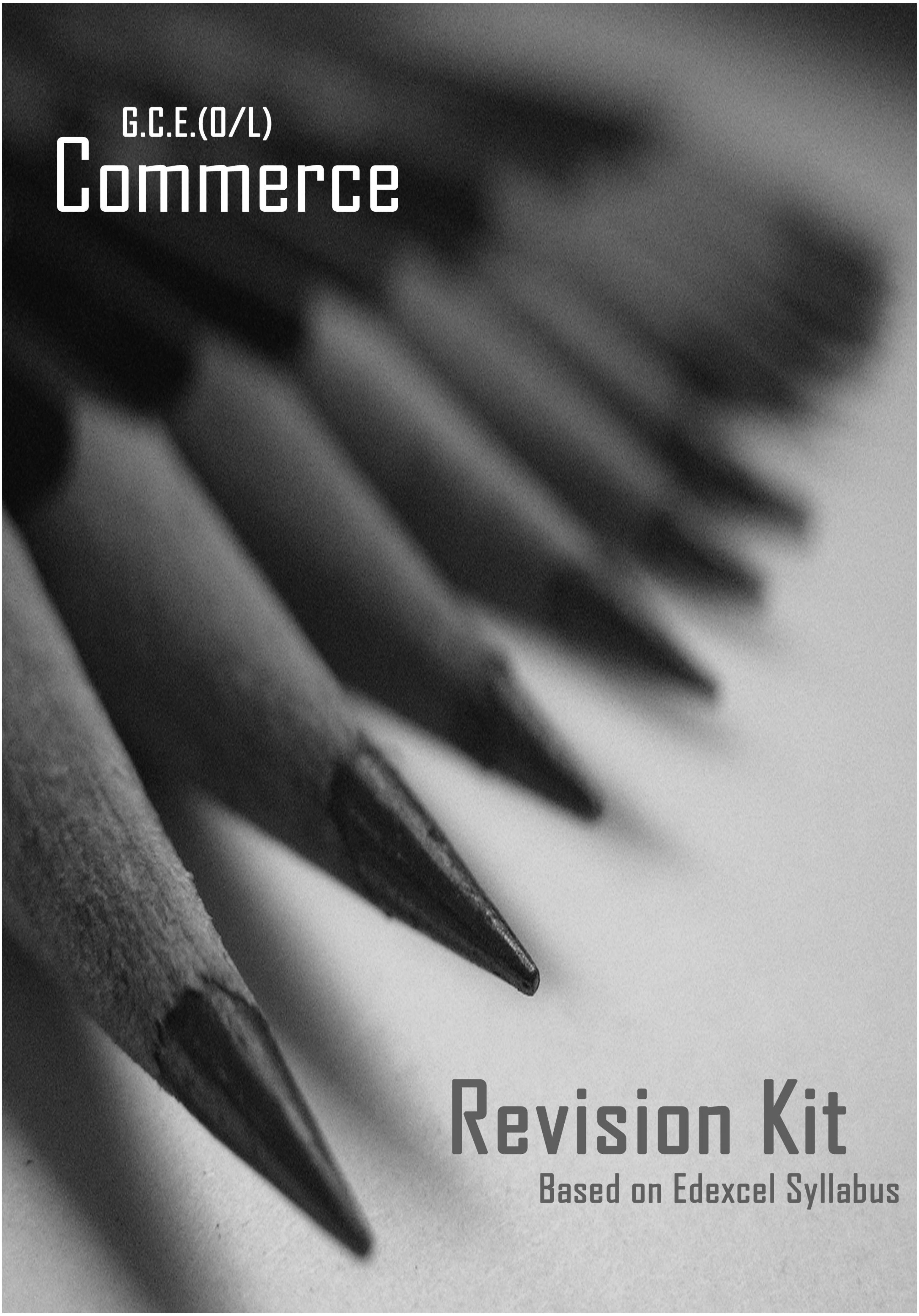


G.C.E.(O/L)

Commerce

Revision Kit

Based on Edexcel Syllabus

What is commerce?

Commerce is study related to distribution of products from the producer (point of production) to the consumer (point of consumption).

Products, Production, Producer and Consumers

Products are the goods and services produced by a company, to satisfy needs and wants of customers.

Production is any activity which serves to satisfy human needs and wants.

Producer is a person or company who produces products to satisfy need and wants.

Consumers are the ultimate users of goods and services produced.

Creation of Utility

Utility of form: Any activity that changes the form of a product so that it becomes more useful to the consumer for example conversion of wood into more useful furniture.

Utility of place: Any activity that transfers the goods or services to a location which is within easier assess to the consumer, for example transfer of goods from far off factories to nearby retail shops.

Utility of time: Any activity that causes the availability of a product on time when it is needed, for example availability of wheat throughout the year.

Needs and Wants

Needs are the things necessary for living, that is food, shelter and clothing.

Wants are those goods and services which are not compulsory for living but makes life easier.

Specialization/Division of Labour

Specialization or Division of Labour is breaking down of a productive activity into simpler tasks so that a person specialist in that task can perform it.

Advantages of Specialization

- Concentration on work increases.
- Increased out put per worker.
- Mechanization can occur.
- Economy of scale can be achieved (low average cost of product).
- Less time consuming.
- Better quality of products.
- Mass production.
- Saving of tools and equipment.

Disadvantages of Specialization

- Work becomes boring.
- Interdependency increases.
- Decline in craftsmanship.
- Machinery replaces labor.
- Standardized output, choice of customers decreases.
- Demotivated staff.

Forms of Specialization

Specialization at country level occurs when a certain country devotes itself mainly to produce certain products which it exports to other countries.

Specialization at region level occurs when a particular region in a country devotes its self in producing certain types of products, which is used by all the country.

Specialization at town level occurs when a particular city in a country devotes its self in producing certain types of products, which is used by all the country.

Specialization at firm level occurs when a firm is divided into departments and within departments individual workers have their own specialized duty.

Branches of Production

Primary Production

- First Stage of production.
- Primary production is obtaining raw materials or food from nature.
- Includes Extractive Industries for example mining, quarrying.
- Includes Genetic Industries for example farming, forestry and fishing.
- Products are in unusable state, so they are moved to secondary stage of production.

Secondary Production

- Second Stage of Production.
- Secondary production is making goods from raw materials.
- Includes Manufacturing, Processing and Constructing.
- Products are ready to use, but are at wrong place, so moved at tertiary stage.

Tertiary Production

- Third (last) Stage of Production.
- It assists industry to function, by providing commercial services and direct personal services.

Commercial Services

All services which are related to distribution of goods and services from producers to customers for example communication, finance, insurance, retailers and wholesalers.

Direct Personal Services
Provision of personal services directly to the consumer without anyone else involved for example teacher, actor and tailor. Are usually personal services to satisfying immaterial wants.

Note: Production is completed only when goods reach point of consumption.

Location of Production Units

Agricultural Unit

1. **Climate:** A farmer must ensure that crop is planted to a area where climatic conditions allow the production of that crop for example temperature and rainfall.
2. **Nature of land:** A farmer must select land which is flat and fertile.
3. **Access to markets:** A farmer must have a farm near to the market or customers, because most of agricultural products are perishable (for example sugar cane). There should be efficient and cheap transportation system available.
4. **Labor:** Without labor it would be very difficult to carry out the production.
5. **Government policy:** Government may favour the production of a particular crop at particular area by providing cheap land and giving other incentives.

Manufacturing Unit

1. **Transport:** Factory must be located where cheap and efficient transport facilities are available.
2. **Power source:** Factories are set up where there is cheap and adequate supply of electrical power.
3. **Labor:** Both skilled and unskilled labor should be present.
4. **Nearness to market:** Factory should be near its customers to avoid high transportations cost.
5. **Government policies:** Government may provide certain very attractive incentives for factories for example in rural areas to provide jobs to the people.

How are manufacturing and tertiary activities inter-related?

- Manufacturing is concerned with producing goods from raw materials, tertiary activities are concerned with the distribution of finished goods from the factory to the final consumer.
- Unless there were tertiary activities finished goods would not be sold because there would not be any advertising, no finance to build factories, no storage facility, no **transport to** the retailer/wholesaler and no communication between buyer and seller.
- Manufacturing would not be able to take place as goods would be stockpiled and so it is dependent on tertiary activities to get the goods to the right person at the right time.
- As manufacturing becomes more specialized, the manufacturer will become more dependent on others to provide tertiary services.

- The manufacturer may set up some of the tertiary activities himself – advertise, have warehouses, have his own transport he may also have his own retail outlet, e.g. factory shop but usually he sells to wholesaler or retailer.
- Tertiary activities are also concerned with trading in services, advertising and communicating these services and so is not entirely inter-related with manufacturing.
- The manufacturer will need to insure the factory/its contents against risk, e.g. public liability, employer's liability

Types of Trade

Home Trade is buying and selling of goods and services within international boundaries.

Foreign Trade is buying and selling of goods and services across the globe.

Aids to Trade

Services which are required to facilitate trade.

	Aids to Trade	Function
1.	Banking	Provides Finance and Services.
2.	Transport	Without means of transportation it is impossible to trade.
3.	Communication	To transmit and receive information quickly.
4.	Insurance	Absorbs some of the risks in production and trade.
5.	Warehousing	Provides storage facilities.
6.	Advertisement	Inform customers about products.

Comparison of Home Trade and Foreign Trade

Similarities between Home Trade and Foreign Trade

1. Buying and selling of goods for making profit.
2. Serve mankind by satisfying needs and wants.
3. Requires aids to trade.
4. Require surplus to be created.
5. Work on the principle of specialization.

Dissimilarities between Home Trade and Foreign Trade

	Home Trade	Foreign Trade
1.	Done within national boundaries.	Done across the globe.
2.	Same currency is involved.	Different currencies are involved.
3.	Same units of measurements.	Different units of measurement.
4.	Same government policies.	Different government policies.
5.	No taxes are involved.	Import/Export taxes are involved.
6.	Simple Documents.	Complex Documents.
7.	Same culture and language	Different culture and languages.
8.	Mode of Payment is cash, cheque etc.	Mode of payment is online transfer, bill of exchange etc.

Home Trade

Home trade consists of buying and selling of goods with the aim of making profit among people of the same country. Home trade can be divided into wholesale trade and retail trade.

Wholesale Trade

Wholesale trade deals with the bulk buying of goods from various manufacturers and the breaking down of this bulk into smaller quantities which is then sold to the retailer. Wholesaler is a intermediary distributer.

Retail Trade

Retail trade deals with the buying of goods in small quantities from the wholesaler and selling of goods in yet smaller quantities to the final consumer. A Retailer is a intermediary distributer.

