BUSINESS STUDIES
BUSINESS VENTURES
GRADE 12
Foreword

In order to improve learning outcomes the Department of Basic Education conducted research to determine the specific areas that learners struggle with in Grade 12 examinations. The research included a trend analysis by subject experts of learner performance over a period of five years as well as learner examination scripts in order to diagnose deficiencies or misconceptions in particular content areas. In addition, expert teachers were interviewed to determine the best practices to ensure mastery of the topic by learners and improve outcomes in terms of quality and quantity.

The results of the research formed the foundation and guiding principles for the development of the booklets. In each identified subject, key content areas were identified for the development of material that will significantly improve learner's conceptual understanding whilst leading to improved performance in the subject.

The booklets are developed as part of a series of booklets, with each booklet focusing only on one specific challenging topic. The selected content is explained in detail and include relevant concepts from Grades 10 - 12 to ensure conceptual understanding.

The main purpose of these booklets is to assist learners to master the content starting from a basic conceptual level of understanding to the more advanced level. The content in each booklet is presented in an easy to understand manner including the use of mind maps, summaries and exercises to support understanding and conceptual progression. These booklets should ideally be used as part of a focussed revision or enrichment program by learners after the topics have been taught in class. The booklets encourage learners to take ownership of their own learning and focus on developing and mastery critical content and skills such as reading and higher order thinking skills.

Teachers are also encouraged to infuse the content into existing lesson preparation to ensure in-depth curriculum coverage of a particular topic. Due to the nature of the booklets covering only one topic, teachers are encouraged to ensure learners access to the booklets in either print or digital form if a particular topic is taught.
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<thead>
<tr>
<th></th>
<th>TABLE OF CONTENTS</th>
<th>PAGE</th>
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<td>58</td>
</tr>
<tr>
<td>6.</td>
<td>Thank you</td>
<td>59</td>
</tr>
</tbody>
</table>
1. **How to use this booklet**

**Purpose of the study guide**

- This study guide was developed to assist you to respond to different types of questions on the topics included in this booklet.
- It will assist you to understand the relevant concepts. For this purpose, a glossary of related terminology is included.
- Pay special attention to hints and tips on how to respond to different types of questions.
- After each topic there is an activity and you can check your answers in Section 6 of the booklet.
- The activities are exam-type questions.
- If you get any answers incorrect, make sure you understand where you went wrong before you continue to the next section.

**Look out for the following icons used in this booklet:**

<table>
<thead>
<tr>
<th>Content</th>
<th>Activities</th>
<th>Hints</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1.png" alt="Content Icon" /></td>
<td><img src="image2.png" alt="Activities Icon" /></td>
<td><img src="image3.png" alt="Hints Icon" /></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Check your answers</th>
<th>Key Concepts</th>
<th>Study and Exam tips</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image4.png" alt="Check your answers Icon" /></td>
<td><img src="image5.png" alt="Key Concepts Icon" /></td>
<td><img src="image6.png" alt="Study and Exam tips Icon" /></td>
</tr>
</tbody>
</table>
## Study and Examination Tips

### 2.1 Structure of the question paper

<table>
<thead>
<tr>
<th>Section</th>
<th>Answer all questions.</th>
<th>Four questions are set covering the entire content for the year (use scenarios).</th>
<th>Total</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>A</strong></td>
<td>Different types of short and objective questions are set using various assessment styles and covering the entire content for the year, e.g. multiple-choice, match columns, choose the correct word in brackets, etc. (20 short questions x 2) 10 marks per broad topic.</td>
<td></td>
<td>300 marks 3 hours</td>
</tr>
<tr>
<td><strong>B</strong></td>
<td>Five questions are set and learners answer three questions. These questions are set on all the content covered during the year. Answers should be in paragraph style. Applicable verbs, e.g. discuss, motivate, compare, differentiate, explain, etc. Case studies (scenarios) or source-based questions will be included. Focus areas: Question 2 - Business Environment Question 3 - Business Ventures Question 4 - Business Roles Question 5 - Business Operations Question 6 - Miscellaneous</td>
<td>3 x 60 = 180 marks 3 x 30 min = 90 min</td>
<td></td>
</tr>
<tr>
<td><strong>C</strong></td>
<td>FOUR questions are set covering the entire content for the year (use scenarios). Choose any TWO of the FOUR questions. (Two questions of 40 marks each) These are higher cognitive questions that assess insight and interpretation of theoretical knowledge. (E.g. design, plan, appraise, evaluate, etc.). Answers should be in paragraph style. Focus areas: Question 7- Business Environment Question 8- Business Ventures Question 9- Business Roles Question 10- Business Operations</td>
<td>80 marks 2 x 30 min = 60 min</td>
<td></td>
</tr>
</tbody>
</table>
Take special note of the following:

- Learners are advised to refer to page 6 of the 2017 Examination Guidelines. This page outlines FOUR main topics and sub-topics of each main topic.
- Take note of main topics, which are easy to understand.
- Make a checklist of topics that are well understood, as they may assist in the selection of choice questions during the final exam.
- You need to know all sub-topics that are covered in each main topic.
- Take note of the structure of the question paper, mark and time allocation.

3.2 Tips on how to answer different types of questions in Business Studies

**SECTION A:**

- How to answer multiple choice questions
- Try to work out the answer without looking at the possibilities.
- Read through the statement and all the options.
- Underline the key words in the statement.
- Cross out the options that are definitely wrong.
- Read through the statement again and select the most appropriate option from the options remaining.
- Write down your answer and move to the next question.
- Don't guess an answer - rather go back to the questions you are not sure of at the end of the paper, if there is time left.

**Example:**
The business enterprise has full control over the...

A. market - environment  
B. macro - business environment  
C. micro - business environment  
D. marketing function x
How to answer match-the-columns questions

- Read through the entire list of statements in Column A and all the descriptions in Column B.
- Read through each statement in Column A and find the best match in Column B.
- Tick off the answers in Column B in pencil, so that you know that one has already been chosen.
- Cross out the options that are definitely wrong.
- First do the ones you are sure of then go back to the ones that you are not sure of and choose an answer from the remaining options.
- Don't guess an answer- rather go back to the questions you were not sure of at the end of the paper, if there is time left.

Example:

<table>
<thead>
<tr>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. The management level that is responsible for operational decisions.</td>
<td>A Green peace x</td>
</tr>
<tr>
<td>B/F</td>
<td></td>
</tr>
<tr>
<td>2. Deals with employee/ employer grievances. E</td>
<td>B Lower level ⌘</td>
</tr>
<tr>
<td></td>
<td>C Shares ⌘</td>
</tr>
<tr>
<td>3. Investments that allow a large group of people to pool their capital for investment. D</td>
<td>D Unit Trusts ⌘</td>
</tr>
<tr>
<td></td>
<td>E CCMA ⌘</td>
</tr>
<tr>
<td>4. Ideas that are original and used to solve challenges. G</td>
<td>F Middle level ⌘</td>
</tr>
<tr>
<td></td>
<td>G Creative thinking ⌘</td>
</tr>
</tbody>
</table>
SECTION B:

How to answer case study, scenario and data response questions.

- Look at the heading and the pictures to get an idea of what the case study is about.
- Read through the case study carefully and slowly with understanding.
- Read each question and underline the keyword/ verb.
- Read the case study again and underline each of the keywords in the case study.
- Now answer the questions, paying special attention to the action verbs.
- Look at the mark allocation as a guide to how many facts should be included in your answer.

SECTION C

- An essay consists of three parts: introduction, body and conclusion.

  **Introduction**
  - Start with the word “Introduction” as a heading.
  - Write an opening statement that links to the instructions of the essay question.
  - Give at least two meaningful facts to obtain a maximum of 2 marks. \[ 2 \times 1 = 2 \]
  - Do not repeat or use the words that are in the question paper either in the introduction or conclusion.

  **Body**
  - Break up the information into logical parts, making use of headings and sub headings.
  - The maximum marks obtained for the body = 32 marks.
  - Don't repeat facts - get to the point.
  - Responses must be bulleted and in full sentences.
  - Put your statements into context.

  **Conclusion**
  - Start with the word “conclusion” as a heading.
  - Briefly summarise the main point and focus of the essay.
  - End your essay with a meaningful fact - do not repeat what was said in the introduction or body.
  - Give at least one meaningful closing statement. \[ 1 \times 2 = 2 \]

  **Insight [LASO]**
  - Write the words Introduction and Conclusion to obtain full marks for layout.
  - Write sub-headings that appear in the question paper to obtain ONE mark for analysis.
  - Ensure that you write as many correct facts as you can that amount to at least 16 marks or more in the body to obtain another ONE mark for analysis.
  - Write only responses relevant to the questions asked to obtain two marks for synthesis.
  - Use at least TWO current examples to elaborate on facts to obtain two marks for originality.
2.3 **Action verbs commonly used in the Business Studies NSC examination**

<table>
<thead>
<tr>
<th>Action verbs</th>
<th>Meaning</th>
</tr>
</thead>
<tbody>
<tr>
<td>Identify</td>
<td>Identify the name of the Act from the given scenario/ statement.</td>
</tr>
<tr>
<td>Motivate / support your answer by quoting from the scenario.</td>
<td>Quote as is from the scenario otherwise you will not be awarded marks for answers that are not quoted directly from the scenario.</td>
</tr>
<tr>
<td>Justify the effectiveness</td>
<td>Explain the advantages and/or disadvantages this will depend on the nature of the question.</td>
</tr>
<tr>
<td>Explain / discuss/ describe THREE/ FOUR factors/ criteria/ stages / business strategies/ human rights, etc.</td>
<td>State the heading (2 marks) and write an explanation (1 mark). This is usually seen when a number of facts have been specified in the question and verbs such as “explain, discuss and describe” have been used.</td>
</tr>
<tr>
<td>Outline / mention</td>
<td>Briefly explain in full sentences.</td>
</tr>
<tr>
<td>Give / state</td>
<td>Supply a one or two-word answer.</td>
</tr>
<tr>
<td>Discuss / explain / describe / evaluate/analyse the negative impact</td>
<td>Supply negative responses only. This means only give the disadvantages.</td>
</tr>
<tr>
<td>Suggest / recommend / advise</td>
<td>Provide your own opinion with a valid argument.</td>
</tr>
<tr>
<td>Elaborate</td>
<td>Explain a little bit further.</td>
</tr>
<tr>
<td>Distinguish / differentiate</td>
<td>Explain the differences between concepts. The differences/ distinctions do not have to link, but the differences must be clear.</td>
</tr>
<tr>
<td>Tabulate / compare the differences between two concepts</td>
<td>Explain the differences between two concepts and the link between them.</td>
</tr>
</tbody>
</table>

