

Chapter 1

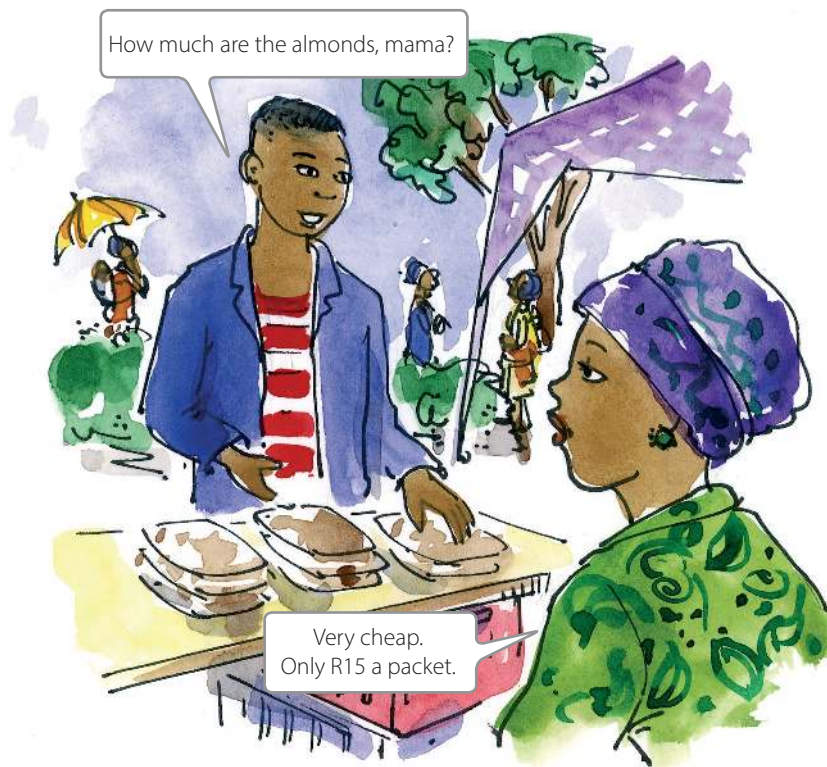
Indigenous bookkeeping and informal businesses

By the end of this chapter, you will be able to:

- compare and contrast the bookkeeping systems of the informal sector and the formal sector
- understand how resources are managed by a business in the informal sector
- know how selling prices, cost prices and labour costs are determined in the informal sector
- calculate incomes and expenses for a business that operates in the informal sector.

Key concepts

- formal accounting system • indigenous (informal) accounting system



1. The formal accounting system

You have learnt about formal accounting systems in Grade 9. In this system, all transactions are recorded on source documents and formal records are available to the owner and management. This system uses a set of rules and guidelines in the recording process and computerised accounting systems can be used.

2. The indigenous (informal) accounting system

An informal business is one that:

- is not registered with SARS or any other government department
- does therefore not usually have a trading licence
- is not a registered **VAT vendor**.

VAT vendor

A business that has registered with SARS to charge VAT to its customers

An informal business does not usually have a formal set of accounting books. The owner generally writes up transactions in a notebook for their own records. Business operations are fairly straightforward and transactions are usually on a cash basis only. This sector is often referred to as the second economy and even though no formal bookkeeping takes place, the business owner strives to make a profit.


3. Contrasts between formal and informal bookkeeping systems

The following table describes how formal bookkeeping compares to informal bookkeeping systems:

Concept	Formal bookkeeping	Indigenous bookkeeping
Capital	Capital is either provided by the owner or obtained from investors or shareholders.	The owner is the only one investing capital or will make a personal loan from the bank in order to start the business. Friends and family could also lend money to the owner as start-up capital.
Drawings	Some formal businesses will not allow the owner(s) to take drawings, especially a company (public or private).	The owner will draw money whenever he needs in order to pay personal expenses.
Fixed assets	These items are of value to the business and will be depreciated (lose value) over the lifespan of the asset.	Often fixed assets purchased are treated as one-off expenses and will carry no value to the business.
Stock	Stock is an asset in the books of the business. Stock is controlled and accurate records are kept of stock bought and sold.	Stock purchased will be treated as a payment of cash or an expense. Stock is safeguarded and an informal record might be kept of stock bought and sold.