Channel of Distribution

- This is the way in which goods are delivered from the producer to the customer.
- Channel of distribution ends when goods are delivered to the point of consumption.
- Ends when the form of good is changed.

Different Channels of Distribution

1. **Producer to the consumer**
   Expensive, technical, perishable, exclusively made for one customer.
2. **Producer to retailer to consumer**
   Large scale retailer, producer's own outlet, suitable for perishable items for example bakery.
3. **Producer to wholesaler to retailer to consumer**
   Standardized, consumer items, low value and high shelf life, suitable when demand of products are seasonal or the production is seasonal.
4. **Producer to agent to wholesaler to retailer to consumer**
   Only incase of international trade. Overseas producer appoints a agent in home market. For example imported cars and cosmetics

Factors affecting choice of Channel of Distributions

1. **Producer capabilities**
   Can producer open his own retail outlets?
2. **Producer philosophy**
   Exclusive distribution (distribution at certain shops)
   Extensive distribution (distribution at every shop)
3. **Type of customer**
   Own use: from retailer
   Business use: from producer

4. **Size of order**

   Small: from retailer

   Large: from producer

5. **Nature of product**

   Perishable: small channel

   Long shelf life: long channel

6. **Value of product**

   Expensive: small channel

   Cheap: long channel

7. **Size of market**

   Small: small channel

   Large: long channel

8. **Nature of market**

   Home or International

Functions of Retailer

1. Always looking for good source of supply.
2. Further bulk breaking, and selling in smaller quantities.
3. Offers variety of goods from different producers.
4. They sell to the end customer.
5. Might be involved in branding and packing.
6. Might provide home delivery (small scale retailers).
7. Might provide informal credit to trustworthy customers (small scale retailers).
8. Provides after sale services to the customers.
9. Provides information to the customers about the new products and schemes.
10. Inform the wholesaler or producer about the reaction of market towards a certain product.
11. Deals with complaints from customers.
12. Warehousing.
13. Display products to the customers

Large Scale Retailers

1. Purchase from the producer in bulk.
2. Normally work on the basis of public or private limited companies.
3. Involve a lot of capital.
4. Invest heavily in the fixed assets.
5. Employ specialist staff.
6. Arrange transportation from the producer.
7. Pay cash to the producer at the time of purchase.
8. Sell on cash to end customers (i.e. no credit is offered).
9. Provide impersonalized services to the customers.
10. Do not provide home delivery.

Types of Large Scale Retailers

Multiple Shops

- Many similar looking outlets distributed all over the country under the same head.
- Same product line is sold through all the shops.
- Losses in one store may be offset by profits in another.
- Stock is bought centrally.
- Stock can be moved between branches.
- Most operate as public limited companies.
- Goods are usually on open display.
- Prices are clearly marked.

Department Store

- Many departments or specialist shops in one building, located in the centre of the city.
- Each department specializes in particular line of goods.
- Main aim is to provide complete range of goods under one roof.
- Operates as limited companies.
- Prices are clearly marked.

Variety chain store

- Contains features of both multiple shops and department store.
- Offers variety of goods, with similar looking outlets spread all over the country.
- Sells by self-service, goods openly displayed and prices clearly marked.

Super market

- Big department store, specialized in selling kitchen related and daily household goods.
- Offers self-service.
- High Rate of turnover.

Hyper Market

- Are very large supermarket.
- Sited outsides large towns.
- Offers low prices, as they buy in bulk.
- Suitable for those who want to buy in bulk and have own transport.

Mail order business

- Run by manufacturers or the owners of departmental stores.
- Only one office and a large warehouse is required.
- Business will advertize extensively in newspapers.
- They have printed catalogue and price lists.

  Catalogue contains diagram, specifications and reference number of goods available. And telephone, fax number, email address and postal address of the company. Price lists contains the prices of goods mentioned in catalogue against its reference number.

- Goods are ordered by mail, e-mail or telephone.
- Goods are delivered via mail.
- Orders accepted either by C.O.D.(cash on delivery) or C.W.O. (cash with order)by credit card.
- Mail order business sells under money back guarantee.

It can make use of inexpensive premises e.g. warehouse rather than use shop premises in a busy street.

It saves on other retail costs e.g. shop fittings, window displays, extra services for customers.

It can serve customers all over the country and probably in many parts of the world.
3 It can target those who are unable to visit shops e.g. working women, the housebound.

Advantages of Large Scale Retailers

To Business

1. High Rate of Turnover-Economy of scale can be achieved.
2. Business can employ specialist staff – Efficient business.
3. Low competition due to high capital requirement.
4. Business can save on transportation.
5. They will get discounts because they purchase in bulk.
6. Have state of art warehousing techniques.

To Customers

1. Variety is available
2. Generally customers can get low rates.
3. Benefit of one stop shopping.
4. Extra facilities like ATM and post office.
5. Since items are displayed openly on shelves, customers have freedom of choice.
6. Mail order business sell under money back guarantee.
7. Generally items of good repute and quality is sold.
8. Customers can enjoy arm chair shopping via mail order.

Disadvantages of Large Scale Retailers

To Business

1. High capital requirement.
2. High fixed cost (large expenses).
3. Greater risks attached (stock damage).
4. Management problems.
5. Business has to give incentives to customers which can be a burden on the business.
6. Business has to allocate certain area for non-productive activity (play area, parking lot).
7. Normally self service is offered and there are chances of shop lifting.
8. Mail order business can expect refund claims which is loss to the business.

To Customers

1. Not conveniently located.
2. All these are located in main commercial area their can be traffic, congestion and parking problems.
3. Customers get standardized items.
4. Impersonalized services.
5. Self service sometimes leads to impulse buying and irrational buying.
6. Do not provide home delivery.
7. Don not provide credit facility.

Small Scale Retailers/Independent Retailer

- Dependant on wholesaler for their supply.
- Limited capital is involved.
- Capital can be raised from personal sources (savings and loans).
- Normally do not employ specialist staff.
- Normally do not employ latest equipment.

Why Small Scale Retailers are dependant on wholesalers

- Small scale retailers purchase in smaller quantities.
- They need variety (different brands).
- Needs credit.
- Transport to the shop is provided by the wholesaler.
- Wholesaler advices small scale retailers on different selling issues.
- Wholesaler advices small scale retailers on shop layouts.

Why Small Sale Retailers are still surviving

1. Nearness to the customers (saves travel costs and time).
2. Personal services.
3. Credit facility.
4. Opening hours (open early in morning and closed late at night).
5. Some shoppers do not like change so they go to the small shop because they have always done.
6. Free home delivery.

How Retailers can improve their Profits.

1. By improving the quality of products.
2. By offering variety.
3. By offering competitive prices.
4. By properly advertizing and giving incentives.
5. By improving shop layout.
6. By changing location.
7. By controlling costs of routine operation.

Points to be remembered before starting retail business

- Knowledge about retailing.
- Knowledge about the industry.
- Knowledge about prevailing law.
- Capital requirement.
- Location

  Aggressive: Locating with the competition.

  Defensive: locating away from competition.
- Good source of supply.

Self Service

- Products are displayed on open shelves.
- Customers have to select them put them into trolley, take it to cash counter, make payment and arrange for their transportation.
- Generally used in large scale retailing especially supermarkets.

Advantages

To Retailers

1. Lesser requirement of shop staff.
2. More sales in given time.
3. More sales due to impulse buying. More turnover.
4. Attraction to the customers.

To Customers

1. Shopping can be done in free environment.
2. Freedom of choice.
3. Quicker shopping.
4. Low price.

Disadvantages

To Retailers

1. More capital required (for space, shelves and variety).
2. Shop lifting.
3. Security expenses increases.

To Customers

1. Impersonalized way of sales.
2. Impulse buying.
3. No delivery is provid

Branding and Packing

- Branding means the selling of goods under the trade mark or brand name of manufacturer.
- Branding is done to differentiate products from competition.
- Brand Name= Name and Brand Mark= Symbol.
- Packing is the wrapper of product done to provide convenience to customers.
- Branding is only possible if packing is done.

Advantages

To Retailers

1. Products can be differentiated.
2. Market share can be created.
3. Adds value to the product.
4. Assists in handling of products.
5. Information about the product can be written.
6. Attracts customers.
7. Some packing can be reused.
8. Advertisement can be done.
9. Easy to handle. (Arrangement in self service retailing)

To Customers

1. Brand assures uniform quality.
2. With packing awareness is created.
3. Customer is well informed about the product by advertisement.
4. Some wrappers can be reused.
5. Shopping has become easier.

Disadvantages

To Retailers

1. Brands needs to be advertise and advertisement can be burden on resources.
2. Sometimes branding increases competition and competition puts pressure on firms profit.
3. Imitation brands reduce profit.

To Customers

1. Customers get confused as what brand to buy.
2. Cost of packing an advertisement is added to the price of product.
3. Customer may be misled by the advertisement of a certain brand.
4. Imitation brands.

After Sale Service

- All the services provided by the retailer, manufacturer, or the agent to support customers after the sale has been made.
- After sale services include: Installation, training, repairing and warranty.
- Warranty is provided by the produced as a guarantee of quality of a product.
- Warranty is valid within a specific period of usage or specific period after purchase.
- In warranty items with faulty performance will be repaired or replaced free of charge within warranty period.

Advantages

To Retailers

1. Better image.
2. More revenue with more sales.

To Customers

1. Support.
2. Spare parts are available.
3. Warranty.

Disadvantages

To Retailers

1. Capital requirement.
2. Management problems.
3. Parts repaired in warranty are a loss to the business.

To Customers

1. Warranty is added to the cost from customers.
2. Warranty is available only for limiter period.

Automatic Vending Machines (AUMs)

- These machines can sell cold bottled drinks, hot drinks, cigarettes and sweets.
- Often placed at cinemas, parks and supermarkets.
- Customers enter the money into the machine, presses a button and desired item comes out.

Advantages

To Retailers

1. Requires minimum space so rental cost is low.
2. 24 hours sale.
3. No sale staff required.

To Customers
1. Adds convenience.
2. Available all the time.
3. Self service. Less time required.

Disadvantages

To Retailers
1. Available only for the sale of limited range of products.
2. High capital cost.
3. Requires maintenance.
4. Total loss of sales when out of order or out of stock.
5. Machine can easily be broken and money inside can be stolen.

To Customers
1. Only limited range of products are available.
2. Inconvenience if machine out or order.

Shopping Complex
- One multi-storey building, with many different shops, each belonging to different owners.
- Wide range of goods and services are available.