- Refer to the glossary for specific important definitions of terminology
- To obtain full marks per fact, you are required to write a fact and a supporting statement, e.g. *Workers may not work more than 45 hours √ a week.* ✓
- This is applicable to Section B and C.
- Use the table below as a guide to responding to questions with the following verbs:
<table>
<thead>
<tr>
<th>Part marking</th>
<th>Two marks at end of statement</th>
<th>One mark at end of phrase</th>
</tr>
</thead>
<tbody>
<tr>
<td>Describe</td>
<td>Classify</td>
<td>Give</td>
</tr>
<tr>
<td>Explain</td>
<td>Name</td>
<td>Identify</td>
</tr>
<tr>
<td>Distinguish (my use table)</td>
<td>Suggest</td>
<td>List</td>
</tr>
<tr>
<td>Discuss</td>
<td>Advise</td>
<td>Mention</td>
</tr>
<tr>
<td>Analyse</td>
<td>Propose</td>
<td>Name</td>
</tr>
<tr>
<td>Elaborate</td>
<td>Define</td>
<td>State</td>
</tr>
<tr>
<td>Show the impact</td>
<td>Motivate/ support</td>
<td></td>
</tr>
<tr>
<td>Apply a technique</td>
<td>Outline</td>
<td></td>
</tr>
<tr>
<td>Evaluate</td>
<td>Recommend</td>
<td></td>
</tr>
<tr>
<td>Differentiate</td>
<td>State</td>
<td></td>
</tr>
<tr>
<td>Compare</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Tabulate</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Justify</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
2.4 Study Tips

- Prepare a study time-table. Allow yourself enough time over a period of 4 weeks and focus on at least 3-4 topics per week.
- Get a study buddy. You will be able to assist one another with the difficult concepts/ skills.
- Make use of the most recent question papers (preferably from 2015 onwards) while you study a topic and test yourself.
- This will help you understand how a topic can be asked in different ways in Section B and C.

Take note of the following aspects when using past question papers:

- The phrasing of questions is not always the same, even though answers can be the same.
- Different action verbs are used to assess the same topic. Please take note of how these verbs are used.
- Each question consists of at least two or three scenarios. Practice how to quote directly from the scenario without including your own words or providing incomplete quotes.
- Learn to respond to follow-up questions that are part of the scenario, but assess your subject knowledge. These questions must be answered independently of the scenario.
- Practise questions that are more likely to require you to “suggest, advise, recommend, evaluate, analyse, justify, discuss/explain the impact”.
- Practice answering those questions in detail to obtain good marks.
3. BUSINESS VENTURES
   3.1 INVESTMENT OPPORTUNITIES

- JSE FUNCTIONS
- RANGE OF INVESTMENT OPPORTUNITIES
- EXPLANATION RISK FACTOR
- INVESTMENT DECISION FACTORS
- IMPACT
  - FIXED DEPOSIT
  - SHARES
  - UNIT TRUSTS
  - RSA GOVERNMENT RETAIL BONDS
- TYPES OF SHares
- RIGHTS OF PREFERENCE SHAREHOLDERS
- DIFFERENCE BETWEEN ORDINARY AND PREFERENCE SHARES
- DEFINITION OF CONCEPTS
In this section, a detailed explanation of the different investment opportunities is provided. Investment opportunities will addressed in line with content learners are expected to know as outlined in the Examination Guidelines of 2017, which should be used by learners to check the scope covered.

**Glossary of concepts**

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Simple interest</td>
<td>It is when interest is paid on the original amount only and not on the accrued interest</td>
</tr>
<tr>
<td>Dividends</td>
<td>It is the return or earning that shareholders receive after they have bought shares.</td>
</tr>
<tr>
<td>Capital gain</td>
<td>It is the extra money the investor makes from selling an asset.</td>
</tr>
<tr>
<td>Debenture</td>
<td>The lender agrees to lend money to the company on certain conditions for a certain period.</td>
</tr>
<tr>
<td>Compound interest</td>
<td>It is when interest is earned on the interest accrued, as well as on the original amount invested.</td>
</tr>
<tr>
<td>Return on investment</td>
<td>It refers to the income from the investment, e.g. interest, dividends, capital gain on the original amount.</td>
</tr>
<tr>
<td>Risk</td>
<td>It refers the possibility that the invested amount may be lost over a period of time due to unexpected circumstances.</td>
</tr>
<tr>
<td>Investment period/ term</td>
<td>This refers to the duration of the investment, which may influence the return on investment.</td>
</tr>
<tr>
<td>Inflation rate</td>
<td>It is the percentage rate at which the price of goods and services increase.</td>
</tr>
<tr>
<td>Fixed rate</td>
<td>The rate of return stays the same for the specified period of time.</td>
</tr>
<tr>
<td>Accumulated</td>
<td>Interest earned over the investment period.</td>
</tr>
<tr>
<td>Capital market/ securities market</td>
<td>It is the market for shares, where companies and the government can raise long-term funds.</td>
</tr>
<tr>
<td>Shareholder</td>
<td>An owner or part-owner of a company.</td>
</tr>
</tbody>
</table>

Take note of examples of investments available on the JSE, e.g. shares, unit trusts and debentures.
4.1.3 Factors to consider when making investment decisions:

Return on Investment/ ROI
- Refers to the income made from the investment, e.g. interest, dividends, capital gain (increase).
- The return should be expressed as net after-tax gains on the investment.
- The return on the investment may be affected by the inflation and economic conditions, e.g. market price of shares.

Risk
- Refers to the possibility that the invested amount may be lost over a period of time due to unexpected circumstances.
- Generally, there will be a direct link between risk and return.
- Investments with higher risk usually yield a higher return. (The higher the risk, the higher the return.)

Investment period
- This refers to the duration of the investment, which may influence the return on investment.
- Investments with a short duration are usually easy to cash in.
- The longer the period of the investment, the more the interest that will be earned.

Inflation rate
- It is the rate at which the price of goods and services increase.
- If the inflation rate is higher than the interest rate on the investment, the investment does not yield a return.
- It should always be above the inflation rate, in order to beat inflation.

The investment options listed below should be studied in terms of a brief explanation and the level of risk.

4.1.4 A range of available business investment opportunities/ options

- Fixed deposit
- Shares
- Unit trusts
- RSA Government retail savings bonds
- Property investment
- Endowment/ life insurance policies
- Retirement annuity
- Money market funds
- Offshore investments
- Notice deposit accounts
- Debentures
- Stokvels/ mutual funds
- Venture capital

Fixed Deposits
- Money is deposited in a bank account for a pre-determined period at a fixed interest rate.
- The investor receives interest when the term expires.
- Fixed deposits may not beat the effect of inflation over a long period.
- The duration of a fixed deposit can be short or long term, as the time period varies from a few days to up to five years.
- Most fixed deposits are invested at commercial banks.

Risk
- The risk is low, as the interest rate is usually fixed.
- The return will not be affected by economic conditions.
Shares
- Companies sell a portion of their ownership to shareholders in the form of shares.
- When you buy shares in a company, you become a part-owner of that company.
- Shares of listed companies are traded (bought and sold) on the JSE.
- Shares can be bought through a registered stock broker or using an online share account on a broker’s electronic/internet platform.
- Shareholders have the right to receive a dividend (portion of the profit) when the company makes a profit.

Risk
- The risk in shares is high, as the investor may lose the initial amount or part of it in the short term.
- Share prices change frequently.

Check this illustration to try to understand shares better:

Unit trusts
- These are a collection of investment options made up of shares in different companies.
- The money of a large number of investors is combined in a fund, which is managed by a fund manager.
- They can be obtained from accredited service providers, i.e. stock brokers, financial institutions and companies listed on the JSE.
- Investors earn dividends on an investment in unit trusts.
- The duration of most unit trusts ranges from medium to long term, but they may be sold at any time.

Risk
- Investment may be made in high and low risk shares.
- The risk is spread throughout the fund and this lowers the risk for all the investors/fund members.
- Fund managers are able to manage the risk level of the fund on behalf of the investors.

The diagram below tries to demonstrate how unit trusts work.

- INV represents the investor
- Co. represents the company
Government/ RSA Retail Savings Bonds

- The SA Government offers citizens the opportunity to invest in bonds so as to encourage saving/ investment.
- There are two types of retail bonds, i.e. fixed rate or inflation linked retail bonds.
- Interest is earned and paid into the savings account twice a year.
- There are two, three and five-year bonds available.
- Retail bonds are easy to buy or sell at many supermarket chains, the Post Office, National Treasury and online.
- There is no administration fee or commission payable on transactions.
- A minimum of R1 000 and a maximum of R1 million may be invested.

Risk

- Low risk is involved in investing in government retail bonds.
- The investor will receive the investment together with the guaranteed (promised) interest back at maturity.
Activity 1

Assume you are the financial advisor of Mr Nakedi, who is 40 years old and has inherited R3m from his late father. He approached you to work out a medium term portfolio for the next 3 years for how his money could best be invested.

