FEEDBACK TUTORIAL LETTER

2ND SEMESTER 2019

Assignment 1

Practical Transport Operations Management (PTO612S)
Dear students
Thank you for the effort and congratulations in completing your first assignment for this semester.

It is very important to write a proper assignment report at your academic level. You can only achieve this by following the assessment criteria in your tutorial letter. An assignment is graded with distinction if it is adhering to the content, structure, presentation and language defined criteria. Apart from answering the questions correctly, we also assess the understanding and use of practical transport operations concepts and theories; logical flow of ideas, presentation of information using diagrams, examples, tables and correct grammar.

The biggest problem is that students are not referencing (in text referencing) their work. Please use the APA referencing guide to cite the sources of the information used in your assignments.

Finally, you should always make sure you read your assignment carefully before attempting to answer any question, and also, be guided by the marks allocated per question when answering questions.

Best regards,
Mrs Ester Jesaya
SPI621S Marker Tutor
QUESTION 1 [25 MARKS]

With reference to a transportation company of your choice, discuss the fixed costs, variable costs and other expenses incurred in their daily business operation?

In this question, you were required to identify a company of your choice, make research on its fixed costs, variable costs and other expenses incurred in their daily business operations. Hence you were required to visit the company you chose and discuss their specific costs.

A dairy transportation company would experience the following cost in their business operation (Opperman, 2012).

a. Fixed costs

The company would incur the following costs whether the fleet works or just stands.

- Depreciation (lessen in value): the value of the fleet or trucks depreciates in use and in value.
- Cost of finance: the interests paid to the bank on the money used to finance the vehicle
- License and registration fees: the vehicle must be registered (once-off fee) and licensed (paid every year)
- Insurance taken out on the car to reduce the risk to the owner in case of damage or accident. A fixed amount is paid per vehicle (meaning this fee depends on the number of vehicle purchased) even if the vehicle is never damaged or involved in an accident.
- Driver wages: monthly salaries of drivers that are hired on permanent basis contract.

b. Variable costs

These are the expenses paid when the vehicles work, influenced by the way it is used, driven and looked after.

- Fuel: largest and simple expenses of most transport operations. Complete and correct record must be kept and continuously reviewed.
- Service, maintenance and repairs: the service of the vehicle is conducted on a certain Kilometres intervals or annually. The more the vehicles are used the more the kilometres travelled are increasing, influencing the number of times the service must be conducted. The service helps to keep the vehicles operating smoothly and also preventing breakdowns.
- Regular service according to the manufacturers specification
- Regular mechanical inspections to ensure reliability and safety
- Electrical repairs, Body repairs, All “breakdowns” costs such as tow-in, Paint repairs for any scratches, All small parts such as light bulbs, and mirrors, Driver aid such as fog lights and the radio.
Tyres: modern tyres are designed to support a load under the toughest operating conditions and stress of harsh road conditions, heat, overloading, and abusive driving.

c. Unforeseen expenses

Sudden breakdowns of the vehicles that will result in unplanned expenses and delays in the delivery of the products which may cause a bad image for both the company and its business clients. These are things like worn-out of the timing belts, which may result into messing other parts in the vehicle and may also cause additional costs. These costs are a result of accidents and incidents that do not qualify to for an insurance claim and other unexpected events.

d. Vehicle associated expenses

Other expenses associated with the vehicles that may lead to a loss if not well evaluated include:

- Fleet utilization, operating with half loads is more expensive than operating with full loads.
- Packaging of goods, if it not done well it will attract theft and damage of the products, and the company will be responsible to pay for any lost or damage goods delivered.
- Regulatory measures, management needs to know the laws regarding road transport. This can reduce the number of traffic fines, which leads to savings.

e. Overhead (administrative) expenses

- These are the expenses that incurred when running an organization.
- Bookkeeping fees
- VAT, PAYE, Regional services council fees and any other the company need to pay
- Bank charges
- Rent of premises
- Lights and water
- Maintenance- furniture & fittings and office appliances
- Office supplies and stationery including computer accessories
- Telephone expenses – includes fixed line (s), fax, mobile phone (s)
- Computer and IT Expenses
- Internet
- Insurance, license and traffic fines
- Salaries
- Subscriptions to newspapers, magazines and other information
- Provident fund and medical aid payments
- Advertising

**QUESTION 2**

Mr John Van Wyk would like to start a fleet transportation company, however he does not have enough money that is required to buy the type of vehicles to operate in his company. Advise Mr Van Wyk on the vehicle financing alternatives he can make use to buy the vehicles?  

**Please Note:** apart from discussing the financing options you should also discuss the benefits, disadvantages and risks that is involved using the financing option. By so doing Mr. Van Wyk will understand the implications thoroughly and make a well informed decisions.

There are a lot financing options that Mr John Van Wyk can use to finance the vehicles. These options are (Opperman, 2012):

a) **Borrowing Money:** money borrowed by companies to purchase a vehicle.
   - Bank overdraft- a facility in which the bank account is allowed to go unto debit, usually up to a specified limit.

b) **Instalment agreement (also referred as Hire Purchase):** there are no surprises, only predictable and regular monthly instalments. A minimum deposit is required.
   - Benefits of Instalment Agreement:
     - Acquisition of vehicle
     - Fixed or variable interest rates
     - Repayments over an agreed period
     - Tylor-made payment structures
     - VAT capitalised at the outset of an agreement
     - Finance charges and depreciation are deductible from income tax (dependant on customer profile)

c) **Instalment agreement with Balloon:** simple and effective way for acquiring a vehicle with lower monthly instalments, with a final payment that transfers ownership to you the customer. A final payment is negotiated at the outset of the agreement, & the remaining cost, plus interest charges, is then repayable in regular or monthly repayments over an agreed period.
Benefits:

- Lower monthly payments with a final payment - responsibility of the buyer.
- Acquisition of vehicle – after final instalment
- Fixed or variable interest rates
- Repayments over an agreed period
- Tylor made payment structures
- VAT capitalised at the outset of agreement
- Finance charges and depreciation are deductible from income tax (dependant on customer profile)

d) Lease: agreement that is Taylor-made to suit the needs of the customer, lease a vehicle for an agreed period with the option of ownership.

- Option to take ownership of the vehicle or extend the lease at the end of the agreement.
- Lease payments are tax deductible
- VAT capitalized at the outset of agreement.

e) Rental: paying for the use of the vehicle, rather than ownership. Most preferable option when the vehicle is required for a short period of time or when one of the vehicle is broken, or when more vehicles are needed to complete a job on time.

- After an estimated mileage, a vehicle is rented for an agreed period. The vehicle is returned, removing the worry of disposal and the risk of ownership remains with the rental company.
References


[www.moneyadviceservice.org.uk](http://www.moneyadviceservice.org.uk)