Advantages

To Retailers
1. Common platform for achieving common goal.
2. Minimum expense on advertising.
3. Labour is available.

To Customers
1. Variety.
2. Other services like, ATM and post office are there.
3. One stop shopping.
4. Located in main commercial area.

Disadvantages

To Retailers
1. High rents.
2. High competition.
3. Low profit margin.

To Customers
1. Traffic, inconvenience.
2. Pollution.
3. Not located close to homes.

Barcodes

Advantages

To Retailers

1. Accurate billing.
2. Quick billing.
3. Better business control.
4. Integrated software can be used.
5. Labour cost is saved through automatic billing.
6. Security against shop lifting.

To Customers

1. Accuracy in bills. Not charged extra.
2. Quick billing.

Disadvantages

To Retailers

1. High capital cost.
2. Skilled labor required.
3. Computer software can malfunction.

To Customers

1. Impersonalized shopping.
2. Software malfunction.

E-commerce

- Also known as Electronic Commerce, Internet Commerce and Web commerce.
- It is a branch of commerce in which commercial activities are carried out electronically.

Advantages

To Retailers

1. Wide market.
2. Low competition.
3. No requirement of retail outlet.
4. More chances of involving potential customers into sales.
5. Products can be displayed and specified on web.
6. Low labor cost.

To Customers

1. More variety.
2. Benefit of arm chair shopping.

Disadvantages

To Retailers

1. Capital cost increases.
2. Expenses of developing and operating websites.
3. Dependence on skilled labor.
4. Market is limited. (only computer literate people)

To Customers

1. Fraud.
2. Customers can check product only after it is delivered to them.
3. Impersonalized way of buying.

Franchising

- A successful business (franchiser) lets another business (franchisee) use its name under an agreement.
- All franchises are decorated in the same style.

Advantages

To Franchisor

1. Name is spread without much investment.
2. Gets franchising fee from the franchisee.
3. Has right to control certain activities of franchisee.

To Franchisee

1. Training by the franchisor.
2. Less advertisement is required.

To Customers

1. Convenience, easily located.
2. Guarantee of quality.

Disadvantages

To Franchisor

1. Any bad business practice of franchisee can damage franchisor's image.
2. Responsibilities of training and educating franchisee.

To Franchisee

1. Heavy amount is to be paid to franchisors as franchising fee.
2. Loss of some business controls.
3. Agreement is valid upto certain period.
4. No separate identification of franchisee.
5. Franchising is not determinant of success.

To Customers

1. Limited choice of product.

Store Cards

1. A plastic card which can be charged by the customer only with one retailer.

Advantages

To Retailers

1. More sales.
2. Brand loyalty.
3. Customer profile can be maintained.
4. Additional revenue through sales of cards.

To Customers

1. Discounts.
2. Gifts.
3. Extra value added facilities.

Electronic Point of Sale (EPOS)
Electronic Funds Transfer System (EFTS)

EPOS or EFTS refers to the computer-based systems used to perform financial transactions electronically.

Advantages

To Retailers

1. Accuracy in billing.
2. Minimum cash handling in case of EFTS.
3. Increased sales in case of EFTS.
4. Security of cash.

To Customers

1. Purchasing power increases.
2. Minimum cash handling.
3. Get itemized bill.

Disadvantages

To Retailers

1. More capital.
2. Skilled labor required.
3. In case of EFTS, retailer has to pay bank charges.

To Customers

1. Irrational buying.

Introduction

Wholesale trade deals with the bulk buying of goods from various manufacturers and the breaking down of this bulk into smaller quantities which is then sold to the retailer. Wholesaler is a intermediary distributer.

Functions

1. Buys in bulk from different producers.
2. Looking for a good source of supply.
3. Bears the risk, if products are damaged, spoilt or stolen.
4. Warehousing.
5. Transportation from the producer to warehouse and from warehouse to the retailer.
6. Bulk breaking.
7. Purchasing in cash from producer.
8. Selling on credit to the customer.
9. Providing technical help to small scale retailers.
10. Maintaining stability in price.

Comparison of Large Scale Retailers and Wholesalers

Similarities

1. Purchase in bulk.
2. Purchases directly from the producer.
3. Purchase in cash.
4. Bulk breaking.
5. Risk bearing.
6. Large capital.
7. Specialist staff.
8. Invest in fixed assets.
9. Transportation from producer to warehouse.
10. Warehousing.
11. Link between customer and producer.
12. Work as private and public limited companies.

Dissimilarities

	Large Scale Retailers	Wholesalers
1.	**Sell to end customer.**	**Sells to SSR.**
2.	**Can sell in smaller quantities.**	**Sell only in large quantities.**
3.	**Sell on cash.**	**Sell on credit.**
4.	**Normally do not provide home delivery.**	**Normally provide transportation to SSR.**
5.	**Impersonalized services.**	**Provide support to SSR.**
6.	**Can perform branding and advertisement.**	**Do not perform branding but can advertise.**
	SSR= Small Scale Retailers	

Importance of Whole Scale Retailers in Distribution channel

To Producer

1. Producers are relieved of the risks.
2. Producers are relieved of storage of products.
3. By providing prompt cash, cash flow problem is reduced.
4. Due to purchase in bulk, production line are cleared.
5. Transportation is provided by wholesalers.
6. Feed back of market.

To Retailers

1. Variety is provided from different producers.
2. Wholesaler provide credit.
3. Wholesaler provide transportation.
4. Educate SSR on new products, shop layout and advertising.
5. Pack and grade before selling to SSR.
6. Sell in small quantities.
7. Warehousing is done by wholesaler.

To End Customer

1. Variety.
2. Convenience (products are available to SSR through wholesaler).
3. Competitive rates.
4. Continuous availability of products.
5. Price fluctuations are minimized.
6. Customer demand is met.

The role of wholesaler is on decline

Reasons

1. Large scale retailers.
2. Branded items advertized and pre packed by producers.
3. Banks provide easy loans and thus Large scale retailers.
4. Need of one stop shopping.
5. Transportation and inventory management has become easy.

Instances where wholesalers are eliminated

1. High value items (producers directly to customers).
2. Branded items.
3. Products are highly technical (training secrets).
4. Producers are resourcefully strong (Producers own retail outlets).
5. Products are very perishable (for example bakery).
6. Customized items.
7. Small market.

Instances where wholesalers are still involved

1. Standardized items.
2. Seasonal production (farm products).
3. Unbranded items (farm products).
4. Large markets.
5. Producers do not have resources.
6. Imports and exports.

Recent Trends in Wholesaling

Cash-and-carry wholesalers

- It is a wholesale supermarket, where retailers can buy goods in bulk at low prices.
- No credit nor delivery of goods are provided.
- Generally located in commercial areas.
- Advantages:
    1. Cheap goods due to self service.
    2. No restriction on purchase of a minimum quantity.

Voluntary chain

- Wholesalers and retailers enter into a agreement for purposes of mutual commercial benefits.
- Under this agreement all parties agree to work under a common name and symbol.
- Retailers agree to buy exclusively from specific wholesaler.
- All are responsible for their own profit and loss.

Advantages to retailer:

Confirmed source of supply.
Cheap source of supply.
Full technical support from wholesaler.

Advantages to wholesaler:

Assured amount of turnover.
Consolidated order.
Administrative cost becomes low.

Documents in Home Trade

Why Documents are needed?

1. For better internal control of the business.
2. To record business transactions.
3. For future references.
4. Legal Requirements.
5. To minimize misunderstandings between buyer and seller.

Common Features in Documents

1. Made on official paper (which include Brand name, Brand mark and contact details (e.t.c.).
2. Date of issuance is written.
3. Reference number of the document in response of which document is issued.
4. Contact details.
5. Title of document.
6. All documents must be signed by a competent authority from the issuer side.

Letter of Enquiry

Issued by: Buyer

Issued to: Seller

Purpose: To enquire about price, specifications, availability and terms of payment of goods.

Quotation

Issued by: Seller
Issued to: Buyer
Purpose: Issued in response of Letter of Enquiry.

Contains:

a) The prices of goods.
b) Terms of supply and discounts.
c) Costs of carriage of the goods.
d) Amount of time needed for delivery.

Catalogue

Issued by: Seller

Issued to: Buyer

Purpose: Substitution to the quotation. Nicely printed containing the specifications, pictures of goods, contact and terms and conditions.

Price list

Issued by: Seller

Issued to: Buyer

Purpose: Send with the catalogue, it contains the prices of goods mentioned on the catalogue.

Order

Issued by: Buyer
Issued to: Seller
Purpose: Issued to place an order for goods.
Contains:

a) Name and addresses of the two parties.
b) Description of each items.
c) Delivery date required.
d) The address to which the consignment is to be sent.

Delivery note

Issued by: Seller
Issued to: Buyer

Purpose: Sent to inform buyer of delivery of goods, stating the quantity, types of goods and order number and registration number of the truck. It is usually sent with the goods so that buyer can check the goods delivered. Delivery note is prepared in triplicate one retained by seller after getting truck driver signed, second retained by truck driver after getting signed by buyer upon delivery, third copy is retained by the buyer.

Invoice

Issued by: Seller
Issued to: Buyer

Purpose: To claim the amount of goods supplied, stating also the type, quantity, price and terms of payment.

Statement of Account

Issued by: Seller
Issued to: Buyer

Purpose: To inform buyer of outstanding recoverable balance from him at the end of every month.
It informs the transactions between the buyer and seller To

Differences between Invoice and Statement of Account

	Invoice	Statement of Account
1.	Financial claim against one single supply of goods and services.	Summary of transactions.
2.	Carries certain date.	Related to certain time period.
3.	No information about payments received or made.	Do contain such information.
4.	Does not tell the outstanding balance.	Do tell.
5.	Carries information about purchases, delivery note and terms of sale.	No such information.

Credit Note

Issued by: Seller

Issued to: Buyer

Purpose: To acknowledge receipt of faulty items returned by the buyer. To reduce amount receivable from the buyer.