1.1 List any SIX possible forms of investment options that Mr Nakedi could consider.

1.2 Elaborate on the risk factor for each of the following investment options:
   - Fixed deposit
   - Shares
   - RSA Retail Savings bond
   - Property investment

Use the table below as a guide for your answer:

<table>
<thead>
<tr>
<th>Investment option</th>
<th>Risk factor</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.</td>
<td></td>
</tr>
<tr>
<td>2.</td>
<td></td>
</tr>
<tr>
<td>3.</td>
<td></td>
</tr>
<tr>
<td>4.</td>
<td></td>
</tr>
</tbody>
</table>
Activity 2

2.1 Identify EACH type of investment described below:

2.1.1 A combination of different shares and securities are selected and managed by a fund manager as a balanced portfolio.
2.1.2 Refers to buying capital goods like a piece of land, a house or buildings, which are suitable as a long term investment.
2.1.3 Money is deposited in a bank account for a pre-determined period at a fixed interest rate.
2.1.4 Companies sell a portion of their ownership through the JSE.
2.1.5 A minimum of R1 000 is required to invest in this investment option

An evaluation of the impact should only be studied for Fixed deposits, RSA Government Retail Savings bonds and Unit Trusts.

3.1.5 Evaluating positives and negatives of investment

<table>
<thead>
<tr>
<th></th>
<th>Advantages</th>
<th>Disadvantages</th>
</tr>
</thead>
<tbody>
<tr>
<td>Fixed deposit</td>
<td>• The level of risk is low, so the investors are guaranteed of their final payment.</td>
<td>• Lower return, a lower risk investment has a lower return.</td>
</tr>
<tr>
<td></td>
<td>• Amount is guaranteed. The amount invested plus the interest earned is paid at maturity date, as it is guaranteed.</td>
<td>• Interest received may not keep up with inflation / the investment may yield a lower return during high inflation periods, e.g. if rate guaranteed is below the inflation target.</td>
</tr>
<tr>
<td></td>
<td>• Interest earned is guaranteed regardless of economic conditions.</td>
<td></td>
</tr>
<tr>
<td>Form of investment</td>
<td>Advantages</td>
<td>Disadvantages</td>
</tr>
<tr>
<td>--------------------</td>
<td>------------</td>
<td>---------------</td>
</tr>
<tr>
<td>Shares</td>
<td>Shares may be sold at a higher price in future. Much higher return compared to other investments. (The higher the risk, the higher the return.) The value of shares may increase with the expansion of a company.</td>
<td>Share prices may drop and the investor may not make a gain. Very risky, as shares are affected by economic conditions and the success of other companies. Dividends may not be received during difficult financial times for the particular company in which shares are bought.</td>
</tr>
<tr>
<td>Unit trust</td>
<td>They are easy to buy and sell and can be bought online. It is affordable to invest in unit trusts because a small amount can be invested monthly. It is easy to cash in if money is needed by the investor. Safe investment. The money is spread over various portfolios. Managed according to rules and regulations.</td>
<td>Investors may not get the expected return. If companies do not perform, the growth of the unit trust will be affected. Service fees are paid to fund managers to manage the investment.</td>
</tr>
<tr>
<td>Investment option</td>
<td>Accessible - Retail bonds are easy to buy or sell at many supermarket chains, the post office and online. Affordable - there is no administration fee or commission payable on transactions. Only a minimum of R1 000 is needed. Safe - paid electronically directly into investor’s account. Returns are guaranteed - the investor receives the amount invested plus the interest promised.</td>
<td>Low return compared to other investments, because of the low risk level. Investors may lose their investment during times of political and economic chaos. May yield a negative return when the inflation rate is high for other investments.</td>
</tr>
</tbody>
</table>
3.1.6 Other investment options

Managed portfolio

- An investor instructs a financial institution/bank/financial advisor to manage his/her various investments/assets in one portfolio.
- If the portfolio does not perform well/as expected, the portfolio/parts thereof may be changed with/without informing the investor.

Risk
- Risk is lower over a longer term/period.
- Investments are made in various sectors/companies, so that the risk is spread and better managed by the portfolio manager.

Debentures

- A debenture is issued to raise borrowed capital from the public.
- The lender (debenture holder) agrees to lend money to the company (borrower) on certain conditions for a certain period.
- Most types of debentures can be traded on the JSE.
- Debenture holders receive an annual interest payment, based on the terms/amount of debentures held.

Risk
- Debentures have a low risk, as they must be paid back.
- Companies are liable to repay the amount of the debenture plus interest, which decreases the risk for the investor.

Mutual funds/ Stokvels

- These are informal savings schemes to which a relatively small group of people contribute.
- Each member makes a monthly contribution to the stokvel and usually the same amount is contributed by each member is made.
- A stokvel is usually managed by a trustworthy chairman/treasurer, who will be responsible for keeping records and managing the bank account.

Risk
- The level of risk may be low.
- Money in a savings account is a safe investment, but with low interest rates, returns are low.

Business ventures/ Venture capital

- Venture capital is contributed by investors/businesses to start a new business or to expand an existing one.
- In return, the investor will have a share in the new/expanded business if venture capital is contributed.

Risk
- High risk for the investor, if research is not done properly.
- Inexperienced business owners that make wrong business decisions may experience big losses or may have to close down an existing business.

Endowment/ Life insurance policies

- A monthly payment is paid to an insurance company in the hope of receiving a pre-determined amount on a specified future date.
- They are an important way to provide for future expenses and give peace of mind to the investor and the dependants of the insured..
Risk
- Low risk, as the insured amount will be paid out regardless of circumstances.

Retirement Annuity
- A monthly payment to an insurance company in return for a certain amount of money at retirement age.

Risk
- Low risk, as the insured amount will be paid out regardless of circumstances.

32-day notice accounts/ Call deposits
- Money is invested at a fixed rate, and withdrawals may be made, provided the bank is given 32 days’ notice of the withdrawal.
- It earns better interest than a current/ cheque/ savings account, but less interest than a fixed deposit.

Risk
- Low risk, as investment plus interest will be paid out on the maturity date of the investment.
- Interest is calculated on the daily balance, which increases the return on the investment.

Property investment/ Fixed Property
- This means buying capital goods, such as a piece of land or a house and buildings that are suitable as a long term investment.
- Property is bought to rent out or to be sold at a profit in future.
- A return on property is earned in the form of rent/ sales/ capital gains.
- The property is usually sold at a higher price than was paid (including the transfer costs and taxes).
- Buying property is expensive as the costs are usually paid by the buyer, e.g. high registration fees/ annual property taxes/ rates.

Risk
- The risk is low over the long term.
- Risk may be determined by economic conditions, which may ultimately determine the value of the property.

There are FOUR types of shares and SEVEN types of preference shares. Check the summary diagram for a better understanding.
## 3.1.7 Different types of shares

<table>
<thead>
<tr>
<th>Type of shares</th>
<th>Discussion</th>
</tr>
</thead>
</table>
| Preference shares | • More expensive type of share, because the owner is more entitled to preferential dividends.  
• Shareholders receive dividends first, before any other shareholders receive their dividends.  
• Shareholders are guaranteed a fixed rate of dividend if a company makes a profit.  
• The shareholders do not have voting rights and do not attend AGMs (except in particular circumstances). |
| Ordinary shares | • This is the most common type of share and it is less expensive.  
• Dividends are paid only after preference shareholders have received a dividend.  
• Dividends are paid out according to the number of ordinary shares owned in the business.  
• Shareholders have voting rights. Ordinary shares have no special rights, so there are restrictions. |
| Founders' shares | • Issued to the founders/inorporators of the company, i.e. those who established it  
• They will be the last to receive a dividend.  
• Owners of these shares are entitled to all remaining profits. |
| Bonus shares | • Shares are issued to existing shareholders as compensation for loss of dividends.  
• It serves as a gift or payment in the form of shares given to shareholders.  
• They are not sold - shareholders receive them without having to pay for them.  
• Usually issued by companies with a large reserve fund/retained income to existing shareholders. |
Activity 3

3.1 Identify the type of shares represented by EACH statement below.
3.1.1 Shares are issued to existing shareholders as compensation for loss of dividends.
3.1.2 Shareholders receive their dividends before others can be paid out.
3.1.3 These shares are issued to shareholders who started the company.
3.1.4 These shareholders may receive a higher dividend if the company has made a large profit.

4.1.8 Types of preference shares

They are classified into the following SEVEN types:

Cumulative preference shares
Shareholders are paid dividends for past years when they were not paid because there was no profit from which to distribute a dividend.

Non-cumulative preference shares
Shareholders are not paid for past dividends that were not paid in a year when there was not enough profit from which to distribute a dividend.

Participating preference shares
The shareholders will share in a second dividend in a year when surplus profit remains, i.e. from profit which remains after shareholders have been paid a dividend.

Non-participating preference shares
Shareholders only receive a fixed dividend, i.e. they will not share in surplus profit.

Redeemable preference shares
The company may buy back these shares after a specified period.

Non-redeemable preference shares
These shares are only bought back when the company closes down for reasons other than bankruptcy.
ACTIVITY 4

4.1 Identify the type of preference shares explained in the following statements:

4.1.1 Shares may be converted to ordinary shares after a fixed period.
4.1.2 Shareholders will share in a second dividend in a year when surplus profit remains.
4.1.3 Shareholders are not paid for past dividends.
4.1.4 The company may buy back these shares after a specified period.

3.1.8 The rights of preference shareholders

- Receive dividends regardless of how much profit is made.
- Receive a fixed rate of return/dividend.
- They are paid first/enjoy preferential rights to dividends.
- They have a preferred claim on company assets in the event of bankruptcy/liquidation of the company.
- Receive interim and annual reports.
- They only have voting rights at the AGM under particular circumstances/for certain resolutions.
- Cumulative shareholders must receive outstanding/accrued dividends from previous years.
- Participating preference shareholders have the right to share in surplus profits.