Concept	Formal bookkeeping	Indigenous bookkeeping
Banking account	The business will have its own banking account in the name of the business, such as an account in the name of Pick n Pay. This is because the business entity concept applies here.	The banking account will be in the name of the owner. The business entity concept rule does not apply here.
Credit	The business will sell on credit as well as buy on credit. Debtors and creditors are strictly administered and monitored and controls are rigorous.	Most transactions are cash transactions. The owner will certainly not sell on credit. He could, however, introduce a “tab” system where credit sales are informally written up in a notebook.
Income	Sales will be monitored through money received into the tills, as well as invoices issued for credit sales.	Income is just informally written up in a notebook or sometimes not at all. Income in this case will just equal the money received for the day via sales.
Expenses	Expenses are monitored and budgeted for and must be proportionate to the income earned.	Expenses are often paid for in cash.
Profit	Sales less Cost of sales = Gross profit less expenses = Net profit	Money received for stock less money paid for stock less any other related business expenses = Profit Sometimes money left over after purchases and all expenses are paid is seen as profit.
Selling price	Selling price is determined by calculating mark-ups and by monitoring the industry in which the business operates. For instance, a business selling TV sets will look at what other similar businesses are selling the TV sets for and keep the price in line with its competitors.	Selling price is determined by the demand for the product and by the price at which other competitors are selling the product. For instance, at a flea market, identical items are sold for the same or similar prices.
Cost of sales	A record is kept of cost of sales (if the business uses the perpetual inventory system). By taking sales less cost of sales, the business can determine their gross profit.	No record is kept of cost of sales as the business is unlikely to keep strict records of purchases or sales.
Labour costs	Costs are determined via production levels or output requirements. In other words, the business will carefully consider its labour requirements and employ people to match these requirements.	Often the owner is the only person working in the business and he/she is prepared to work long hours in order to complete what needs to be done, for example a dressmaker.

Business entity concept
 The owner and the business are two separate entities. So by law, they are separate (see page 21).

 The perpetual inventory system is discussed on page 56.

Case study 1.1

Read the following article and answer the questions that follow.

ONE-MAN BIKE SHOP by André Valentine

**TWO FREIGHT CONTAINERS
STAND ON ROCKLANDS
HIGH'S SCHOOL GROUNDS IN
MITCHELL'S PLAIN. THEY ARE
HOME TO THE FLAG CYCLE SHOP
– MITCHELL'S PLAIN'S ONLY
SPECIALIST BIKE SHOP.**

Five years ago Ismail Cassiem was an unemployed single father with no money. But a passion for bicycles, the generosity of a charity and pure hard work has helped Cassiem turn his life around.

Cassiem is the owner, manager and chief mechanic of his own one-man specialist bicycle shop situated in the middle of a relatively poor area within Cape Town's Mitchell's Plain.

"I had been working on bikes since I was 13 and had been employed in the bicycle industry for a long time before, so I went with what I knew best," he says of his initial decision to open up his shop.

With no capital and no space to call a shop, he started out doing repairs from home, but soon an opportunity came his way and he grabbed it with both hands.

BEN

He heard about the Bicycle Empowerment Network (BEN), an organisation aimed at empowering communities through bicycles and cycling.

Cassiem contacted them about their Bicycle Empowerment Centres, an initiative where BEN supplies people with containers (converted into workshops), tools and bikes, while also training them in business management and bike maintenance. "They got back to me and supplied me with the two containers and bikes to start the business," says Cassiem. "From there

my business just took off, growing into what it is today."

Between then and now he has gone from the ten bikes initially supplied by BEN to two entire containers filled with bikes, tubes and other components. While all this was happening he also helped to grow bike riding in the community.

"Since I opened my shop, we've seen more children with bikes on the roads of Mitchell's Plain than ever before," he says. "Whenever a youngster comes here I always advise them to ride safely and look out for cars – and also for the gangsters that walk around here."

SELF-SUFFICIENT

He works on his own, unpacking and repacking his stock every day while also doing repairs and picking up stock, which he does by bike.

"I use my bike to get my spares in places as far as Parow (a 50 km round trip), and then ride back with all those spares packed on the bike," he explains.

Although he commutes everywhere, his business and family don't allow him to ride recreationally "I'm a single father, so I have to look after my two children when I'm not working," he says. "I work from Monday to Saturday and take Sundays off, but on Sunday I do laundry and other household chores, so that's as good as a work day."

Over the last five years Cassiem has received some stiff competition in the area – some hardware stores in Mitchell's Plain have started offering bike services and taken some of his business away. Despite this he remains positive, and says that while repair jobs have become rare, his sales are still booming.

He considers his business a success, but still has his feet firmly on the ground. "I have plans to grow my business and get more high-end components and bikes, but I don't want to say too much, because I might jinx my plans."

Source: By Andre Valentine, extracted from *Bicycling* magazine, November 2010 issue

Questions

1. How did Cassiem start up the business?
2. What positive attributes did he possess that contributed towards his success?
3. Who is responsible for stock, and is it managed properly?
4. What contributes to his main income?
5. How did competition in the area affect his business?
6. If you were to advise Cassiem on his business operations, what would you say?

» Activity 1.1

You should answer the questions in writing after you have discussed them with a partner.