Introduction

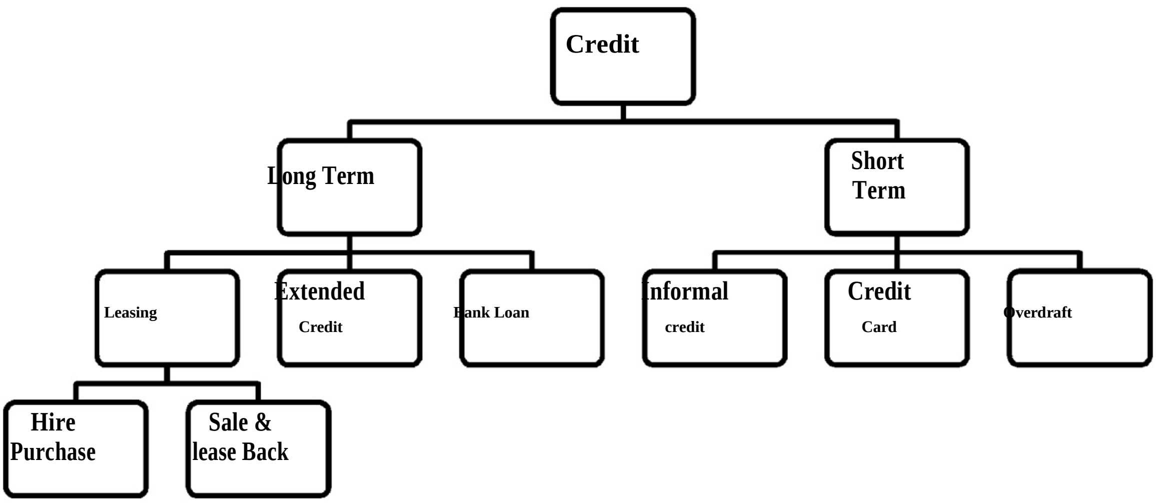
Credit is an arrangement by which a buyer can take possession of something now and pay for it later or over time.

Reasons for giving Credit

1. To gain competitive edge.
2. To earn additional money.
3. To sell a very expensive items.
4. When the product sales is on decline.

Matters discussed in agreement

- Details about the buyer and seller.
- Details of the asset to be bought/sold.
- Amount of finance.
- Repayment period.
- Monthly instalment.
- Interest rate charged.
- Collateral security involved.
- Rights and responsibilities of both parties.



Short Term Credit

The amount of credit is low
Credit is to be paid within one year.

Informal Credit

- Credit is given without any written agreement.
- Does not involve collateral security.
- Small amounts are involved.
- Repayment is to be made within one year.
- Normally offered by the retailer to their trustworthy customer.

Credit Cards

- A plastic card with a magnetic tape or with a micro chip on it issued by commercial banks to their credit worthy customers on request.
- These can be used for making payment at selected retailers or for drawing cash from selected ATMs upto a certain limit.
- **Features:**
    1. Plastic Card.
    2. Magnetic tape.
    3. Name of card holder.
    4. Card number.
    5. Validity date.

- **Advantages:**

    Advantages to Card Holder:
    1. Increases purchasing power.
    2. Minimum cash handling.
    3. Obtain cash at ATM.
    4. Can be cancelled when stolen.
    5. Postponement of payment.

    Advantages to Bank:
    1. Interest from card holder.
    2. Commission from retailer.

    Advantages to Retailers:
    1. More sales.
    2. Competitive edge.
    3. Minimum cash handling.

- **Disadvantages:**

    Disadvantages to Card Holders:
    1. Limited acceptability.
    2. Interest is charged.
    3. Irrational buying.
    4. Every one cannot have this facility.
    5. Can be misused.

    Disadvantage to Bank:
    1. Recovery of money from defaulters.

    Disadvantages to Retailer:
    1. Commission and rental to be paid to the bank.
    2. Problem of limited cash.

Over Draft

- A short term facility offered by the bank to the its customers where the borrower can over draft (withdraw money more than their balance) their accounts maintained with the banks.
- Available only for current accounts.
- Used by businesses to manage cash flow problems.

Long Term Credit

- Amount of Credit is large.
- Repayment goes beyond one year.
- Repayment is made in instalments.
- A written agreement is signed.
- Collateral securities are involved.

Leasing

- A rental agreement which involves a series of fixed payment (annuity) which is extended to several period.
- Lessor: One who owns the asset and lets other (lessee) use it.
- Lessee: One who gets procession of the asset for its use.

Hire Purchase

- A leasing agreement in which the lessor lets the lessee use an asset for a certain time period (less that the life of the asset) upon a certain installment (rental) with an option to purchase the asset by paying the amount or return the good to lessor, after the lease period.
- Suitable for asset with good resale value.
- The lessor will own the asset till the last installment has been paid and the total value of the asset is recovered.

Sale and Lease back

- Lessee originally owns the asset.
- The asset is sold to the lessor on the bases of market price and lessee gets the full amount in lump sum.
- Title will be in the name of lessor.
- Possession will remain with lessee.
- Lessee is liable to pay instalments to the lessor as per agreement.
- Lessee can not sell the asset till the instalment are paid and asset comes under his ownership.
- If lessee faults in making payments lessor has the right the repossess the asset.

Extended Credit/Deferred payment

- It is suitable for items with low resale value.
- In this case customer will become owner after signing the agreement and making payment of front and fee.
- Customer can sell the asset any time.
- Loans are secured by a collateral security.
- If customer defaults making payment the financer has the right to sue him.

Comparison between Bank Loan and Leasing

	Bank Loan	Leasing
1.	Cheaper source of finance	Expensive source of finance
2.	Collateral security is involved	Collateral security is not involved
3.	Good is actually sold	Good remains in the owner ship of the seller
4.	In case of payment defaults bank can not repossess the good	I case of payment defaults seller can repossess the good
5.	Suitable for goods with no second hand value	Suitable for goods with good second hand value

Advantages and Disadvantages of Customer Credit

Advantages	Disadvantages
To the Economy	
1. Encourages the sale of expensive goods.	1. Can cause general increase in price level.
To the Seller	
1. Increases turnover and thus profit.	1. If seller finances the installment-buying then capital requirement is increased.
2. Enables stocks to be cleared. So less risk of stock going out-of-date.	2. If buyer defaults in making payment then seller has to re possess the goods which may be damaged.
3. Can earn interest if he is also financing.	3. Administrative expense to record installments.
To the Buyer	
1. Raises the standard of living.	1.Has to pay extra interest.
2. It is a way of forced saving.	2. Encourages people to spend rashly.

Consumer Protection

All activities targeted toward s protecting consumers rights.

Reasons for Consumer Protection

1. Unfair trading practice s of businessman.
2. Inability of consumers to asses claims of advertisers.
3. Ignorance of consumers that products may endanger their health or life.
4. Safeguarding the religious beliefs of consumers.
5. Ignorance of customers of their rights.

Consumers Rights

1. To get right quantity and quality against the price paid.
2. Not to be charged extra.
3. Should be given goods in proper measurement.
4. There should be no ad ulteration.
5. Should no get expired items.
6. Should no get unhygie nic items.
7. Should not be treated rudely.
8. Should not get items with haram ingredients.
9. Seller should not mak e misleading statements during time of sellin g.
10. Should be given due after sale services

Ways to Protect Consumers

1. Self Care, consumers sh ould check the following:
   - Price
   - Quantity
   - Expiry Date
   - Ingredients
2. Government legislation.
3. Government agencies e. g. Ministry for Consumer Affairs, Competition Commission.
4. Consumer associations – testing products to find the best value for money.
5. Consumer Council – wit h consumers as members.
6. Radio and TV programmes

Business Organization

An organization which uses resources to produce goods and services to satisfy human needs and wants.

Private Sector Organization

- Which are owned and controlled by private people.
- Finances are provided by personal sources of owner.
- Generally are run to earn profit.

Public Sector Organization

- Which are owned and controlled by the government.
- Finances are provided by the government.
- Generally run to provide people with basic necessities, at a affordable price.

Limited and Unlimited Liability

Unlimited Liability: Creditors can claim a owner's personal assets to pay off any debts. Even if the debts are caused by other partners.

Limited Liability: This means the company's finances are separate from the personal finances of their owners.

Types of Private Sector Organizations

Sole Trader

Owner: One, with or without assistance of employs.
Capital: Limited and provided by loans or personal savings.
Liability: Unlimited.
Status: No legal entity.
Scale of operation: Very small.
Registration: No legal formalities.
Tax Burdon: Low.
Examples: Food stall, laundry and tailor.

Advantages:

1. Simple formation.
2. Easy management.
3. Owner is his own boss.
4. All profit is retained by the owner.
5. Low taxes.
6. Labour intensive.

Disadvantages:

1. Unlimited liability.
2. Uncertain life.
3. Resourcefully not very strong.
4. All burden of management is on the owner.

Partnership

Owner: One to twenty.

Capital: Small to medium.

Liability: Unlimited in case of ordinary partnership. Limited in case of limited partnership but at least one partner should be with unlimited liability.

Control: Owners with limited liability are called Dormant partners/sleeping partners/ inactive partners/ passive partners, they have no role in business management and their share in profit is less.

Scale of operation: Small to medium.

Examples: Common in professional practices like doctors.

Investment of capital: Cash (money), Kind (providing asset to the company), Expertise (skill).

Advantages:

1. More capital as there are more than one owner.
2. Responsibilities can be shared.
3. New ideas can come into business.
4. Low taxes.

Disadvantages:

1. Unlimited liability of some owners.
2. Uncertain life.
3. Unwise decision of one partner becomes obligations of other partners.
4. Bad reputation of one partner can damage the business.
5. There can be disputes in decision making.

Private Limited Company

Owner: Two to fifty.

Capital: Medium to large. Obtained by selling shares to limited number of people.
Liability: Limited to its registered capital.

Status: Separate legal entity.

Scale of operation: Medium to large.

Formation: Complex done under company law
Tax: High Tax rate. Cooperate tax on declared profit of business and on dividends to the shareholders.

Life: Certain, long.

Advantages:

1. More capital as there are more than one owner.
2. Responsibilities can be shared.
3. Limited liability.
4. Long and certain life.

Disadvantages:

1. Difficult formation.
2. Can not issue shares to general public.
3. Difficult management.
4. Double taxation.
5. High Tax rate.

Public Limited Company

Owner: Seven to unlimited.

Capital: Large (raised by selling shares to general public).

Liability: Limited.

Formation: Complex done under company law.

Scale of operation: Large.

Life: Long and certain.

Management: Complex.

Tax: High tax rate.

Formation of Limited Companies

Documents required before getting the status of a company

1. **Memorandum of Associations**
   i. Name of business.
   ii. Objectives.
   iii. Registered address.
   iv. Authorized share capital (the maximum amount of capital a business is allowed to raise)
   v. List of directors**.**

2. **Articles of Association**
   i. Internal management of the company.
   ii. Rights and responsibilities of Directors and Shareholders.
   iii. Appointment of legal advisors and auditors.
   iv. Quorum of Annual General Meeting.
   v. Profit sharing.