3.1.9 Distinguishing between ordinary and preference shares

In studying the differences between ordinary and preference shares, try and use the following as a guide: Is it cheap or expensive? Do shareholders have voting rights? How do shareholders receive dividends? Which entitlements/preferences do shareholders have?

<table>
<thead>
<tr>
<th>Preference shares</th>
<th>Ordinary shares</th>
</tr>
</thead>
<tbody>
<tr>
<td>Shareholders receive dividends first, before any other shareholders may receive a dividend</td>
<td>They receive dividends only after preference shareholders have been paid.</td>
</tr>
<tr>
<td>Will receive dividends regardless of profits made.</td>
<td>The higher the profit, the higher the dividend.</td>
</tr>
<tr>
<td>Shareholders promised/guaranteed a fixed rate of dividend, if company makes a profit.</td>
<td>Dividends are paid out according to the number of ordinary shares owned in the business.</td>
</tr>
<tr>
<td>The shareholders do not have voting rights and do not attend AGMs.</td>
<td>Shareholders have voting rights and also attend AGMs.</td>
</tr>
</tbody>
</table>
4.1.9 Definition of concepts

Dividends
- This is the return/or earning that shareholders receive for investing in a company by buying shares.
- Profit is distributed to shareholders in the form of dividends.

Capital gain
- It is the money the investor makes from selling an asset.
- An asset bought is sold for a profit and the capital has gained.
- Capital gain takes place when the value of the capital invested increases.

Debentures
- The lender/debenture holder agrees to lend money to the company on certain conditions for a certain period.
- Debenture holders are creditors, as the company is liable to repay the amount of the debenture.
- It is issued to raise borrowed capital from the public.

Simple interest
Interest is paid on the original amount only and not on the accrued interest.

Compound interest
Interest is earned also on the interest accrued, not only on the amount invested.

3.1.10 Differences between simple and compound interest

<table>
<thead>
<tr>
<th>Simple interest</th>
<th>Compound interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>. Interest is paid on the original amount only and not on the accrued interest.</td>
<td>. Interest is also earned on the interest accrued and not only on the amount invested.</td>
</tr>
<tr>
<td>. The amount invested (the principal amount) remains the same over the period of the investment.</td>
<td>. The principal amount (the amount invested) grows with the addition of interest to it.</td>
</tr>
<tr>
<td>. The interest earned is kept separate unless it is reinvested.</td>
<td>. Interest earned is constantly added to the original amount invested.</td>
</tr>
<tr>
<td>. Total interest earned is usually lesser as amount is fixed and principal amount remains the same.</td>
<td>. Total interest earned on the investment is higher.</td>
</tr>
</tbody>
</table>
ACTIVITY 5

5.1 Identify a relevant concept for each of the following statements:

5.1.1 Interest is paid on the original amount only and not on the accrued interest.
5.1.2 The return/or earning that shareholders receive for investing in shares.
5.1.3 It is the money the investor makes from selling an asset.
5.1.4 The lender agrees to lend money to the company on certain conditions for a certain period.
5.1.5 Interest is also earned on the interest accrued and not only on the amount invested.

Remember! Your responses must link when you are asked to tabulate.

ACTIVITY 6
Tabulate the differences between simple and compound interest.

CALCULATION OF THE SIMPLE AND COMPOUND INTEREST

Formulae

<table>
<thead>
<tr>
<th>Simple interest</th>
<th>Compound interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>( I = P \times r \times n )</td>
<td>( A = P(1+r)^n )</td>
</tr>
<tr>
<td>( P = ) principal amount ( R = ) rate ( N = ) period</td>
<td>( P = ) principal amount ( R = ) rate ( N = ) period</td>
</tr>
</tbody>
</table>

When doing calculations on interest, always start with the formula.

ACTIVITY 7

7.1 Calculate the interest for the following TWO options.

OPTION 1

- R300 000 was invested with SABA Bank at 9% interest per annum over a period of 3 years. (Use the simple interest method.)

OPTION 2

- R300 000 invested in DEN Bank in a 32-day notice account at 9% compound interest per annum over a period of 3 years.
ACTIVITY 8

You are the financial advisor who must assist a client who wants to invest R5 million for three years in ONE of the following investment options:

- A fixed-deposit bank account for three years at simple interest of 8.5% per year.
- Government retail bonds for three years at 8% per year, compounded annually.

Instructions

- Calculate the interest for each of the above investments. (Show calculations clearly and show the formulae.)
- Recommend the best investment option to your client and motivate your recommendation.

Workings - Activity 8

ACTIVITY 9

Mary invested R5 000 for three years, at 10% interest per year, with CAPITAL BANK. The interest on her investment is compounded annually.

9.1 Calculate the amount of interest Mary will earn. (Provide the formula and show ALL calculations.)

Workings - Activity 9
ACTIVITY 10: Essay type question

Tom is a first-year commerce student who inherited a large sum of money recently. He wants to invest this money to start his own business in three years' time. Tom is considering investing in ordinary shares on the Johannesburg Security Exchange Ltd (JSE) and RSA Retail Savings Bonds/Government Retail Bonds.

Advise Tom on the following investment aspects:

- Discuss the factors to be considered when making investment decisions.
- Explain the functions of the JSE.
- Distinguish between compound interest and simple interest.
- Evaluate the impact of RSA Retail Savings Bonds/Government Retail Bonds on investors.

3.2 INVESTMENT: INSURANCE
4.2.1 Overview of the topic

Business insurance protect businesses from losses due to events that might occur during the normal course of business. There are many types of insurance for businesses, including cover for property damage, legal liability and employee-related risks. Insurance is extremely beneficial to businesses and individuals as it provides financial relief in times of unforeseen financial losses. Insurance plays a vital role in ensuring that businesses are sustainable.

4.2.2 Key concepts

<table>
<thead>
<tr>
<th>Term</th>
<th>Definition</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance</td>
<td>A contract between an insurer requiring insurance cover and the insurer bearing the financial risk.</td>
</tr>
<tr>
<td>Insurance contract</td>
<td>An agreement whereby the insurer undertakes to indemnify the insured in the event of a specified loss in exchange for a premium.</td>
</tr>
<tr>
<td>Insurer</td>
<td>An insurance company that will take over specified risks.</td>
</tr>
<tr>
<td>Insured</td>
<td>The individual or business that takes out insurance coverage.</td>
</tr>
<tr>
<td>Indemnify</td>
<td>To compensate, protect or re-pay the insured in the event of loss or damage.</td>
</tr>
<tr>
<td>Risk</td>
<td>The potential of losing something of value.</td>
</tr>
<tr>
<td>Premium</td>
<td>The payment made by the insured to be covered in the event of a loss.</td>
</tr>
<tr>
<td>Life insurance</td>
<td>Long term insurance taken out on the life of a human being and cover for the loss of life.</td>
</tr>
<tr>
<td>Insurable interest</td>
<td>This is expressed in financial terms and is the interest that the insured stands to lose if there are losses or damages.</td>
</tr>
<tr>
<td>Unemployment Insurance Fund (UIF)</td>
<td>This fund provides benefits to workers who have been working and who are now unemployed for reasons such as retrenchment.</td>
</tr>
<tr>
<td>Road Accident Fund (RAF)</td>
<td>This fund pays compensation when a person is disabled or injured in a road accident and to the dependents of the individual if he/she is killed in a road accident.</td>
</tr>
<tr>
<td>Road Accident Benefit Scheme (RABS)</td>
<td>This fund compensates workers financially for disability that may arise as a result of accidents that occur while staff are performing their duties in the workplace.</td>
</tr>
</tbody>
</table>
4.2.3 The meaning of insurance
- It refers to a contract between the insured and the insurer.
- With this type of contract, the insurer agrees to cover the insured for a specific loss/damage in exchange for a premium.

4.2.4 Non-compulsory insurance
- It is voluntary insurance, because the insured has a choice regarding whether or not to enter into an insurance agreement.
- The insured often enters into an agreement with the insurer through a broker.
- Examples: theft, fire and life insurance.
- Monthly or annual premiums must be paid in order to enjoy cover for a specified risk.

4.2.5 Compulsory insurance
- Insurance required by law.
- Does not require an insurance broker and is regulated by government.
- Examples include: RAF, UIF and COIDA.

4.2.6 Types of compulsory insurance

Unemployment Insurance Fund/ UIF
- The UIF provides benefits to workers who have been working and who become unemployed for various reasons.
- Businesses contribute 1% of the total basic wages towards UIF, which reduces the cost of providing UIF benefits themselves.
- Employees contribute 1% of their basic wage to UIF.
- Businesses are compelled to register their employees with the fund and to pay the contribution to the fund.
- All employees who work at least 24 hours per month are required to be registered for UIF and to contribute to UIF.

The benefits of the Unemployment Insurance Fund/ UIF
- Unemployment benefits
- Illness benefits
- Maternity benefits
- Adoption benefits
- Dependant benefits

Road Accident Fund/ RAF/ Road Accident Benefit Scheme / RABS
- RAF / RABS insures road-users against the negligence of other road users.
- The RAF / RABS provides compulsory cover for all road users in South Africa, including South African businesses.
- RAF / RABS is funded by a levy on the sale of fuel/diesel/petrol.
- The next of kin of workers/breadwinners who are injured/killed in road accidents, may claim directly from RAF / RABS.
- Injured parties and negligent drivers are both covered by RAF / RABS.

Compensation Fund / Compensation for Occupational Injuries and Diseases
- Compensates employees for injuries and diseases that happen at work.
- Compensation paid is determined by the degree of disability.
- Employees do not have to contribute towards this fund.
- Employees receive medical assistance provided there is no other party/medical fund involved.
4.2.7 The differences between insurance and assurance

Insurance:
- Cover for a specified event that MAY happen, e.g. damage to a building due to a fire, natural disaster, theft or car accident.
Assurance

- Cover for a specified event that WILL happen, but the time of the event is uncertain e.g. death of a partner/ key personnel.

