REVISION: FINANCE   13 JUNE 2013

Lesson Description

In this lesson, we revise:

- Personal finance
- Business finance
- Banking

Key Concepts

Personal Finance

Financial Documents

Money plays an important role in our everyday life. We need to understand various financial documents in order to manage our money. These include household bills such as electricity and water accounts as well as telephone and cell phone bills.

Terminology Used

In every account there are important terms that we need to understand these include

- Date or time period of the document
- Opening and closing balance
- Credit or debit
- Payment due
- Minimum payment
- Tariff or charge
- VAT

Civic Centre,
12 Hertzog Boulevard, 8001
P.O. Box 655, Cape Town, 8000
VAT Registration number
4500193497

TAX INVOICE NUMBER
290002398153

CUSTOMER VAT
REGISTRATION NUMBER

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Lesedi

Mrs B. Clark
14 Apple Way
Sunnyview
9668

ACCOUNT
NUMBER — AJ9973388

DISTRIBUTION
CODE —

BUSINESS PARTNER
NUMBER — 101780452

ACCOUNT SUMMARY as at 06/04/2011

DUE DATE 03/05/2011

	R C	R C
Previous Account Balance		22.90-
Less Payments (14/03/2011)		221.44-
CREDIT (A)	244.34-	
Latest account (See Reverse For Details)	251.98	
CURRENT AMOUNT DUE (B)	251.98	Payable By 03/05/2011
TOTAL (A) + (B)	7.64	

TOTAL LIABILITY
Total (A) + (B) above — 7.64

GRAND TOTAL — 7.64

Contact Details

Telephone Enquiries
086 010 3089

Fax Number
086 010 3090

E-Mail Address
accounts @ lesedi.gov.za

Address correspondence to:
Director Revenue
P O Box 655
Lesedi 8000

For counter enquiries, please
call at your nearest local
municipal office.

Renew your motor vehicle licence online.
For more information go to www.lesedi.gov.za/vehiclelicensing or call 086 010 3089

IMPORTANT NOTES

1. Cheques must be made payable to the City of Lesedi. Post-dated cheques will not be accepted.
2. Interest will be charged on all amounts outstanding after the due date.
3. Failure to pay could result in your water and/or electricity supply being disconnected/restricted. Immediate reconnection of the supply after payment cannot be guaranteed. A disconnection fee will be charged and the amount of your deposit may be increased.
4. Even if you are engaged in a dispute with the Council concerning this account, you may not withhold payment.
5. Do not send cash by post or deposit it in boxes marked "For cheque payments". Council will not accept reponsibility for any loss you may incur.
6. A convenient debit order facility is available. For further details please phone 086 010 3089.
7. Bank charges on payment amounts in excess of R4 000.00 made by credit/debit card will be debited to your account.
8. When making a direct deposit at ABSA Bank, please state your account no. 207309545.
9. Register at your bank for internet payments. Log onto your bank's website and select "Citi of Lesedi Municipality" and insert your nine digit municipal account number in the reference field. Kindly ensure that there are no spaces between the numbers.

✂ -- ✂

PAYMENT SLIP - PLEASE RETURN THIS SLIP WITH YOUR PAYMENT

Lesedi

Mrs B. Clark

Amount tendered

Account Number		AJ9973388
	R	244.34-
Amount Due 03/05/2011	R	251.98
Total due if not paid in cash	R	7.64
Amount due if paid in cash	R	7.60
Rounded down amount carried forward to next invoice	R	0.04

Tariff Systems

A tariff is a scaled costing structure. This means that the charges change as the amount of product or service used increases.

For example when you park at the airport, the tariff for parking might read as follows:

0 – 2 hours	R20
2 - 3 hours	R30
3 - 4 hours	R40
4 - 5 hours	R50
5 - 6 hours	R60
6 - 7 hours	R70
7 - 8 hours	R80
Lost ticket	R100

Value Added Tax (VAT)

Vat is charged on most things that you buy, but certain basic foods like milk, bread, fresh fruit and vegetables, maize meal and tinned pilchards are exempt from VAT

VAT is calculated at 14% of the price of the item

The price on goods in the shop includes the 14% VAT already

Personal Income Tax

Every person who earns an income or salary has to pay tax on their income to the South African Government. This tax is calculated using a sliding scale. This means that the more you earn the more tax you have to pay.

The table below is taken from the SARS website.