3. **Certificate of incorporation**
   1. certificate issued to business to act as a limited company

Capital of Public Limited Company

1. **Shares**

   Are issued by public limited company to general pubic. Holder of share becomes owner of the business.

2. **Debenture**

   Are issued by public limited company to general pubic. Holder of debenture becomes the lender to the business.

	Ordinary Shares	Debenture
1.	Normally are non redeemable.	Redeemable over a time upto 20-25 years.
2.	Can attend the AGO and hence take part in management by electing BOD.	Holders can not attend the AGO.
3.	Holders get share of profit by getting dividends.	Holders get interest on their investments.
4.	Rate of dividend is not fixed and is decided each year at AGO.	Rate of interest is fixed and is written on debenture certificate.
5.	Dividend depends on profit earned.	Interest is not related to profit earned.
6.	In case of liquidation, holder get share after debenture holders are paid.	In case of liquidation, debenture holders are paid in full before ordinary share holders.
	AGO= Annual General Meeting	
	BOD= Board of Directors	

	Ordinary Shares	Preference Shares
1.	True owners of business, can take part in AGO.	Just investors, can not take part in AGO.
2.	Rate of dividend is higher.	Rate of dividend is lower.
3.	Rate depends on profit earned. Called Risk Capital.	Fixed rate of dividend, irrespective of the profit earned.
4.	Entitled to dividends after preference share holders have been paid.	Paid first of all.
5.	Rank last of distribution of assets in liquidation.	I case of liquidation, ranks after debenture holders.

Calculations of Dividend

Face value of shares X No. of shares issued X Rate of dividend

Difference between Private and Public Limited Companies

	Private	Public
1.	Owners: 2-50	Owners:7- Unlimited
2.	Capital: Medium to Large	Capital: Large
3.	Shares issued to selected people.	Shares issued to general people.
4.	All share holders can become directors.	All share holders cannot become directors.
5.	Financial data can be kept secret.	Financial data has to be publicized (prospectus).
6.	Share holders can run the business.	Management and owners are different.

Public Sector Organization

Cooperative

Owner: Unlimited

Capital: Large, with shares.

Return on capital: Members are given fixed rate of interest on their share whether profits are earned or not.

Liability: Limited

Status: Separate legal entry.

Scale or operation: Large.

Formation: Complex. Registered under Cooperative Ordinance. Management: Difficult.

Aim: Profit is not the main aim.

Advantages:

1. More capital.
2. Professional management.
3. Limited liability.
4. Separate legal entry.

Disadvantages:

1. Inefficient control.
2. Inability to compete.
3. Limited return on capital.
4. Ownership of shares is limited to certain amount.

Public Utility Corporation

Owner: Government

Capital: Financed by the government.

Function: Generate items of utility at a very low rate. These organizations do not aim for Profits, and sometimes run on loss financed by the government.
Large scale business organizations.

Advantages:

1. Promotion of public interest.
2. Government has a control over essential goods and services.

Disadvantages:

1. Non Profitable business.
2. Difficult management.

Money

Money is anything that is generally accepted as payment for goods and services and repayment of debts.

Functions of Money

1. **Money act as a medium of exchange**
   Money is used as an intermediary for trade, in order to avoid the inefficiencies of a barter system, which are sometimes referred to as the 'double coincidence of wants problem'. Such usage is termed a *medium of exchange*

2. **It's a measure of Value**
   A unit of account is a standard numerical unit of measurement of the market value of goods, services, and other transactions

3. **Store of wealth**
   Form of money, or financial capital must be able to be reliably saved, stored, and retrieved and be predictably useful when it is so retrieved

4. **Money is a standard of deferred payment**.
   It can be paid on a later date or after a specified time period.

Characteristics of the Money

1. Acceptability
2. Stability of Value
3. Portability
4. Divisibility
5. Durability
6. Uniformity

Types of Money

1. Gold and Silver Money
2. Base Metals
3. Paper Money
4. Bank Money

Introduction

A banker or bank is a financial institution whose primary activity is to act as a payment agent for customers and to borrow and lend money.

Importance of Bank

1. Safekeeping for cash.
2. Safe and convenient means of making payment.
3. Provides finances.
4. Provides interest.

Types of Banks

Central Bank

- One central bank in each country.
- Issues, controls and regulate the supply of money in the country.
- Designing and enforcement of monetary system (a policy related to interest rates and money supply to control economy).
- Acts as lender of last resort to commercial bank.
- Makes policies for controlling activities of commercial banks.
- Manages public debt (money borrowed by the government).
- Manages foreign exchange reserves.
- Financial advisor of the government.

Commercial Bank

- Private owned and profit seeking.
- Basic units of banking system.

Services of Commercial Bank

1. Accepting deposits.
2. Lending Money.
3. Means of Payment.
4. Other services.

1. Accepting Deposits

Banks Accepts deposits from customers into the following account.

1.1. Current Account
1.2. Savings Account
1.3. Fixed Deposit Account

	Savings Account	Fixed Deposit Account	Current Account
1.	Suitable for those who wishes to save small sums of money.	Suitable for those who have extra money to be set aside to earn interest.	Useful for businesses who needs safe method to make and receive payments.
2.	Opened with minimum deposit.	Opened with large deposit.	Opened with large deposit.
3.	Earns low interest.	Earns high interest.	Earns no interest.
4.	No need to pay bank charges.	No need to pay bank charges.	Has to pay charges if deposit falls below certain amount.
5.	Money can be deposited and withdrawn any time.	Amount of deposit remains fixed. Can not be withdrawn.	Money can be deposited and withdrawn any time.
6.	Certain limit of withdrawing money.	Money can not be withdrawn until a specific period expires.	No Limit of withdrawing money.
7.	- - - - - - - - -	Certificate of deposit.	- - - - - - - - - -

2. Lending Money

2.1. Discounting Bill

Any customer with a bill of future maturity date can be negotiated with the bank to get money against the bill on prevailing discount rate on their face value.

2.2. Bank Loan

- Is a lending facility offered by the bank to meet long term financial requirements of borrower.
- Normally a loan is granted for acquiring any fixed asset or for development of infra structure.
- If sanctioned, loan amount is paid to the borrower through a cross cheque/cashier or manager's cheque which can be deposited on any bank in which borrower maintains an accounts.
- Borrower has to pay the principal amount along with the interest.
- A bank considers the following before granting the loan.
    1. Purpose of loan.
    2. Credit worthiness of the borrower (CIB).
    3. Amount of loan.
    4. Duration of loan.
    5. Collateral security.

2.3. Bank Over Draft

- A short term facility offered by the bank to the borrowers where the borrower can over draft (withdraw money more than their balance) their accounts maintained with the banks.
- Also known as running finance facility.
- It is offered to manage cash flow problem.
- Only available for current account

	Bank Over Draft	Bank Loan
1.	Customer must have a current account.	No need.
2.	Offered for short term period.	Offered for long term period.
3.	Provided to help cash flow problem.	Provided to help borrower acquire or develop infra structure.
4.	Interest is charged on availed amount.	Interest is charged on principal amount outstanding.
5.	Interest rate is higher.	Interest rate is lower.
6.	Bank statement will show debit balance.	After loan amount is deposited in to the bank, Bank Statement will show credit balance.
7.	Bank will create charge against current assets.	Bank will create charge against fixed assets.
8.	Money paid into the borrower's account reduces its debt.	Loan is repaid by standing orders.

3. Means of Payments

- Payer: One who is making payment.
- Payee: One who is getting payment.
- Drawer: The one who signs the cheque.
- Drawee: The bank upon which the cheque is drawn.

3.1. Cheques

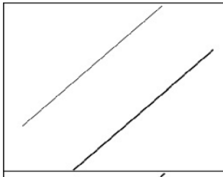
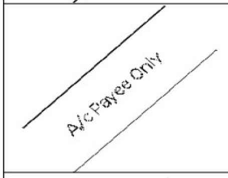
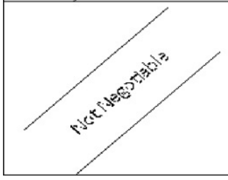
1. Open cheque is cheque which is cashable over the counter of the particular bank on which it is drawn.
    a. Bearer cheque: A cheque which is payable to the holder.
    b. Order cheque: A cheque which is payable to specific person. If the first payee want to give the cheque to another person he must endorse the cheque to him with his sign.
2. Crossed cheque is a cheque which cannot be cashed over a counter but must be paid into a account.

Advantages of Cheques

1. Minimum cash handling.
2. Convenient and Safe.
3. Track record of payment can be maintained.
4. Better business control.
5. Sometimes it is a legal obligation.

Disadvantages of Cheques

1. Cheques can be dishonoured.
2. Payments through cheques means limited hard cash.
3. Paper work increases.
4. Not suitable for petty purchases.

	**Cheque can be deposited in any account.**
	**Cheque can be deposited only into payee account.**
	**Cheque can not be negotiated with bank.**

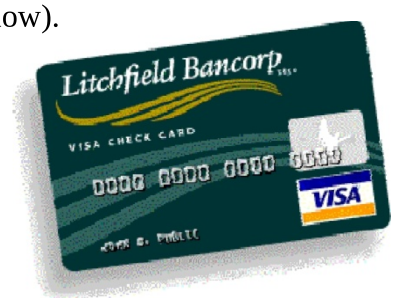
How Cheques are dishonoured

1. Balance not available in payers (drawers) account.
2. There is some discrepancy in amount written in words and in figures.
3. There is some cutting/over writing on the cheque.
4. Tempered cheque.
5. Cheques issued form frozen account.
6. Signatures do not tally.
7. Stale cheque (older than six months).
8. Post dated cheque.
9. Cheque issued from a person reported dead.
10. Payment is stopped by payer.
11. Cheque issued by insane person.

How to overcome the problem of dishonoured Cheques

1. Check cheques before accepting them.
2. Keep careful records of customers who have caused problems.
3. Ask for cash payment.
4. Take the person to court.
5. Insist on the use of a cheque guarantee card (see below).
6. Do not accept cheques beyond the limit of the card (see below).

Cheque cards are issued by bank to their credit worthy customers, guaranteeing to the payee that a cheque drawn by the card holder will be honored by the bank even if there are insufficient funds in the account of drawer.



3.2. Bank Draft

- Issued by the bank in favour of payee on the advice of the payer.
- The payer approaches the bank with the request and payment in cash or through cross cheques in favour of the bank.
- Payer has to pay bank charges in addition to the amount of payment.
- At is a secured means of payment.
- Usually suitable when buyer and seller are not known to each other, and seller wants secure means of payment (of course bank is more reputable than a person).