<table>
<thead>
<tr>
<th>Example 1</th>
<th>Example 2</th>
</tr>
</thead>
<tbody>
<tr>
<td><img src="image1" alt="Assurance Example 1" /></td>
<td><img src="image2" alt="Assurance Example 2" /></td>
</tr>
</tbody>
</table>

Insurable and non-insurable risks

<table>
<thead>
<tr>
<th>INSURABLE RISKS</th>
<th>NON-INSURABLE RISKS</th>
</tr>
</thead>
<tbody>
<tr>
<td>- These are risks that insurance companies are prepared to cover.</td>
<td>- These are risks that insurance companies are not prepared to cover.</td>
</tr>
<tr>
<td><strong>Examples include:</strong></td>
<td><strong>Examples include:</strong></td>
</tr>
<tr>
<td>- Fire</td>
<td>- Losses caused by war</td>
</tr>
<tr>
<td>- Theft and burglary</td>
<td>- Risks occurring in the period between placing an order and receiving the goods</td>
</tr>
<tr>
<td>- Storm damage/ damage caused by natural disasters</td>
<td>- Changes in fashion</td>
</tr>
<tr>
<td>- Life insurance</td>
<td>- Shoplifting</td>
</tr>
<tr>
<td>- Vehicle insurance</td>
<td>- Losses caused by marketing malpractices</td>
</tr>
<tr>
<td>- Disability cover</td>
<td>- Advancement in technology/ new machinery invention</td>
</tr>
</tbody>
</table>

4.2.8 Importance/advantages of insurance for businesses

- Transfers the risk from the business/insured to an insurance company/insurer.
- Protects the business against deeds of dishonesty by employees.
- Protects the business against losses due to the death of a debtor.
- Life insurance can be taken out on the life of partners in a partnership.
- Protects the business against theft/loss of stock/damages caused by natural disasters such as floods.
- Valuable business assets (e.g. vehicles/equipment/buildings) need to be insured against damage and theft.
- Insurance protects the business against claims made by the public for damages that the business is responsible for.
- The business will be compensated for insurable losses, e.g. destruction of property through fire.
- Businesses are protected against a loss of earnings caused by strikes.
4.2.9 Principles of insurance

Security
- This applies to a long term insurance agreement, whereby the insurer undertakes to pay out an agreed amount in an event like death, reaching a specified age, etc.
- Long term insurance (assurance) agreements include retirement annuities, disability cover, life policies, etc.
- The aim is to provide financial security to the insured or the dependants of the deceased.
- Indemnity/Indemnification
- This principle applies to short term insurance agreements, whereby the insurer agrees to compensate the insured for specified losses.
- The insured must be placed in the same position as he/she was in before the damages occurred.
- The insured may not profit from insurance.

Insurable interest
- The insured must prove that he/she will suffer a financial loss if the insured object is damaged/lost/ceases to exist.
- Insurable interest must be expressed in financial terms.

Utmost good faith
- The insurer/insured has to be honest when supplying details when entering into an insurance contract.
- Both parties must disclose all relevant facts.
- Detailed information supplied when claiming should be true.

4.10 Insurance Concepts

Reinstatement
- The insured is restored to almost the same financial position as before the loss occurred.
- The insurer rebuilds/ replaces the damaged property instead of paying out cash.
- Reinstatement may be applied if the item was over-insured.
- The reinstatement value will not be higher than the market value of the loss.

Excess
- An excess is the first amount payable by the insured in the event of a loss.
- It is the uninsured portion of the loss.
- It is applicable to short term insurance agreements.

Average clause
- The insurer will only pay the average between the actual value and the insured value.
- This means that the insured will have to carry the part of the risk that is not insured.
- This applies to items that are under-insured.
Over-insurance

- Over-insurance is when the item is insured for more than the actual market value.
- Businesses/individuals will not receive a pay-out larger than the value of the loss at market value.
- This means that the extra money paid for the premiums will not be paid out to the insurer.

Under-insurance

- The item is insured for less than the actual market value.
- If the item is not insured for its full value, the insured will be responsible for the balance.
- In the event of under-insurance, the average clause will apply.

Calculation of under-insurance

Always use this formula: (amount insured + market value) x damages
Example: Peter has a house with a market value of R800 000.
He insured his house for R600 000. A fire resulted in damages of R400 000 to his house.

The insurance company will use the formula above to proportionately indemnify Peter as follows:

\[
\text{Amount insured} \times \text{damages}\\
\text{600 000} \times \text{800 000} = \text{R300 000}
\]
ACTIVITY 1

1.1. Choose the description of insurance concepts and principles from COLUMN B that matches a term in COLUMN A. Write only the letter (A-J) next to the question number (1.3.1-1.3.5) in the ANSWER BOOK.

<table>
<thead>
<tr>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.1 Average clause</td>
<td>A Financial loss suffered by the insured.</td>
</tr>
<tr>
<td></td>
<td>B Over-insurance</td>
</tr>
<tr>
<td>1.1.2 Indemnity</td>
<td>C To provide for the dependants of the deceased.</td>
</tr>
<tr>
<td></td>
<td>D Provide the insurer with information that may affect a claim.</td>
</tr>
<tr>
<td>1.1.3 Security</td>
<td>E For valuable assets like jewellery.</td>
</tr>
<tr>
<td></td>
<td>F Insurer will only reimburse the insured partially.</td>
</tr>
<tr>
<td>1.1.4 Excess</td>
<td>G Right of insurer to repair the loss.</td>
</tr>
<tr>
<td></td>
<td>H Too much life insurance.</td>
</tr>
<tr>
<td>1.1.5 Utmost good faith</td>
<td>I Insured makes a payment to a service provider to receive repaired/ replacement goods.</td>
</tr>
<tr>
<td></td>
<td>J Places the insured in the same position as before the loss occurred.</td>
</tr>
</tbody>
</table>

1.2. Classify EACH statement below as compulsory or non-compulsory insurance:

1.2.1 Sam claimed from the Road Accident Fund for losing his arm in a car accident.

1.2.2 Yugo Manufactures insured their workers against injuries and diseases that may occur in the workplace.

1.2.3 Floyd’s Tiling insured its building against theft and fire.

1.2.4 James claimed from the Unemployment Insurance Fund while he was unemployed.

1.2.5 Lisa insured her life against any event that may render her incapable of working. (10)
ACTIVITY 2

2.1 Read the statement below and answer the questions that follow.

Sarie bought a business property worth R1 000 000, but she insured it for R800 000. Flooding destroyed part of the property and damages were estimated at R400 000.

2.1.1 Identify the insurance clause that applies to Sarie's situation in the scenario above. (2)

2.1.2 Name the principle of insurance that is applicable above. (2)

2.1.3 Calculate the amount the insurer will pay Sarie for damages. (5)

2.2 Suggest THREE possible reasons why Sarie insured her business property. (6)

2.3 Distinguish between over-insurance and under-insurance. (8)

ACTIVITY 3.

3.1 Identify insurance or assurance in the statements below.

3.1.1 John makes monthly contributions towards an insurance premium that will pay him a specified amount when he dies. (2)

3.1.2 Xolani insured his vehicle against possible damages. (2)

3.2 Distinguish between insurance and assurance. (8)

ACTIVITY 4

4.1 Read the scenario below and answer the questions that follow.

Martin is the owner of a clothing shop. He approached his insurance company to insure him against losses due to a change in fashion and shoplifting. His insurer was not prepared to cover his business against these losses.

4.1.1 Quote TWO examples of non-insurable risks from the scenario above. (2)

4.1.2 Differentiate between insurable and non-insurable risks by providing TWO examples of each. (8)
ACTIVITY 5

5.1 Identify the type of compulsory insurance represented by the statements below.

5.1.1 It is financed through a levy that is included in the price of fuel.

5.1.2 John adopted a baby and was forced to be away from work for more than two weeks.

5.1.3 Employers must make contributions to a fund from which claims will be made if employees are injured during working hours.

5.2 Discuss THREE types of benefits covered by the Unemployment Insurance Fund.

ACTIVITY 6: Essay type question

Insurance companies offer a variety of insurance products that are vital to businesses. Some businesses argue that insurance and assurance decrease their profit, while others feel that insurance products provide peace of mind for any eventuality. Businesses are also required to contribute to compulsory insurance.

- With reference to the above scenario, write an essay on the following:
  - Distinguish between insurance and assurance.
  - Discuss the THREE types of compulsory insurance.
  - Elaborate on the meaning of the average clause and explain how it is calculated.
  - Evaluate the positive impact of insurance on businesses.
4. Check your answers

4.1 Investment: Securities

ACTIVITY 1

1.1 SIX possible investment options that Mr Naledi could consider.

- Fixed deposit √
- Shares √
- Unit trust RSA Retail Savings bond √
- Property investment √
- 32-day notice deposit √
- Stokvel √
- Venture capital √
- Debentures √
- Manage portfolio √
- Any other relevant investment option.