1 March 2013 - 28 February 2014

Taxable Income	Tax Rate
R 0 - R 165 600	18%
R 165 601 - R 258 750	R 29 808 + (25% of amount above R 165 600)
R 258 751 - R 358 110	R 53 096 + (30% of amount above R 258 750)
R 358 111 - R 500 940	R 82 904 + (35% of amount above R 358 110)
R 500 941 - R 638 600	R 132 894 + (38% of amount above R 500 940)
R 638 601 and above	R 185 205 + (40% of amount above R 638 600)

Primary Rebate	R 12 080
Secondary Rebate (Persons 65 and older)	R 6 750
Tertiary Rebate (Persons 75 and older)	R 2 250

Business Finance

Income and Expenditure

In a business you spend money and make money. The aim is to make more money than you spend so that the business can grow. It is essential to know what costs are involved and whether you will have enough money to pay for these costs. We call these costs expenditure. Income is the money that you make when you sell your product. Profit is the difference between expenditure and income.

Cost of production consists of fixed expenses and variable expenses.

Fixed expenses are those costs which have to be met even when the business produces no goods. These include rent and salaries.

Variable expenses are the actual costs linked to producing the goods. Variable expenses increase as the number of units produced, increases.

The cost for producing 1 unit decreases as the number of units increases.

Profit and Loss

Profit and loss is the difference between income and expenditure. A postitive difference is a profit and a negative difference is a loss

Break Even

Break-even is the point at which income = expenditure. At the break-even point the business makes zero profit and zero loss.

Types of Bank Accounts

Transactional Accounts

Certain accounts are useful for everyday transactions, such as buying groceries or paying your cell phone bill. These would be accounts such as a current/cheque account or a debit account.

Savings Accounts

There are savings accounts that you can put money into whenever you have money available, or special savings accounts, such as fixed deposit accounts, where a set amount of money is put away every month.

Credit Accounts

This type of account works with a credit card. You use it to pay for things and then need to pay the amount you have spent back to the lender. The interest penalties on this account are very high so you need to make sure you can pay back the full amount you owe on time.

Interest

As a consumer, interest can work in your favour, or against you, depending on whether you are paying interest on a borrowed amount, or earning interest on savings.

Simple Interest

Simple interest is a percentage of the original amount. This set amount is added each time interest is added.

Compound Interest

Compound interest is different because the amount added each time depends not only on the original amount but also on the amounts of interest already added.

Questions

Question 1

(Solutions for All Maths Literacy, Macmillan, Grade 11, Topic 4, page 115 Question 2)

The table shows two of the tariff structures for electricity in Gauteng for units of electricity purchased.

Prepaid electricity		
Energy charge (c/kWh)	0 - 500 kWh	70,52
	501 < 1 000 kWh	94,82
	1001 < 2000 kWh	96,75
	2001 < 3000 kWh	99,09
	> 3001 kWh	100,33
Domestic		
Service charge (R/m)		307,04
Energy charge (c/kWh)	0 < 500 kWh	79,31
	501 < 1 000 kWh	80,65
	1001 < 2000 kWh	81,99
	2001 < 3000 kWh	83,98
	> 3001 kWh	84,99

a.)   Show that, on the Prepaid option, the cost of 1 010 units is R836,38.
b.)   Show that, on the Domestic option, the cost of 300 units is R544,97.
c.)   The Smit household uses the Prepaid option. They use an average of 1 400 units of electricity every month. How much does it cost Ms Smith to buy 1 400 units of electricity? Show your calculations.
d.)   The Roelof household uses the Domestic option. If they also used 1 400 units of electricity for the month, what would they pay? Show your calculations.

Question 2

Income tax: Tax rates for individuals – 2008	
Taxable income	**Rates of Tax**
R0 – R112 500	18% of each R1
R112 501 – R180 000	R20 250 + 25% of the amount above R112 500
R180 001 – R250 000	R37 125 + 30% of the amount above R180 000
R250 001 – R350 000	R58 125 + 35% of the amount above R250 000
R350 001 – R450 000	R93 125 + 38% of the amount above R350 000
R450 001 and more	R131 125 + 40% of the amount above R455 000

Tax rebates (Amounts deductible from the tax payable)
Persons under 65:   R7 740
Persons over 65:   R12 420

a.) Calculate his annual net income (after tax has been deducted).
b.) Employers are obliged to deduct PAYE (Pay–as–you–earn) from their salaries and pay it over to SARS (South African Revenue Service). You get your PAYE when you calculate your monthly income tax. However, since your employer will not know how much money to deduct for your medical expenses and pension fund, your PAYE might be slightly larger than the

answer you got from your calculation. You can claim the difference from SARS and they will pay it back to you.