3.3. Standing Order

- Suitable especially for annuity payment for example hire purchase.
- These are orders to a bank to pay regularly a fixed sum of money from one's current account to a specific payee.
- Payer gives bank written instructions.
- **Advantages:**
    1. Payments are made automatically. Increases credit worthiness.
    2. Payer need not to remember the due dates of payment.
- **Disadvantages::**
    1. Some times there is not enough balance and the cheque is dishonored.
    2. Only suitable for fixed amounts and regular intervals.

3.4. Direct Debit

- Same as Standing Order except that payments of varying amounts at irregular intervals can be made.
- In this case the debtor not the creditor asks for payment.

3.5. Credit Transfer

- Suitable for making payments to a number of payees at the same time.
- Used to pay salaries, rents, hire purchases installments.
- Payer gives information of payees in written to the bank.
- Payer writes a cheque in the favour of the bank of the whole amount to be paid.
- **Advantages:**
    1. Time saving.
    2. Saving on admin costs.
    3. Track record of the payments.
- **Disadvantages:**
    1. Possible only when payee has bank account.
    2. There are bank charges.

3.6. Bank Giro

- It allows payment to be made at any branch of any bank to any branch of any bank in the country.
- It is available to those who do not have a bank account as well as to those who do.
- A payer can deposit money by cash or through cross-cheque into a payee account by filling a "bank giro credit slip".
- It is used to pay wages and salaries.

3.7. Online Payment
- Payment can be deposited into payee's account through internet.
- Used for both local and especially more common in international transactions.
- Payer has to go to any branch of the bank where payee holds his account.
- Payer has to fill in 'online deposit slip' by mentioning payees account number and branch name and code.
- Bank where payer deposits the money will remit it to payees bank branch.
- Remittance will be made in a few minutes.
- Remittance is sending of money without physical movement of money.

4. Other Services

4.1. Agency Service
- Banks acts as agent of the payee for accepting payments.

4.2. Foreign Exchange
- In additional to central bank, commercial banks also buy and sell foreign exchange.

4.3. Issuance of Bank Statement
- It is issued by the bank to their account holder on periodic basis or on demand.
- Acts as a summary of all the transactions that account holder makes.
- Generally mentioned in running balance format.

4.4. Credit Cards
Discussed in detail in chapter 6-Consumer credit.

4.5 Debit Cards
- A plastic card with a magnetic tape or with a micro chip on it, issued by commercial banks to their account holders.
- These can be used for making payment at selected retailers or for drawing cash from ATMs.

4.6. ATM and ATM Cards
- ATM (Automated Teller Machines) is a computerized telecommunications device that provides customers a method of financial transactions in a public space without the need for a human clerk or bank teller. Most banks now have more ATMs than branches, and ATMs are providing a wider range of services to a wider range of users.
- ATM card is a plastic card which is issued by the bank to its account holders on their request.
- This card is used to draw money by using it at ATMs.

- **Services provided by ATMs:**
    1. Mini Bank Statement.
    2. Utility Bills payment.
    3. Balance enquiry.
    4. Balance Transfer (BTF).
    5. Deposit Money.
- All debit cards are AT M cards but all ATM cards are not debit cards.

4.7. Telebanking

- A special facility which is offered by the banks to their account holders on their request.
- It is a service which allows its customers to perform transactions over the telephone. This normally includes bill payments for bills from major billers (e. g. for electricity)PIN is used to access the bank account.
- **Facilities:**
    - Pay bills.
    - Checking Bank balance.
    - Balance Transfer Facility (BTF).
    - Requesting cheque books.

4.8. Internet Banking

- It is a term used for performing transactions, payments etc. over the Internet through a bank.
- Customer has to open the banks website.
- PIN code is used for authentication.
- Facilities are same as Telebanking.

4.9. Lockers

- A facility offered by the banks to their customers on their request to deposit their valuables in Bank Lockers.
- Each locker has two keys one given to customer and one rests with the bank.
- Valuables kept may be under a insurance cover provided by the bank upto certain limit.

4.10. Night Safe Deposits.

- A facility offered by the bank to account holders to deposit money after bank timings.

4.11. Paying-in Slip.

- Used to add money into one’s own account.

Capital Markets
The means by which large amounts of money (capital) are raised by companies, government and other organization for long term use. This is the market which corporate equity and long term debt securities are issued and traded.

The Borrowers
Someone who receives some think on the promise to return it or its equivalent. Households , government and companies borrows funds for various reasons.

Households – To purchase a house

Companies – To build a new factory, To buy plant and machinery, To finance takeovers

The government – To meet the day to day expenses, To conduct various construction works.

The savers

Someone who accumulates funds to use for future purpose. Households and companies save money for many reasons.

Saving institutions

1. Building Societies
2. Insurance companies
3. Unit trust
4. Investment trust
5. National Savings
6. Direct Investment

The Stock exchange/ Share market

A **stock market** is a public market for the trading of company stock and derivatives at an agreed price; these are securities listed on a stock exchange as well as those only traded privately

Share Prices

A **share price** is the price of a single share of a company's stock. Once the stock is purchased, the owner becomes a shareholder of the company that issued the share. The price is calculated by dividing the market capitalization by the total number of shares outstanding.

Factors affecting a particular share's prices

1.The performance of the company
2. Mergers and aqusisions
3. The development of new products or techniques
4. Government policies
5. General Economic atmosphere
6. Political factors

Importance of the stock market

1. Raising capital for business
2. Mobilizing savings for investments
3. Facilitating company growth
4. Redistribution of wealth
5. Corporate governance
6. Creating investment opportunity for small investors
7. Government capital raising for development projects
8. Indicator of the economy
9. The administration of taxation

Share index

A stock market index is a method of measuring a section of the stock market. Many indices are cited by news or financial services firms and are used to benchmark the performance of portfolios such as mutual funds.

Financial Statement of a Business

1. **Balance Sheet:** Shows the financial position of a business at a certain point in time**.**
2. **Profit and loss account:** Operational results of a business during a certain period in time.

Balance Sheet

- It gives the summary of assets, liabilities and capital of a business.
- Shows where sources of finance have been spent.

$$Sources\ of\ Finance = Allocation\ of\ Finance$$
$$Capital + Liabilities = Assets$$

Assets

- **Resources** of the business required for its operations.
- **Fixed assets** are those assets which will remain in use of business for more than one year. These assets are usually expensive and valuable. Examples: Land, Building, Machines, Furniture, Equipment and Vehicles.
- **Current assets** are those assets which will be used by the business for its operations within one year. Example: Stock of raw materials, Debtors (amount of sales on credit), bank balance and cash in hand.

Liabilities

- Represents the money that has come into business from outsiders, other than investment from the owner.
- **Long Term Liabilities** are those liabilities which are to be repaid after one year**.**
- **Current Liabilities** are those amounts that the business is liable to pay in next one year. Example: Creditor (money the business as to pay against credit purchases of raw material).

Capital

1. **Capital Owned/Equity Capital/Net worth of Business**
   Amount of money that business owes to its owner at a certain point in time.
2. **Fixed Capital**
   Amount of money that business has issued to acquire fixed assets at a certain point in time
3. **Circulating Capital/Floating Capital**
   Amount of money that business has tied up with current assets at a certain point in time

4. **Capital Employed**

   It is the wealth actually used in the firm to earn income

$$Capital\ Employed = Capital\ Owned + Liabilities - Debtors$$
$$Capital\ Employed = Net\ Assets - Debtors$$

5. **Capital Invested**

   Amount of money brought into business by the owner.

$$Capital\ Invested = Capital\ at\ begining - Drawings$$

6. **Working Capital**

   It is the money used by the business to finance routine expenses.

$$Working\ Capital = Current\ Assets - Current\ Liabilities$$

7. **Working Capital Ratio**

   Ratio show the extent of business financial stability

$$Working\ Capital\ Ratio = \frac{Current\ Assets}{Current\ Liabilities}$$

   Working Capital should ideally between 1 and 2.

8. ***Liquid Capital***

   Liquidity is the ease with which one can fully convert its resources into legal tender.

   Legal tender is the medium of exchange which is balanced by the law of country.

   It is a part of current assets which are in form of cash, bank balance and debtors.

$$Liquid\ Capital = Current\ Assets - Stock$$

9. **Liquid Ratio/Acid Test Ratio**

   Shows the solvency position of a business. Solvency means being able to meet current liabilities.

$$Liquid\ Ratio = \frac{Current\ Assets - Stock}{Current\ Liabilities}$$

   Stock is excluded because stock is difficult to convert to cash very quickly.

Profit and Loss

1. **Turnover/Net Sales**

   It is the total value of goods sold in the year.

$$Turnover = Goods\ sold - Goods\ returned$$

2. **Cost of Goods Sold**

   It is the cost of goods that have been sold.

$$Cost\ of\ Goods\ Sold = Opening\ Stock + Net\ Purchases - Closing\ Stock$$

3. **Gross Profit**

   Overall profit on trading

$$Gross\ Profit = Net\ Sales - Cost\ of\ Goods\ Sold$$

4. **Operating Expenses**

   Indirect expenses/Overheads/Oncost are fixed costs for example rentals, electricity bills and advertising costs.

   Direct expenses are varying costs for example salaries and wages.

5. **Net Profit**

   Final profit of the business after deducting all the expenses.

$$Net\ profit = Gross\ profit - Operating\ expences$$

6. **Markup**

   Difference between buying and selling price ≠ Gross profit.

7. **Percentage Markup**

$$Percentage\ Markup = \frac{Cost\ of\ Goods\ Sold}{Total\ Sales} \times 100$$

8. **Margin**

   Profit out of a unit sale.

9. **Gross Profit Percentage**

$$Gross\ Profit\ Percentage = \frac{Gross\ Profit}{Turnover} \times 100$$

10. **Net Profit Percentage**

$$Net\ Profit\ Percentage = \frac{Net\ Profit}{Turnover} \times 100$$

11. **Rate of Turnover**

$$Rate\ of\ Stockturn = \frac{Cost\ of\ Goods\ Sold}{Average\ Stock\ at\ Cost\ Price}$$

12. **Average Stock**

$$Average\ Stock = \frac{Opening\ Stock + Closing\ Stock}{2}$$

How Working Capital can be improved

1. Injection of fresh equity (owners money).
2. Long term loans.
3. Sale of surplus fixed assets.
4. More sales.

Introduction

Communication is the process of conveying information from a sender to a receiver with the use of a medium.

Effective Communication

In which the communicated information is understood the same way by both sender and receiver.