Any (6 x 1) (6)

1.2 Elaborate on the risk factor for each of the following investment options:

<table>
<thead>
<tr>
<th>Investment option</th>
<th>Risk factor</th>
</tr>
</thead>
</table>
| Fixed deposit                          | • The risk is very low, √ as the investor will receive his/her investment when the fixed deposit matures/the term expires. √  
• The interest rate is fixed, √ so the return will not be affected by economic conditions/ market fluctuations. √  Sub max 2 |
| Shares                                 | • The risk of losing the initial investment (or part of it) can be high√ over the short term, √  
• Share prices fluctuate/change √ a lot and are dependent on economic conditions. √  Sub max 2 |
| RSA Retail Savings bond                | • Low/No risk is involved in investing in government retail bonds, √ as the investor will receive his investment back at maturity. √  
• The investor will only lose during times of war √ in the country. √  Sub max 2 |
| Property investment                    | • The level of risk can be low √ or high. √  
• The property may lose value (depreciate) over time and will have to be sold at lower than the initial investment.  
• Property can be sold at a higher value √ when economic conditions are good. √  Sub max 2 |

Max (8)
ACTIVITY 2

2.1 Unit trust✓✓
2.2 Property investment✓✓
2.3 Fixed deposit✓✓
2.4 Shares✓✓
2.5 RSA Government retail savings bond✓✓

ACTIVITY 3

3.1 Bonus shares✓✓
3.2 Preference shares✓✓
3.3 Founder’s shares✓✓
3.4 Ordinary shares✓✓

ACTIVITY 4

Identify the type of preference shares explained in the following statements:

4.1 Convertible preference shares✓✓
4.2 Participating preference shares✓✓
4.3 Non-participating shares✓✓
4.4 Redeemable preference shares✓✓

ACTIVITY 5

Provide a relevant concept for each of the following explanations:

1. Simple interest✓✓
2. Dividends✓✓
3. Capital gain✓✓
4. Debentures✓✓
5. Compound interest✓✓
ACTIVITY 6

6.1 Tabulate the differences between simple and compound interest.

<table>
<thead>
<tr>
<th>Simple interest</th>
<th>Compound interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Interest is paid on the original amount only and not on the accrued interest. ✓</td>
<td>• It is when interest is earned on the interest accrued, ✓ as well as on the amount invested. ✓</td>
</tr>
<tr>
<td>• The amount invested (principal amount) remains the same ✓ over the period of the investment. ✓</td>
<td>• The principal amount (amount invested) grows ✓ as interest is added to it. ✓</td>
</tr>
<tr>
<td>• The interest earned is kept separate, ✓ unless it is reinvested. ✓</td>
<td>• Interest earned is constantly added ✓ to the original amount invested. ✓</td>
</tr>
<tr>
<td>• Total interest earned is usually less, ✓ as the amount is fixed and principal amount remains the same. ✓ Sub max 2</td>
<td>• Total interest earned on investment is higher, ✓ as interest is added to the original amount. Sub max 2</td>
</tr>
</tbody>
</table>

Max (4)

CALCULATION OF SIMPLE AND COMPOUND INTEREST

ACTIVITY 7

Solution Activity 7

Option 1: Fixed deposit using the simple interest method

Formula: \[ P \times r \times n \sqrt{\frac{100}{yrs}} \]

\[ R300 \ 000 \times 9\% \times 3 \sqrt{\frac{100}{yrs}} \]

\[ = R81 \ 000 \sqrt{\frac{100}{yrs}} \]

Option 2: 32-day notice account using the compound interest method

Formula: \[ A = P (1 + \frac{r}{n})^{nt} \] OR \[ A = P (1+i)^n \] (Accept 't' for 'n') ✓

\[ R300 \ 000 (1+9\%) \sqrt{\frac{100}{32\text{ days}}} \]

\[ = R388 \ 508.70 \sqrt{\frac{100}{32\text{ days}}} \]

Interest earned

\[ R388 \ 508.70 - R300 \ 000 \sqrt{\frac{100}{32\text{ days}}} \]

\[ = R 88 \ 508.70 \sqrt{\frac{100}{32\text{ days}}} \]
ACTIVITY 8

Solution Activity 8
Compound interest
Formula: \( A = P (1+ r)n\sqrt{t} \) OR \( A = P (1+i)n \) (Accept 't' for 'n')
\( R5 \ 000 \ 000 \ \sqrt{t} (1,08) \ \sqrt{3} \)
= \( R6 \ 298 \ 560 \ \checkmark \) value after 3 years
Interest: \( R6 \ 298 \ 560 - R5 \ 000 \ 000 \)
= \( R1 \ 298 \ 560 \ \checkmark \) (earned over 3 years)
Sub-max (4)

Simple interest:
Formula: \( I = P \times r \times t \)
\( 5 \ 000 \ 000 \times 8.5/100 \ OR \ 8.5\% \times 3 \ years \)
= \( R1 \ 275 \ 000 \ after \ 3 \ years \)
Sub-max (4)

ACTIVITY 9

Solution activity 9
\( A = P (1+ r)n\sqrt{t} \) OR \( A = P (1+i)n \) (Accept 't' for 'n')
\( = 5 \ 000 \ (1+ 10/100)3 \ OR \ 5 \ 000 \ (1.1)3 \ OR \ 5 \ 000 \ (1.64) \ \sqrt{3} \)
= \( R6 \ 655 \ \checkmark \)

INTEREST = \( R6 \ 655 - R5 \ 000 = R1 \ 655 \)

ALTERNATIVE CALCULATION
Year 1: \( R5 \ 000 + R500 \ (R5000 \times 10\%) \ \checkmark = R5 \ 500 \)
Year 2: \( R5 \ 500 + R550 \ (R5 \ 500 \times 10\%) \ \checkmark = R6 \ 060 \)
Year 3: \( R6 \ 050 + R605 \ (R6 \ 050 \times 10\%) \ \checkmark = R6 \ 655 \)

(6)
ACTIVITY 10

Introduction

- Investors have a range of investment opportunities from which to choose. ✓
- They measure these investment opportunities against criteria for good investment. ✓
- Investors set financial goals and consider different factors when making these decisions. ✓
- The JSE is a formal market comprising all the public companies that have been listed. ✓
- The National Treasury of South Africa issues RSA Retail Savings Bonds/ Government Retail Bonds to the general public. ✓
- Any other relevant introduction related to investment in shares on the JSE/RSA Retail Savings Bonds/Government Retail Bonds.

Max (2)

Factors to be considered when making investment decisions

Return on Investment (ROI) ✓ ✓

- Refers to income from the investment, ✓ namely interest, dividends or capital appreciation (growth/increase) on the original amount invested. ✓
- Generally, there will be a direct link ✓ between risk and return. ✓
- The return should be expressed ✓ as net after-tax gains on the investment. ✓
- Returns can be in the form of capital gain, ✓ as the asset appreciates in value. ✓
- The net after-tax return should be higher ✓ than the inflation rate. ✓
- Any other relevant answer related to ROI.

Sub max (4)

Risk ✓ ✓

- Refers to the chance that the invested amount may reduce in value over a period of time, ✓ due to unforeseen circumstances. ✓
- The higher the potential return, ✓ the higher the risk of a potential loss. ✓
- Example: investing in shares has a higher risk ✓ than investing in a fixed deposit. ✓
- Any other relevant answer related to risk.

Sub max (4)

Inflation rate ✓ ✓

- Inflation refers to a decrease ✓ in the value of money due to rising prices. ✓
- People are affected by a high inflation rate, ✓ because purchasing power decreases. ✓
The return on investment should be higher \( \sqrt{\text{true}} \) than the inflation rate. \( \sqrt{\text{true}} \)

Inflation has a positive effect on some investments, \( \sqrt{\text{true}} \) such as property and shares, as the income will increase as inflation increases. \( \sqrt{\text{true}} \)

Any other relevant answer related to the inflation rate. \( \text{Sub max (4)} \)

**Investment period** \( \sqrt{\text{true}} \)

- This refers to the duration of the investment, \( \sqrt{\text{true}} \) which may influence the return on investment. \( \sqrt{\text{true}} \)
- It can be short, medium \( \sqrt{\text{true}} \) or long term. \( \sqrt{\text{true}} \)
- The investment period will depend \( \sqrt{\text{true}} \) on a customer's personal needs. \( \sqrt{\text{true}} \)
- Any other relevant answer related to the investment period. \( \text{Sub max (4)} \) \( \text{Max (16)} \)

**Functions of the Johannesburg Security Exchange (JSE)**

- Serves as a barometer/indicator \( \sqrt{\text{true}} \) of economic conditions in South Africa. \( \sqrt{\text{true}} \)
- Keeps investors informed, \( \sqrt{\text{true}} \) by publishing share prices daily. \( \sqrt{\text{true}} \)
- Serves as a link \( \sqrt{\text{true}} \) between investors and public companies. \( \sqrt{\text{true}} \)
- Small investors \( \sqrt{\text{true}} \) are invited to take part in the economy of the country by buying/selling shares. \( \sqrt{\text{true}} \)
- Shares are valued \( \sqrt{\text{true}} \) and assessed by experts. \( \sqrt{\text{true}} \)
- Regulates the market \( \sqrt{\text{true}} \) for dealing in shares. \( \sqrt{\text{true}} \)
- Plans, researches and advises \( \sqrt{\text{true}} \) on investment possibilities. \( \sqrt{\text{true}} \)
- Ensures that the market \( \sqrt{\text{true}} \) operates in a transparent manner. \( \sqrt{\text{true}} \)
- Provides a safe environment \( \sqrt{\text{true}} \) for exchanging securities. \( \sqrt{\text{true}} \)
- Any other relevant answer related to the functions of the JSE. \( \text{Max (12)} \)

<table>
<thead>
<tr>
<th>Simple interest</th>
<th>Compound interest</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Interest is paid on the original amount only ( \sqrt{\text{true}} ) and not on the accrued interest. ( \sqrt{\text{false}} )</td>
<td>- It is when interest is earned on the interest accrued, ( \sqrt{\text{true}} ) as well as on the amount invested. ( \sqrt{\text{true}} )</td>
</tr>
<tr>
<td>- The amount invested (principal amount) remains the same ( \sqrt{\text{true}} ) over the period of investment. ( \sqrt{\text{true}} )</td>
<td>- The principal amount (amount invested) grows ( \sqrt{\text{true}} ) as interest is added to it. ( \sqrt{\text{true}} )</td>
</tr>
<tr>
<td>- The interest earned is kept separate ( \sqrt{\text{true}} ) unless it is reinvested. ( \sqrt{\text{false}} )</td>
<td>- Interest earned is constantly added ( \sqrt{\text{true}} ) to the original amount invested. ( \sqrt{\text{true}} )</td>
</tr>
<tr>
<td>- Total interest earned is usually less ( \sqrt{\text{false}} ) as the amount is fixed and principal amount remains the same. ( \sqrt{\text{true}} )</td>
<td>- Total interest earned on investment is higher, ( \sqrt{\text{true}} ) as interest is added to the original amount. ( \sqrt{\text{true}} )</td>
</tr>
</tbody>
</table>

Max (4)
Impact of RSA Retail Savings Bonds/ Government Retail Bonds on investors

Advantages

- Investment may be easily accessible, as cash may be withdrawn after the first twelve months, subject to penalties.
- Low risk/Safe investment, as it is invested with the South African Government, which cannot be liquidated.
- It is an affordable type of investment for all levels of income earners, including pensioners.
- Retail bonds are easily/conveniently obtained electronically/from any Post Office/ Pick 'n Pay shop/directly from National Treasury.
- No charges/cost/commission is payable on this type of investment.
- Guaranteed return, as the interest rate is fixed for the whole investment period.
- Interest rates are market related.
- The interest is usually higher than on fixed deposits.
- Retail bonds are listed on the capital bond markets and the JSE.
- Investors younger than 18 years may invest with the help of a legal guardian, which encourages saving from a young age.
- Any other relevant answer related to the positive impact/advantages of RSA Retail Savings Bonds/Government Retail Bonds on investors.