Look at Mr Van der Merwes payslip. How much PAYE is subtracted every month?

Mr JJ van der Merwe P.O. Box 123 Malmesbury 7300	24 December 2007 ID Number: 720315 0047 083 Tax Reference Number: 2723/281/15/5
GROSS INCOME	
Salary	R20 000.00
Bonus	R20 000.00
Total income	R40 000.00
DEDUCTIONS	
Medical Aid	R375.00
Pension fund	R950.00
PAYE (December)	R4 145.00
PAYE (Bonus)	R4 145.00
UIF	R200.00
Total deductions	R9 815.00
NET INCOME	R30 185

c.) How much PAYE will be subtracted in total during 2007 if he received thirteen salary cheques?

d.) What is the difference between his PAYE and the total annual income tax you calculated above?

e.) Was sufficient PAYE tax deducted from Mr Van der Merwes salary during the 2006/07 tax year to cover his total tax payable? Motivate your answer.

Question 3

(Adapted from NCS (EC) Sept 2012, Paper 1, Question 2)

Sivu buys beads wholesale and makes beaded jewellery and beaded traditional clothing, which she sells at a craft market. The following invoice shows what she bought one day.

BEAD PARADISE: for all the beads, string and material you will ever need. Invoice No. 23521				Date: 18/3/12
Quantity	**Description**	**Unit Price**	**Amount**	
6 kg	Glass beads	R56,00/kg		
100	Clay Beads	R1,80 ea.	100 x 1,80	R 180,00
150	Wooden Beads	R1,85 ea.		
175	Brass Beads	R2,50 ea.		
2 Rolls	String	R45,00/roll	2 x 45	R 90,00
20 metres	Linen	R57,00/m		
	Odds and Ends	R48,00	1 x 48	R 48,00
		Sub-Total		
		14% VAT		
		Total		

a.) Using the table below to complete the Amount column for the table above.

BEAD PARADISE: for all the beads, string and material you will ever need.

Invoice No. 23521   Date: 18/3/12

Quantity	Description	Unit Price	Amount	
6 kg	Glass beads	R56,00/kg		
100	Clay Beads	R1,80 ea.	100 x 1,80	R 180,00
150	Wooden Beads	R1,85 ea.		
175	Brass Beads	R2,50 ea.		
2 Rolls	String	R45,00/roll	2 x 45	R 90,00
20 metres	Linen	R57,00/m		
	Odds and Ends	R48,00	1 x 48	R 48,00
		Sub-Total		
		14% VAT		
Total				

Sivu has fixed costs of R375 every month. Her other expenses are for the materials she uses to make her jewellery and beaded traditional clothing.

One month she decided to keep a record in table form of all her expenses and sale of jewellery to see how her business was doing.

Number of items sold	0	10	20	30	40	100	150	200
Expenses	375	425	475	525	575	875	1 125	1 375
Income	0	150	300	450	600	1 500	2 250	3 000

b.) Using the data from the table draw a line graph showing Sivu's expenses and a graph showing her income on the same set of axes.

c.) Using your graphs work out how much Sivu must sell to break even.

d.) Calculate how much profit Sivu made this month, if she sold 200 items.

e.) With the use of the graph find out how many items she must sell to have an income of R1 800 for the month.

f.) With the use of the graph, find out what Sivu's total expenses will be if she makes 180 items.

Question 4

(Solutions for All Maths Literacy, Macmillan, Grade 11, Topic 5, page 136, question 1)

Mulalo wants to invest R5 000. He has two options:
Denbank offers:

Open a **SUPER SAVE** Account Today!
Open a Super Save account and earn
5% interest per year on the balance in your account.

MAKGOTLA STOKVEL offers
EARN INTEREST ON YOUR INTEREST
6% simple interest per year on your investment.

a.) Does the Denbank Super Save account offer simple or compound interest? Explain your answer.

b.) If Mulalo decides to invest with Makgotla Stokvel for three years:
   i. How much interest will he have earned after three years? Show all your calculations.
   ii. How much will he have in his account in total after three years?

c.) If Mulalo decides to invest with Denbank, show that he will have:
   i. R5 250,00 in his account after the first year.
   ii. R5 512,50 in his account after the second year.
   iii. R5 788,13 in his account after the third year.

d.) Which option is the better investment? Justify your answer.