Importance of communication in commerce

1. Need for exchange of documents in trade.
2. Minimizes confusion and misunderstanding between buyer and seller.
3. Ensures better business control.
4. Business can get reliable and cheap information about their market.
5. Frequent travelers need to develop a contact with their offices.
6. International trading is not possible without efficient communication system.
7. Modern banking is also dependant on communication system.

Elements of Effective Communication

1. Sender.
2. Recipient.
3. Mode of communication.
4. Feed back.

Mode of communications

Verbal/Oral

- Face to Face.
- Through a mediator/translator.
- Telephone.
- Mobile phone.
- Seminar/conference.

Advantages

1. Quick.
2. Normally cheap.
3. Facial expressions can be seen.

Disadvantages

1. Message can be distorted.
2. No proof or record.

Written

- Postal mail.
- Fax.
- Internet.
- Newspaper/Magazine.
- Intranet.
- SMS.

Advantages

1. Record can be made.
2. Sometimes it is fast and cheap in case of SMS and internet.
3. Lesser chances of message being distorted.

Disadvantages

1. Some times it can be expensive.
2. Useful only for literate people.
3. Not very quick is case of newspaper and postal mail.

Postal Office

- Message is physically transferred.
- For written.

1. Ordinary Mail:

- To send and receive letter.
- Each letter costs on the basis of weight and distance.
- Advantages:

  Cheap.
  Record of info can be kept.
  Wide coverage.
- Disadvantages:

  Slow.
  Misplacement of letter can occur.
  Only be used by literate people

2. Registered Mail:

Suitable for sending and receiving sensitive information or expensive material.
Extra fees is pa id to ensure delivery and with compensate for loss.

Advantages:

Still cheap.

Wide coverage.

Track record of delivery of letter.

Compensation in case of loss of mail.

Disadvantages:

- ✘ Bit expensive than ordinary mail.
- ✘ Slow.
- ✘ Useful only for literate people.

3. **Express Mail:**
   - Used to send documents in urgency.
   - Express mail service can be availed on the request of both sender or receiver.
   - **Advantages:**
     Speedy.
   - **Disadvantage:**
     Extra money is to be paid.

4. **Post Boxes:**
   - This service is available on request by paying charges.
   - Suitable for those who want to receive frequent mail and d o not want to show their identity or address.
   - Upon request, Post office will assign a certain post box wit h a certain number.
   - Post boxes are located in post office premises.
   - A key is given t o the person to whom post box is assigned.
   - All mail to a certain post box will be dropped in the post box by the post office and a representative of the business will collect is personally.

5. **Franked Mail/Prepaid Mail:**
   - This service is available on request.
   - This is suitable for those who have to send a lot of mail on regular basis.
   - On request customer will get a franking machine.
   - Function of franking machine is to print stamps.
   - Franking machine is equipped with a meter which counts on the stamps printed.
   - Customer has to pay rental cost of the machine along with the stamps used.
   - Saves time and money if outgoing mail is frequent.

6. **Air Mail:**
   - Used when documents/letters are to be send abroad (generally).
   - It is speedy for longer distances.
   - Sender has to pay extra cost.
   - Sender has to specify by writing AIR MAIL on envelope

7. **Parcel Service:**
   - For sending and receiving cargo of small size or weight.
   - Cargo is packed in wooden/car board box with name of receiver on it.
   - Cargo accepted by the post office and they issue an acknowledge/ consignment note.
   - Consignment note carries the amount, name of receiver and cargo details.
   - Cargo number can be used to track he cargo.
   - Cost is paid on the basis of distance and weight of cargo.

8. **Means of Payment:**

Money Order: For larger amounts.

Postal Order: For smaller amounts.

National Giro: For making payments in someone's account.

9. **Saving Account:**
Can be operated and maintained at certain branches of post offices.

10. **Insurance:**
Post offices act as insurer to cover certain risks.

11. **Agency Service:**
Post offices as agent to accept and make payments on behalf of others.

Telecommunication

Used for sending and receiving information electronically.

1. **Telephone:**

Advantages
Cheap.
Easily available.
Wide coverage.
Speedy.
SMS facility.

Disadvantages
Facial expressions can not be seen.
Only two people .
No record.

2. **Mobile Phones:**

Advantages
Can be carried any where. Becoming cheaper.
SMS. MMS.
Internet.
Payments of bills.
Enables travellers to keep in touch with his office.

Disadvantages
Still expensive.
Informational can be distorted in case of weaker signals.
Not so wide coverage.
Battery needs t o be charged.

4. Internet:

- A network that links computer networks all over the world by satellite and telephone, connecting users with service networks such as e-mail and the World Wide Web.
- Modern banking is dependant on internet.
- E-commerce is carried out on internet.
- Has increased international trade.
- Cheap source of information.

5. Intranet:

A network of computers, especially one using World Wide Web conventions, accessible only to authorized users such as those within a company.

6. Email:

Used to send messages over the internet.
One must get an email address to use this facility.
Attachment can be done.
Quick
Cheap
C.C. and B.C.C. can be done.
Sender and receiver both required email
Information can be distorted.
For computer literate people can use

Factors affecting choice of communications

1. Cost.
2. Speed.
3. Accuracy of information.
4. Availability.
5. Nature of information.
6. Secrecy of information.
7. Distance.

Introduction

Advertising is a form of communication that typically attempts to persuade potential customers to purchase or to consume more of a particular brand of product or service.

Aims of Advertisement

1. Higher sales.
2. Introducing new products.
3. Information on improvement or change in product.
4. Spreading brand name.
5. Improve company's image.

Purpose of Advertising

To Inform

- When a new product is introduced.
- Aimed to create demand of new product.

To Persuade

- To persuade people to buy a product of a particular brand.

To Remind

- To remind people of existing products.
- To draw attraction of customers.

Types of Advertising

Informative Advertisement

- Informing the public of a new products.
- For example a new car launch.

Persuasive Advertisement

- Telling people that a particular brand is superior to all other brands.

Reminder Advertisement

- Adds repeated again and again.

Competitive Advertisement

- Carried out by different producers encouraging public to buy their brand.
- For example Pepsi.

Advertising Tools/Devices

Techniques used by the advertiser in his promotion to appeal their target market, develop their interest, activate their desire and induce action.

1. Gender	**8. Motherly love**
2. Noise	**9. Family Love**
3. Music	**10. Offers**
4. Suspense	**11. Comic/Animation**
5. Economy	**12. Contract**
6. Adventure	**13. Safety**
7. Manliness	**14. Endorsement of famous personalities**

Advertising Media

Newspaper

Advantages
- Wide coverage.
- Daily circulation.
- Different rates depending on size and location of ads.
- Low cost per exposure.

Disadvantages
- Wasteful circulation.
- Reach only literate people.
- Short life.
- Poor quality advertisement
- No audio/visual impact.

Magazines

Advantages
- Long life.
- Better quality.
- Targeted.
- Still cheap.
- Low cost per exposure.

Disadvantages
- Inflexible.
- Infrequent.
- No audio/visual impact.
- Suitable only for literate people.

Radio

Advantages
- Wide coverage.
- Audio impact.
- Can reach illiterate people.
- Targeted. (Ads between programs)
- Low cost.

Disadvantages
- No visual impact.
- Exposure life is very short.
- Ads fail to get attention.
- Becoming less popular.

Television

Advantages
- Audio and Visual impact.
- Lost cost per exposure.
- Wide coverage.

Disadvantages
- High absolute cost.
- Wasteful circulation.
- Fail to get attention.

Factors affecting choice of Advertisement Media

1. Cost.	Budget.
2. Type of message.	Includes detail or not.
3. Type of product.	Requires demonstration/Requires Audio and visual impact.
4. Target.	Teenagers/Housewives/Professionals.
5. Market.	Local/National/International.
6. Government policy.	Does government allow such types of ads.

Advertising Agencies

Account Service Department

- Account in advertising means business or customer.
- Creates advertising plan by taking basic information about client's business, marketing strategies, budget and target market.

Creative Department

- Responsible for thinking the theme and writing the dialogues/jingles.

Media Department

- Makes sure that the message reaches the required market.
- Responsible for displaying the ad via suitable media.

Production Department

- Responsible for set designing and shooting of ad.

Controlling Advertisement

1. Government Legislation
2. Advertising Standard Authority: Independent body which makes it sure that any advertisement which is publicized should not hurt audience.

The advertising has following purposes

- To attract new buyers and try to expand customer base.
- To compete in the market.
- To create an organization's recognition among consumers.
- To promote subsidiary or products manufactured by the same company.
- To bring into notice the changes, special offers or current developments of the interest of the consumers.
- To increase the sale of a particular product.
- To carry out public relations and public service program.

Introduction

Transportation **is the movement of** people **and** goods **from one place to another.**

Importance of Transportation

1. Assists trading.
2. Creates utility of place .
3. Improves standard of living.
4. Provides necessities of live and minimizes shortages.
5. International trade is not possible without transportation.
6. Efficient transportation system is important for distribution of goods in right form.

Modes of Transportation

Road Transport

Advantages

1. Cheap for shorter distances.
2. Quick for shorter distances.
3. Door to Door delivery .
4. Minimum documents involved.
5. It is flexible. Smaller and larger quantities can be transported to most of regions.
6. Round the clock availability.

Disadvantages

1. Expensive for long distances and heavy loads.
2. Slow for long distances.
3. Effected by climate.
4. Effected by weather conditions.
5. Effected by traffic congestions.
6. Creates pollution.
7. Creates traffic congestions.

Rail Transport

Advantages

1. Quick for long distances.
2. Good to carry bulky cargo.
3. Not effected by traffic.
4. Does not create pollution in cities.
5. Special transporters ma y be provided for different specialized items.
6. Especially suitable for low value and high volume cargo.

Disadvantages

1. Involves documentation.
2. Need for loading and unloading cargo many times.
3. Trains can not go any w here.
4. Move only according to schedule.
5. High costs for short distances and small quantities.
6. Located out of cities so depends on road transportation.
7. High capital cost of maintenance of tracks and trains.

Air Transportation

Advantages

1. Quick.
2. Safe handling of cargo.
3. Not effected by topography.
4. Not much documentation involved.
5. Less packing requirement.
6. Less insurance cost.
7. Especially suitable for high value and low volume cargo.
8. Used for urgently required goods.

Disadvantages

1. Expensive.
2. Effected by weather conditions.
3. Has constraints as far as carrying of cargo is concerned.
4. Limited space.