AND/OR

Disadvantages

- Retail bonds cannot be ceded to banks as security for obtaining loans.
- A minimum of R1 000 must be invested, which may be difficult for some small investors to accumulate.
- Retail bonds are not freely transferable amongst investors.
- Investors need to have valid SA identification and should be older than 18 years, which may discourage foreigners and young people from investing.
- Penalties are charged for early withdrawals, if the saving is less than 12 months old.
- Any other relevant answer related to the negative impact/ disadvantages of RSA Retail Savings Bonds/Government Retail Bonds on investors.

Max (12)
4.2 INVESTMENT: INSURANCE

ACTIVITY 1.

1.1 Choose the description of insurance concepts and principles from COLUMN B that matches the term provided in COLUMN A.

<table>
<thead>
<tr>
<th>Column A</th>
<th>Column B</th>
</tr>
</thead>
<tbody>
<tr>
<td>1.1.1 Average clause</td>
<td>F Insurer will only reimburse the insured partially. ✓ ✓</td>
</tr>
<tr>
<td>1.1.2 Indemnity</td>
<td>J Places the insured in the same position as before the loss occurred. ✓</td>
</tr>
<tr>
<td>1.1.3 Security</td>
<td>C To provide for the dependants of the deceased. ✓ ✓</td>
</tr>
<tr>
<td>1.1.4 Excess</td>
<td>I Insured makes a payment to a service provider to receive repaired or replacement goods. ✓ ✓</td>
</tr>
<tr>
<td>1.1.5 Utmost good faith</td>
<td>D Provide insurer with all information that may affect a claim. ✓ ✓</td>
</tr>
</tbody>
</table>

In questions where the number of facts is specified, the first number of required facts will be marked.

4.1 Classify EACH statement below as compulsory or non-compulsory insurance:

1.2.1 Compulsory insurance ✓ ✓
1.2.2 Compulsory insurance ✓ ✓
1.2.3 Non-compulsory insurance ✓ ✓
1.2.4 Compulsory insurance ✓ ✓
1.2.5 Non-compulsory insurance ✓ ✓

ACTIVITY 2

2.1.1 Average clause ✓ ✓
2.1.2 Indemnification / indemnity ✓ ✓

2.1.3 Formula = Insured Amount
                 Market value × Damages
                 800 000
                 1000 000 × 400 000 = R320 000 ✓ ✓

2.2 Importance of insurance

- Transfers the risk from Sarie's business to an insurance company/insurer. ✓ ✓
- Protects her business against deeds of dishonesty by employees. ✓ ✓
- Protects her business against losses due to the death of a debtor. ✓ ✓
- Life insurance can be taken against the life of partners in a partnership. ✓ ✓
- Protects the business against theft/loss of stock/damages caused by natural disasters such as floods. ✓ ✓
- Valuable business assets (e.g. vehicles/equipment/buildings) need to be insured against damage and theft. ✓ ✓
- Insurance protects the business against claims made by the public for damages that the business is responsible for. ✓ ✓
- The business will be compensated for insurable losses, e.g. the destruction of property through fire. ✓ ✓
- Businesses are protected against loss of earnings due to a Strike. ✓ ✓

Max (6)
2.3. Differences between Compulsory and Non-compulsory Insurance

<table>
<thead>
<tr>
<th>Under-insurance</th>
<th>Over-insurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asset insured for less √ than the market value. √</td>
<td>Asset is insured for more √ than the market value. √</td>
</tr>
<tr>
<td>Principle of indemnity applies √ when claims are settled, √</td>
<td>Claims are settled √ under the concept of reimbursement, √</td>
</tr>
<tr>
<td>Any other relevant fact relating to under-insurance</td>
<td>Any other relevant fact relating to over-insurance.</td>
</tr>
<tr>
<td>Sub max 4</td>
<td>Sub max 4</td>
</tr>
</tbody>
</table>

ACTIVITY 3

3.1. Insurance or assurance √√
3.1.1 Assurance √√
3.1.2 Insurance √√

3.2 Insurance and Assurance

<table>
<thead>
<tr>
<th>Insurance</th>
<th>Assurance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Covers specified risks that may or may not happen √ like theft, accidents natural disasters, etc. √</td>
<td>Covers specified risks that will happen, √ like death, funerals, and annuities. √</td>
</tr>
<tr>
<td>Refers to short term agreements √ between insurer and insured. √</td>
<td>Contract between the insurer and insured √ are of a longer nature. √</td>
</tr>
<tr>
<td>The insured might pay an excess √ when the claim is settled. √</td>
<td>Insured will never pay an excess √ to finalise the claim. √</td>
</tr>
<tr>
<td>Guided by the principle of indemnity √ as to place the insured in a position before the loss occurred. √</td>
<td>A security agreements, √ as it provides financial security for dependants. √</td>
</tr>
<tr>
<td>Any other relevant answer relating to insurance.</td>
<td>Any other relevant answer relating to assurance.</td>
</tr>
<tr>
<td>Sub max 4</td>
<td>Sub max 4</td>
</tr>
</tbody>
</table>

ACTIVITY 4

4.1.1 Losses due to a change in fashion √
Shoplifting √
4.1.2. Insurable and uninsurable risks

<table>
<thead>
<tr>
<th>Insurable risk</th>
<th>Non-insurable risk</th>
</tr>
</thead>
<tbody>
<tr>
<td>Risks that insurance companies are willing to cover. ✓</td>
<td>Risks that insurance companies deem too high to cover. ✓</td>
</tr>
<tr>
<td>Examples include:</td>
<td>Examples include:</td>
</tr>
<tr>
<td>• Fire ✓</td>
<td>• Losses caused by war ✓</td>
</tr>
<tr>
<td>• Theft and burglary ✓</td>
<td>• Most risks occurring in the period between placing an order and receiving the goods ✓</td>
</tr>
<tr>
<td>• Storm/ damage due to natural disasters ✓</td>
<td>• Changes in fashion ✓</td>
</tr>
<tr>
<td>• Vehicle insurance (includes theft, hijacking, accidents, etc.) ✓</td>
<td>• Shoplifting (recurrent expenditure/risk too high) ✓</td>
</tr>
<tr>
<td>• Public liability insurance ✓</td>
<td>• Losses caused by marketing malpractices on the part of the business ✓</td>
</tr>
<tr>
<td>• Fidelity insurance ✓</td>
<td>• Advancement in technology/new machinery invention ✓</td>
</tr>
<tr>
<td>• Money-in-transit ✓</td>
<td>Any other relevant answer relating to non-insurable risks.</td>
</tr>
<tr>
<td>• Unemployment insurance.</td>
<td>Any other relevant answer relating to non-insurable risks.</td>
</tr>
<tr>
<td></td>
<td>Sub max 4</td>
</tr>
</tbody>
</table>

ACTIVITY 5

5.1 Compulsory Insurance

5.1.1 RAF / Road Accident Fund / Road Accident Benefit Scheme / RABS ✓✓

5.1.2 UIF / Unemployment Insurance Fund ✓✓

5.1.3 Compensation for Occupational Injuries and Diseases / COIDA

5.2 THREE types of benefits under the UIF.

Unemployment benefits ✓✓

• Employees, who become unemployed/retrenched due to restructuring/an expired contract, may claim within six months of becoming unemployed ✓✓
• Unemployed employees may only claim if they contributed to UIF ✓✓
• Unemployed employees enjoy these benefits until the allocated funds are exhausted ✓✓
• If a worker voluntarily terminates his/her contract, he/she may not claim ✓✓
• No tax is payable on unemployment benefits ✓✓
• Any other relevant answer related to unemployment benefits.

Illness benefits ✓✓

• Employees may receive these benefits if they are unable to work for more than 14 days without receiving a salary/ part of the salary ✓✓
• Employees may not claim these benefits if they refuse medical treatment ✓✓
• Any other relevant answer related to illness benefits.

Benefit (2)
Explanation (1)
Sub max (3)

44
Maternity benefits

- Pregnant employees receive these benefits for up to 17 weeks/ 4 months/ 121 days.✓
- If a woman has a miscarriage, she can claim for up to six weeks/ 42 days.✓
- Any other relevant answer related to maternity benefits.

Benefit (2)
Explanation (1)
Sub max (3)

Adoption benefits

- Employees may receive these benefits if they adopt a child younger than two (2) years.✓
- Employees who take unpaid leave may receive part of their salary while caring for the child at home.✓
- Only one parent may claim.✓
- Any other relevant answer related to adoption benefits.

