Leadership and business strategies*

Siyavula Uploaders

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1 ECONOMIC AND MANAGEMENT SCIENCES

2 Grade 8

3 BUSINESS, CONSUMER AND FINANCIAL KNOWLEDGE AND SKILLS

4 Module 11

5 Leadership and Business Strategies to ensure Profit

ACTIVITY 1: To be able to explain and apply the *term* profit [LO 3.2]

The nature of profit

Profit can be regarded as the difference between the income and expenditure of a business.

It is the amount by which income exceeds the expenditure incurred to produce the income.

The main objective of anyone who starts a business is to make maximum profit. This profit can be regarded as the owner's compensation for the use of his capital. The profit he makes must be considerably more than the interest he would have earned if he had invested the money in the bank.

It is important for the business to be managed in such a way as to ensure a good return on the owner's capital investment in his business.

Calculating profit

In order to calculate the profit, certain information about the business is required. This is obtained from a statement that is usually drawn up at the end of the financial year. The statement contains the income generated during a particular period, as well as the expenditure incurred in order to generate that income. This statement is called an Income Statement.

When calculating profit, businesses can be divided into two main groups according to the nature of their activities, namely:

service enterprises and

commercial enterprises

Service enterprises provide a service and earn an income by doing so, for example hairdressers, dry-cleaning businesses, medical practitioners, dentists, etc.

Commercial enterprises purchase merchandise and sell it at a higher price than the purchase price to make a profit.

The profit of these businesses can be calculated by doing a simple deduction, namely:

Profit = Income – Expenditure

- Explain in your own words what you understand by the term *profit*.

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6 ACTIVITY 2: To be able to explain and apply strategies to ensure a good profit on earnings [LO 3.2]

Effective leadership and management strategies are used to minimise expenditure and maximise income of a business.

One strategy is to exercise strict control over expenditure such as telephone, water, electricity, transport costs, stationery and advertising. These expenses must be compared monthly. If there is a significant increase the cause must be found and rectified.

At the same time the income must be kept as high as possible.

In a service enterprise, excellent service must be provided at all times, because satisfied clients are the best advertisement for any business.

In the case of commercial enterprises, the lowest possible purchase price and the highest possible selling price must be negotiated. One needs to compare the prices that other businesses charge for the same product or service.

A smaller profit margin in the short term could ensure a more sustainable profit in the long term.

The value of advertising and marketing campaigns must not be underestimated. These can be very expensive so the benefits must be weighed up against the costs.

Leadership and management strategies aimed at ensuring good returns must be focused on the short term but must also take into account the future of the business in the long term. The primary objective is to make a reasonable profit and maintain a sound financial position in the business.

6.1 Group assignment:

Divide a piece of cardboard in two and paste pictures of service enterprises on one half and commercial enterprises on the other half. Choose one service enterprise and one commercial enterprise on your poster and write down points that the management of each must take into consideration in order to ensure a good profit on their earnings.

6.2 ACTIVITY 3: To be able to record transactions and calculate ownership interest and profit

- *Complete the table using the information below .*

Transactions of Dixon Dry Cleaners, owner D. Dixon.

1. D. Dixon started a business called Dixon Dry Cleaners by depositing R50 000 in the current bank account of the business.
2. He pays the municipality R500 for a trade licence by cheque 001.
3. He leases a building from Ena Properties and pays R1 000 by cheque 002.
4. A delivery vehicle is purchased from Rennie Motors and R52 000 is paid by cheque 003.
5. Stationery is purchased from Stationery Ltd. and pays R70 by cheque 004.
6. Cheque 005 for R500 is issued to Cleaning Material Distributors for cleaning material.
7. Cash received for services provided as per cash register roll, is R3 520.
8. Telephone account of R180 is paid to Telkom by cheque 006.
9. Cheque 007 for R15 000 is issued to Elke Dealers for equipment purchased.
10. The municipality is paid R600 by cheque 008 for water and electricity.
11. Cheque 009 for R900 for the payment of wages is cashed.
12. Cash received for services provided as per the cash register roll, is R2 100.
13. An industrial dry cleaning machine for the provision of services is purchased from Industrial Ltd. and R3 000 is paid by cheque 010.
14. Cash received for letting a section of the building is, R2 500.

Table for Dixon Dry Cleaners' transactions

(a) Indicate the effect of the transactions on the assets and ownership interest.

(b) Calculate the total income.
(c) Calculate the total expenditure.
(d) Calculate the profit.

(a)	NUMBER	ASSETS	OWNERSHIP INTEREST	
				(b)……
				(c)
				(d)

Table 1

7 Assessment

Learning Outcomes (LOs)

LO 3

Management, Consumer and Financial Knowledge and Skills

The learner will be able to demonstrate knowledge and the ability to apply responsibly a range of managerial, consumer and financial skills.

Assessment Standards(ASs)

We know this when the learner:

3.1 differentiates between financial concepts used in business (e.g. fixed assets, current assets, liabilities, owner's equity);

3.2 develops leadership and management strategies that will ensure a return on investments;

3.3 completes source documents (e.g. receipts, deposit slips, cheques) and records elementary cash transactions in a statement of receipts and payments;

3.4 uses keyboard skills and function keys in developing, storing and retrieving basic information;

3.5 explains the concept and analyses a statement of net worth;

3.6 investments the various methods of savings and investments (e.g. savings accounts, fixed deposits, shares, unit trusts), and calculates on a variety of investments.

8 Memorandum

ACTIVITY 2
SERVICE ENTERPRISES
COMMERCIAL ENTERPRISES
Hairdresser
Hardware store
Medical practitioner
Pharmacy
Plumber
SPAR
Electrician
Clothes shop
Provide good service
Ask competitive prices
High income
Expenditure as low as possible
Good prices
Good quality products
Attract clients with special offers
Large profits
ACTIVITY 3
(a)
NUMBER
ASSETS
OWNERSHIP INTEREST
1
+50 000
+50 000
2
-500
-500
3
-1 000
-1 000
4
+52 000
- 52 000
5
-70
-70
6
-500
-500
7
+3 520
+3 520
8
-180
-180
9

+15 000
- 15 000
10
-600
-600
11
-900
-900
12
+2 100
+2 100
13
+3 000
- 3 000
14
+ 2 500
+2 500
(b) R8 120
(c) R3 750
(d) R4 370