, why is investing better than saving?

Activity 11 - Investing

1. Watch the YouTube video 'Basics of investing' - and answer the questions that follow:



a) Describe Shares or Equity.

b) What happens if the value in a company's shares rises?

c) What happens if losses are made by the company?

d) What does the share price depend on?

e) What influences supply and demand?

f) What is a bond or fixed interest?

g) Do bonds ensure a stake in the company?

h) Do bonds offer greater price stability than shares?

i) How is owning land or buildings an investment?

j) Out of the three options above what would you invest in? Give a reason for your answer.



Investing your money and risk

Remember that when you put money into an investment it is usually for the long term. You only expect to reap the benefits in two or more years. Long term investments could be for university fees, retirement or starting a business. Investing your money also carries risk, which means that you could potentially lose your money depending on the company that you invest in or if the stock market crashes. On the other hand your investment could give a high return. It is important to do proper research before investing your money.