1. Briefly explain the difference between indigenous and formal bookkeeping systems.
2. Think about the following statements and decide which ones would apply to each system:
 - A. indigenous bookkeeping systems
 - B. formal bookkeeping systems.Some statements could apply to both systems.
 - a. June is a flower seller; she is the only person involved in her business.
 - b. The management of MXB Financial Services draws up budgets and holds planning meetings to set goals for the future of the business.
 - c. George only makes notes of his transactions in his notebook.
 - d. Mary owns a home baking business; she relies mainly on cash transactions.
 - e. West Prop uses a computerised accounting system to capture their financial data.
 - f. Oscar owns a small business. He has a private banking account and his business has a separate banking account.
 - g. Bongile owns a motor mechanics business and uses source documents to complete the financial records of his business.
 - h. The business sets out to make a profit from its operating activities.
 - i. Sydney keeps journals and ledgers and prepares a Trial Balance at the end of each month.
 - j. Epson Stores adheres to the principles of GAAP.
 - k. Maxime's Boutique employs an accountant to prepare its financial statements.
 - l. Donovan safeguards the business's cash and assets himself.
 - m. Susan counts her daily takings and calculates her profit roughly. She then uses the money she makes to pay for household expenses.
 - n. Michael's business is a registered private company; it is also a registered VAT vendor.
 - o. Simile pays VAT on the stock she purchases but cannot charge VAT on the items she sells.

Option 1

» **Formal Assessment task: Questionnaire and written and oral presentation on an informal business using indigenous bookkeeping system**

Aim: The learners conduct an interview using a questionnaire and then make oral and written presentations about an informal business and its bookkeeping system.

Work in pairs or groups of three.

Required

1. Design a questionnaire

Your questionnaire must include all the aspects below.

2. Conduct an interview

Identify someone in your community who operates a small informal business, such as running a pavement stall or selling goods from home. This person must be involved in buying and selling goods. Make an appointment with this person and explain the aim of your visit.

Use the questionnaire to gather information for both your written and oral presentations.

3. Written presentation

Your written presentation must include an introduction as well as a conclusion. It must not be longer than three typed pages (A4 size) excluding photographs, tables and graphs.

4. Oral presentation

Prepare an oral presentation of not longer than five minutes on the main points of your written presentation. Use visual aids such as posters or pictures or, if available, computer software.

Aspects to be included

Background of the business

- The type of goods supplied to clients
- Where the business operates from (and who owns the buildings)
- Why the person started the business
- How much capital was needed to start the business and where the person obtained the funds needed.

Buying and controlling stock

- Where the person buys goods or supplies
- Why this supplier is used.

Determining the selling price of the goods

- How the selling price is determined.

Handling financial information

- Whether financial information is recorded or not
- If financial information is recorded, how this is done (are source documents used, and if so, include an example).

Explanation of the costs or expenses

- Whether the person has employees and if so, how their wages are determined (if there is a partnership, investigate profit-sharing)
- What the main costs of the business are.

Budgeting and calculating profits

- Whether a budget is drawn up from time to time and, if so, how often and when
- How profit/loss is determined and how regularly it is calculated.

Competitors and other problems or challenges

- If there are competitors, who they are and how the person handles the situation
- The biggest problems/challenges for the business (such as safety) and how the person handles them
- Other interesting facts.

Option 1

RUBRIC FOR ASSESSING QUESTIONNAIRE AND PRESENTATIONS

Criteria	9–10	6–8	3–5	0–2	Mark
The questionnaire	Questions are excellently structured and are understandable. Excellent use of language	Questions are well structured and are understandable. Good use of language	Questions are well structured and are understandable. Fair use of language	Questions are well structured and but not understandable. Language used not acceptable	
Background of the business	Excellent and comprehensive; interesting presentation	Good presentation of information; most information covered	Average presentation; some information not covered	None; weak attempt; information incomplete	
Buying and controlling stock	Comprehensive information given; interesting	Good presentation of information; most aspects covered well	Average presentation; a few aspects not covered	None; very little information given	
Determination of the selling price of goods	Excellent and clear insight; supplied correct information; presented very well	Good understanding of determining price; information mostly correct	Satisfactory understanding; some information incorrect	None; partial understanding; some information questionable	
Handling of financial information	Excellent understanding of accounting system; information correct and complete	Good understanding of accounting system; most information correct	Satisfactory understanding of accounting systems; some information incorrect/missing	None; poor understanding of accounting systems; some information questionable	
Explanation of the costs or expenses	Excellent understanding; information correct; presentation very good	Good understanding of costs and expenses; most information correct and acceptable	Satisfactory understanding of costs and expenses; some information incorrect	None; partial understanding of costs; some information questionable	
Budgeting and calculating profits	Excellent understanding; information is correct and presented very well	Good understanding; information presented well	Satisfactory understanding and explanations; some information incorrect/misleading	None; poor explanations; some information questionable	
Competitors and other problems or challenges	Excellent and comprehensive reporting	Good reporting; most aspects covered	Satisfactory reporting; some aspects left out	None; poor reporting; only one or two aspects mentioned	
Introduction and conclusion			Good introduction and conclusion	None; satisfactory introduction and conclusion	
Technical presentation of report			Neat, attractive report	Handed in late/ not at all; untidy; unattractive	
Oral presentation	Excellent; key-note areas presented in an informative manner	Good presentation, but some areas either irrelevant or not informative	Only some areas are informative	Poor presentation	
			TOTAL		/100