Benefit (2)
Explanation (1)
Sub max (3)

Dependant benefits

- Dependents may apply for these benefits if the breadwinner, who has contributed to UIF, dies.✓
- The spouse of the deceased may claim, whether he/she is employed or not.✓
- Any other relevant answer related to dependant benefits.

Benefit (2)
Explanation (1)
Sub max (3)

NOTE: 1. Mark the first THREE (3) only.
2. The benefit could be integrated in the explanation.
ACTIVITY 6: Essay Type Question

6.1 Introduction

- Insurance is a contract between a person/business/insured requiring insurance cover and the insurance company/insurer bearing the financial risk.
- The law requires businesses to contribute to compulsory insurance on behalf of employees.
- The purpose of insurance is to indemnify/cover the insured against certain kinds of insurable risks.
- Any other relevant introduction related to insurance.  

   \(2 \times 1\) (2)

6.2 Assurance and Insurance

<table>
<thead>
<tr>
<th>INSURANCE</th>
<th>ASSURANCE</th>
</tr>
</thead>
<tbody>
<tr>
<td>Based on the principle of indemnity. (\checkmark)</td>
<td>Based on the principle of security/certainty. (\checkmark)</td>
</tr>
<tr>
<td>The insured transfers the cost of potential loss (\checkmark) to the insurer at a premium. (\checkmark)</td>
<td>The insurer undertakes to pay an agreed sum of money (\checkmark) after a certain period has expired/on the death of the insured person, whichever occurs first.</td>
</tr>
<tr>
<td>It covers a specified event (\checkmark) that may occur.</td>
<td>Specified event is certain (\checkmark), but the time of the event is uncertain. (\checkmark)</td>
</tr>
<tr>
<td>Applicable to short term insurance. (\checkmark)</td>
<td>Applicable to long term insurance.</td>
</tr>
<tr>
<td><strong>Example:</strong> Property insurance/money in transit/theft/burglary/fire, (\checkmark) etc.</td>
<td><strong>Example:</strong> Life insurance/endowment policies/retirement annuities, (\checkmark) etc.</td>
</tr>
<tr>
<td>- Example: Life insurance/endowment policies/retirement annuities, (\checkmark) etc.</td>
<td></td>
</tr>
<tr>
<td>Any other relevant answer related to insurance.</td>
<td>Any other relevant answer related to assurance.</td>
</tr>
<tr>
<td>Sub max (6)</td>
<td>Sub max (6)</td>
</tr>
</tbody>
</table>

NOTE: 1. The answer does not have to be in tabular format, but the distinction must be clear.
2. Award a maximum of SIX (6) marks if the distinction is not clear./ Mark either insurance or assurance only.  

Max (12)
6.3 Types of compulsory insurance

6.3.1 Unemployment Insurance Fund (UIF)

- The UIF provides benefits to workers who have been working but become unemployed for various reasons.
- Businesses contribute 1% of basic wages towards UIF, thereby reducing the cost of providing UIF benefits themselves.
- Employees contribute 1% of their basic wage to UIF.
- The contribution of businesses towards UIF increases the amount paid out to employees who become unemployed.
- All employees who work at least 24 hours per month are required to be registered for UIF and to contribute to the UIF.
- It is an affordable contribution that makes it possible for businesses to appoint substitute workers in some instances.
- The business cannot be held responsible for unemployment cover as the UIF pays out directly to contributors/dependants of deceased contributors.
- Businesses are compelled to register their employees with the fund and to pay the contributions to the fund.
- Any other relevant answer related to UIF as a compulsory insurance.

6.3.2 Road Accident Fund (RAF)/Road Accident Benefit Scheme (RABS)

- RAF/RABS insures road-users against the negligence of other road users.
- The RAF/RABS provides compulsory cover for all road users in South Africa, including South African businesses.
- Drivers of business vehicles are indemnified against claims by persons injured in vehicle accidents.
- RAF/RABS is funded by a levy on the sale of fuel/diesel/petrol.
- The amount that can be claimed for loss of income is limited by legislation.
- The next of kin of workers/breadwinners who are injured/killed in road accidents may claim directly from RAF/RABS.
- Injured parties and negligent drivers are both covered by RAF/RABS.
- The injured party will be compensated, irrespective of whether the negligent driver is rich/poor/insured/uninsured.
- RABS aims to provide a benefit scheme that is reasonable, equitable, affordable, sustainable, etc.
- RABS aims to simplify/speed up the claims process as victims of road accidents no longer have to prove who caused the accident.
- RABS provides road accident victims with speedy access to medical care as delays due to an investigation into an accident is minimised.
- Any other relevant answer related to RAF/RABS as a compulsory insurance.
6.3.3 Compensation Fund/Compensation for Occupational Injuries and Diseases/COIDA

- The fund covers occupational diseases\(\checkmark\) and workplace injuries. \(\checkmark\)
- Compensates employees for injuries and diseases\(\checkmark\) incurred at work. \(\checkmark\)
- Compensation paid is determined\(\checkmark\) by the degree of disablement. \(\checkmark\)
- The contribution payable is reviewed every few years, \(\checkmark\) according to the risk associated with that type of work. \(\checkmark\)
- All employers are obliged to register with the compensation fund, \(\checkmark\) so that employees may be compensated for accidents and diseases sustained at the workplace. \(\checkmark\)
- The fund covers employers for any legal claim\(\checkmark\) that workers may bring against them. \(\checkmark\)
- Employers are required to report all accidents within 7 days\(\checkmark\) and occupational diseases within 14 days to the Compensation Commissioner. \(\checkmark\)
- Employers are responsible for contributing towards the fund\(\checkmark\) and may not claim money back from employees/deduct contributions from wages. \(\checkmark\)
- In the event of the death of an employee as a result of a work related accident/disease\(\checkmark\), his/her dependants will receive financial support. \(\checkmark\)
- Employees do not have to contribute\(\checkmark\) towards this fund. \(\checkmark\)
- Employees receive medical assistance, \(\checkmark\) provided there is no other party/medical fund involved. \(\checkmark\)
- Any other relevant answer related to compensation fund/COIDA as a compulsory insurance.

**NOTE:** Do not award marks for the disadvantages of COIDA as an Act.

Identification (2)
Explanation (4)
Sub max (6)

**NOTE:** Mark the first THREE (3) responses provided, as they may include incorrect identification of compulsory insurance. \(3 \times 6\) (18)

6.4 Meaning of average clause

- A stipulation set by the insurer that is applicable when property or goods\(\checkmark\) are under-insured, i.e. insured for less than its market value. \(\checkmark\)
- The insurer will pay for insured loss/damages\(\checkmark\) in proportion to the insured value. \(\checkmark\)
- This means that the insured is responsible for\(\checkmark\) the part of the risk that is not insured. \(\checkmark\)
- Any other relevant answer related to the meaning of the average clause.

**Explanation how average clause is calculated**

- The insured amount is divided by the market value of the insured item\(\checkmark\) and multiplied by the total value of the damages/loss. \(\checkmark\)
- Insurance companies apply the following formula to determine the amount to be paid out to the insured:
  \[\text{Amount insured} \times \text{Amount of damages/loss} \div \text{Value of insured item}\]

Sub max (2)
Max (6)
6.5 Positive impact of insurance on businesses

- Transfers the risk from the business/insured to an insurance company/insurer. ✓
- Transfer of risk is subject to the terms and conditions of the insurance contract. ✓
- Protects the business against theft/loss of stock and damages caused by natural disasters such as floods, storm damage, etc. ✓
- Businesses will be compensated for insurable losses, e.g. destruction of property through fire. ✓
- Business assets (e.g. vehicles/equipment/buildings) need to be insured against damage and theft. ✓
- Business is protected against loss of earnings (e.g. a strike by employees) that results in losses worth millions. ✓
- Protects business against dishonest employees. ✓
  - Life insurance can be taken on the life of partners in a partnership to prevent unexpected loss of capital. ✓
- Should the services of key personnel be lost due to accident/death, the proceeds of an insurance policy can be paid out to the business/beneficiaries. ✓
- Replacement costs for damaged machinery/equipment are very high; therefore insurance can reduce/cover such costs. ✓
- Protects businesses from claims made by members of the public for damages that the business is responsible for. ✓
- Protects businesses against losses due to the death of a debtor. ✓
- Any other relevant answer related to the positive impact of insurance on businesses. Max (10)

6.6 Conclusion

- The insurance agreement should take into consideration the risks applicable to each situation. ✓
- Business property/assets must be insured for the correct/latest market value. ✓
- Compulsory insurance reduces the financial risk of a business. ✓
- The value of insured items must be adjusted to include appreciation and depreciation. ✓
- Any other relevant conclusion related to insurance. Max (2)
5. Message to GR 12 learners

All learners are capable of performing at the highest level of their potential if they are adequately prepared for the examination. The sub-topics that are covered in this booklet have been identified as challenging in past examination papers; however, if you are well conversant with the content, you will be able to obtain a quality pass. It is envisaged that this booklet will help you with skills on how to approach questions in the examination.

Succeeding in life is as simple as being a good student. All you have to do is pay attention, work hard and give it your best shot. Don't give up on your goals - they are achievable. In the words of Denzel Washington: "Never give up. Without commitment you will never start. More importantly, without consistency you will never finish. It is not easy; so keep working, keep striving and never give up."

Usain Bolt won 9 gold medals in the last 2 Olympics and he ran for less than 2 minutes on the track. That's economy of effort. He ran less than 115 secs in total and made $119 million dollars. That's more than $1 million for each second he ran. But for those 2 minutes of glory, he trained for more than 20 years. That's investment.

Think and plan for the long term. Patience and hard work pays.
6. Thank you

This Business Studies module on Business Operations was developed by Mr M van Roori, Ms L Scheepers, Ms F Baloyi - Jele, Ms C Gordon, and Ms M Mokgoatlheng (Subject Specialists, PED)

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Look out for more modules that deal with other topics of the Grade 12 syllabus.