Chapter 2

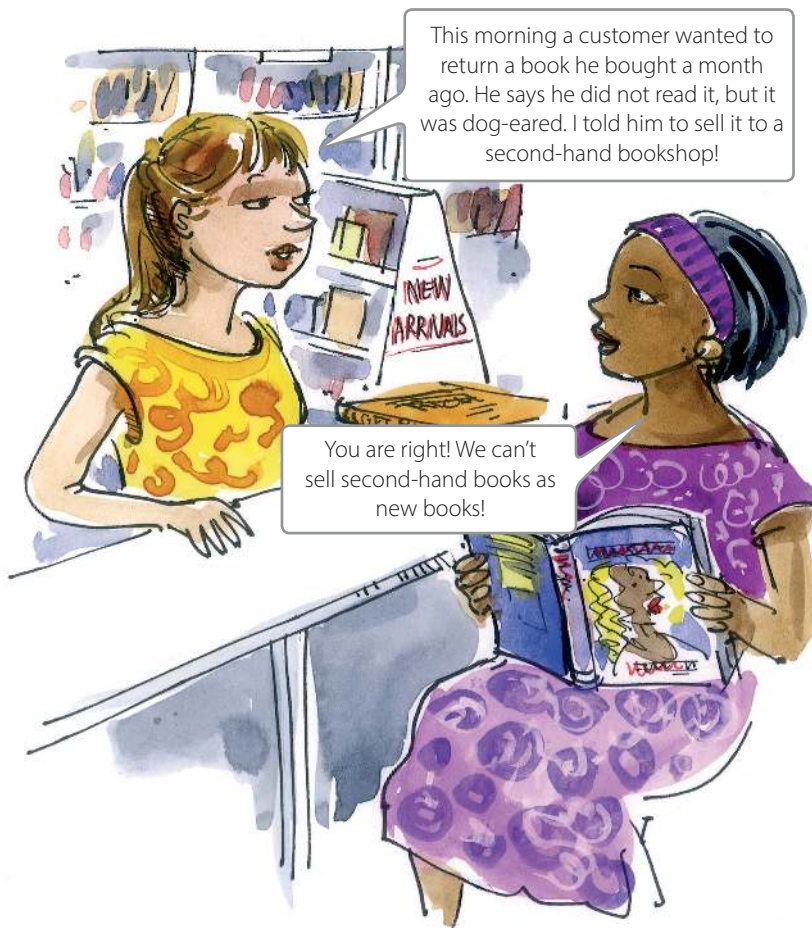
Ethics

By the end of this chapter, you will be able to:

- understand the meaning and importance of a code of ethics
- identify and explain the basic principles of a code of ethics.

Key concepts

- ethics • professional conduct



1. Introduction

A code of ethics is a written system of standards of ethical conduct. In essence, it is a set of rules and regulations governing the behaviour of the members of the organisation that has established the code. The code of ethics sets out standards of acceptable behaviour and principles to be adhered to in order to maintain a high level of professional conduct.

1.1 Who must adhere to a code of ethics?

It is important to realise that a code of ethics is written for all members of a business. It should not be seen as a code of conduct written by top management to be followed by lower-level employees only. Everyone within the business should adhere to the code of ethics. Moreover, in order to be successfully implemented, employees at all levels should be consulted while formulating the contents of the code of ethics. This way the employees will feel empowered, responsible and involved, as opposed to the negative effect that goes with rules being thrust upon people.

2. Basic principles of ethics

All members of a business should observe the following basic principles of ethics and professional conduct.

2.1 Integrity

Integrity is essentially the quality of being honest and having strong moral principles. People of integrity will conscientiously strive to perform their duties to the best of their ability. They will set high standards for doing their work and be determined not to lower those standards.

2.2 Objectivity

Objectivity is the ability to be impartial, intellectually honest, and free of conflicts of interest. People who are objective will make decisions based on real facts and their judgement will not be influenced by personal feelings. They will be fair and unbiased in carrying out their duties and will not be influenced by others.

2.3 Professional competence and due care

Professional competence is the ability to perform your tasks well, by possessing the necessary technical expertise, skill, knowledge and experience. Due care is about ensuring that tasks are performed in a responsible, careful and diligent manner. People who display professional competence and due care have the ability to perform their