Sea Transportation

Main Types of Sea Transport

1. **Ships: “**Mother Vessel 40,000 MT- 60,000MT” and “Connecting V essel 20,000 MT” deep port.
2. **Barge:** Small Ship – S hallow port
3. **Ferries:** Shallow seas and small distance
4. **Boats:** River inland transportation

Main Types of Ships

1. **Passenger liner:** Normally used to carrying passengers, mail and some express cargo.
2. **Cargo liner:** Mainly used to carry variety of cargo and sometimes few passengers.
3. **Tramp:** It is cargo ship which does not sail to any special place. It is normally chartered.
4. **Bulk carrier:** It is especially built to carry a particular type of
5. **Roll-on, roll-off:** Highly specialized ships that allows loaded vehicles like trucks, trailers, passenger cars etc.

Advantages

1. It is cheap per unit of cargo for longer distances.
2. Highly suitable for bulky cargo.
3. Refrigerating and other facilities are available.
4. Containerization is possible.
5. Not effected by topography**.**

Disadvantages

1. Very slow.
2. Very rigid.
3. It is effected by weather conditions.
4. A lot of documentation.
5. Lot of handling of cargo is involved.
6. Extra cost for insurance and packing.

Containerization

- Sending cargo in special metallic box of standard sizes as containers.
- **Size (i): 20'x8'x8' known as 20 ft container, suitable for low volume, high weight**
- **Size (ii): 40'x8'x8' known as 40 ft container, suitable for low weight, high volume**
- Containers are generally owned by shipping lines.
- Refrigerated containers are also available.
- **Containers are available to the traders on** less than container load **(LCL) and** full container load **(FCL) basis.**

  Less than container: **Some of the container;**

  Full container load: **Whole cargo.**
- **Advantages:**
  1. Quick movement of cargo.
  2. Faster turn-around of ships at ports.
  3. Protection of cargo from being damaged.
  4. Saving on packing cost.
  5. Lesser chances of cargo being lost.
- **Disadvantages:**
  1. Expensive to own, Capital cost increases.
  2. Dependence on skilled labour.

Chartering

- A vessel/truck/plane is available to the trader on chartered basis by paying a certain amount.
- Trader can then cover a certain distance or voyage according to his own schedule.
- The agreement signed with the owner is called 'charted party'.
- Chartering is available on voyage and time basis.

Shipping Conference

- It is a meeting held on annual basis attended by representatives of shipping companies in which important matters are discussed.
- One of the important matters discussed is the decision of minimum freight charges for a certain voyage. This freight is called “conference rate”.

Advantages

1. Price competition amongst the shipping line is limited.
2. Profit is certain.
3. Availability of ships in the long run.

Disadvantages

1. Rates are made artificially high, expensive rates.
2. Some shipping lines not attending the conference can operate below conference rate, which is disadvantage to other shipping lines.

Pipe Line

- Suitable only for gases and liquids.
- Operational costs are minimum.
- Heavy capital costs.
- Require favourable gradient.
- Security hazards.
- Leakage problems.

Hiring and Owning Transportation

Hiring Transportation

Advantages

1. Capital cost is saved.
2. Running and maintenance cost is saved.
3. Saving on problems relating to crew.
4. Save on taxes.

Owning Transportation

Advantages

1. Cheaper operational cost.
2. Creates good image.
3. Can be used for business advertisements.
4. Can make amendments to the transport according to requirements.
5. Round the clock availability.
6. Reduces dependency.

Factors to be considered before deciding for Hiring or Owning

1. Capital cost.
2. Frequency of use.
3. Nature and scope of business.
4. Business certainty.
5. Availability of rental transportation.
6. Freight charges of rental transportation.
7. Crew costs.

Factors affecting choice of mode of Transportation

1. Freight charges.
2. Availability.
3. Coverage.
4. Topography.
5. Distance.
6. Urgency.
7. Value of cargo.
8. Nature of cargo.

Recent Trends in Transportation

1. Chartered transportation.
2. Air Freight.
3. Express Routes.
   - Main routes (highways) which are made for HTV (heavy transport vehicles).
   - There are minimum obstacles.
   - Minimum crossing.
   - Speedy transportation.

Port Authority: Responsibilities

1. To provide navigation facilities and to control air and sea traffic.
2. To maintain air traffic control tower/light house.
3. To maintain run ways/berths/docks.
4. Fuelling of planes/ships.
5. Provision of supplies to the planes/ships before departure.
6. Signing agreement with other port authorities on variety of issues.
7. Maintenance of planes/ships before departure.
8. Providing facilities to passengers and traders.
9. Security arrangement.
10. Permits to motor boats/light air planes.
11. Providing hanger facilities/wet or dry docks.

Introduction

Insurance is a promise by one person/ business to make compensation to other person/business against its financial losses as a result of a certain specific reason.

Terms in Insurance

1. **Insurer/Underwriter:** One who provides insurance.
2. **Insured:** One who gets insurance cover.
3. **Beneficiary:** Is the person who will get payment against insurance claim from insurance.
4. **Assessor/Actuaries:** Somebody employed by an insurance company to assess risks and fix premiums
5. **Sum Insured:** Is amount which the insurer promises to pay at the maximum.
6. **Premium:** Amount which is to be paid on order to buy an insurance cover. Once paid it is non-refundable. Premiums are to be paid on annual basis.
7. **Insurance Policy:** Contract of Insurance.
8. **Cover Note:** A document of transitional nature which acts a proof of insurance before insurance policy is issued.
9. **Claim form:** Is a written document which has to be submitted by the beneficiary to the insurer to the payment against financial loss.
10. **Proposal form:** Document on which written data about the insured is collected. On basis of this data premium are calculated.

Why insurance cover is obtained

1. It gives confidence to the person/business.
2. It can be obtained as a measure of saving for a certain future plan.
3. As an investment
4. It can give financial protection.
5. Sometimes it is a obligation.

Types of Risks

1. Insurable Risks

Those risks against which probabilities of occurrence can be mathematically calculated on the basis of available past data for example theft, accident.

2. Non-Insurable Risks

Those risks against which probability of occurrence cannot be mathematically determined for example failure in exam and change in fashion.

How Insurance Works

- Insurance works on the basis of pooling of risks.
- All people who have a same type of risk, make payment of premiums to the insurer.
- Of all the people under insurance policy, only few suffer financial loss, they claim and get their payment out of the total premiums submitted.

How Insurer makes Profit

- Only few of the total insured, claim their loss.
- Insurer will invest the money of premiums wisely making sure he has enough liquidity.

How Insurance Company uses Premiums

1. To make claim payments.
2. Meet administrative expensive.
3. To reinsure.
4. To invest.

Factors effecting the Premium

1.	**Size of Poll =**	Pool↑:Premium↓
2.	**Intensity of Risk =**	Intensity of Risk↑: Premium ↑
3.	**No of Risks =**	No of Risks ↑: Premium ↑
4.	**Sum Insured =**	Sum Insured ↑: Premium ↑
5.	**Previous claim history =**	Previous claim history ↑: Premium ↑

Principles and Doctrines of Insurance

1. Insurable Interest

- Applied to all types of insurance.
- Only those things can be insured, loss of which directly effects the insured/beneficiary in terms of financial loss.

2. Utmost Good Faith

- Applies to all types of insurance.
- Nothing should be concealed from the insured.
- Failure to disclose the truth make the policy void.

3. Indemnity/Compensation

- **Applies to all types of insurance except life assurance and personal accident insurance.**
- **Insurer will try to compensate the loss.**

- Insurer will try to bring the insured to the position it was before loss.
- Insurer will not provide any benefit to the insured.
- For example if your 5 years old car is damaged beyond repair, the insurer will give the money from which you would be able to buy the car of the sa me model which is 5 years old, instead of making payment from which you can buy a new car.

a. Contribution

If insured tries to obtain insurance cover against the same risk from different insurers, all the insurers will contribute to the loss.

b. Subrogation

Once insurer has made the payment of the claim to the Beneficiary the wreckage belongs to him.

Types of Insurance

a) General Insurance

a) Fire Insurance: Building due to fire.
b) Contents Insurance: Contents
c) Comprehensive Fire Insurance: Building, Contents, Riots, Floods and Earthquakes.
d) Consequential Loss Insurance: Loss of profit while rebuilding is going on.

b) Motor Insurance

a) **Minimum Legal C over**: Injuries to third party on public roads only.
b) **Third Party Cover:** Includes injuries and damage to properties of third parties.
c) **Third Party, fire and theft**: Third Party plus, damage to car by theft or fire.
d) **Comprehensive:** A s in C) plus damage to vehicle, personal injuries to driver and loss or damage of personal possessions while in car.

c) Accidental Insurance

a) **Care Insurance**: Theft, Accident and 3rd Party.
b) Medical Policy Insurance:
c) **Cash in Transit Insurance:** Covers against loss due to robbery of cash in transit.
d) Workman compensation Insurance:
Compulsory for employers to insure their employees against any accident during working hours.

d) Liability Insurance

a) **Employer Liability:** For accidents at work owing to employers negligence.

b) **Public Liability**: To cover claims made by the public as a result of damage to their property or life.

c) **Professional Liabilities:** Taken by lawyers, doctors, architects and engineers to cover against claim s due to their personal negligence.

d) **Insurance of Interest/ Fidelity bond**: Guarantee by to cover embezzlement of employs.

e) Life Assurance

a) **Whole Life policy:** Lump sum payable at death.

b) **Endowment policies:** Agree sum payable at the end of a number of years on the maturity of the policy, death whichever is sooner.

c) **Family income protection policy**: Paid on death of insured in series of regular payment.

d) **Mortgage payment Insurance:** On the death of legal mortgager, company pays.

e) **Group Insurance**: Taken by s mall employer for employees in place of pension scheme for employees

f) Marine Insurance

a) Ship and installation
b) Passengers
c) Crew
d) Port and installation
e) Cargo
f) Fright
g) Public Liability

g) Aviation Insurance

a) Planes
b) Crew
c) Passengers
d) Port Installation
e) Public Liability
f) Cargo

h) Nuclear Insurance

Evaluating Insurance Quotation Depends upon

1. Risks covered.
2. Claim payment history of insurer.
3. Financial worth of insurer.
4. Terms and conditions of insurance.
5. Amount of Premium.

Middle Men in Insurance

	Brokers	Agents
1.	Independent entity.	Works on behalf of insurer .
2.	Job to bring the seller and buyer together.	Job is to sell insurance policies on Commission basis.
3.	Provides risk management advice to the client.	Does not provide advice.

Effecting an Insurance Policy

1. Buyer will contact insurer for covering a certain risk.
2. Insurer will appoint a surveyor.
3. Surveyor will check the insured and get necessary information on the proposal form.
4. On the basis of information collected on the proposal form, the insurer will calculate the premium.
5. Buyer will pay the premium and will get the premium receipt and cover note from the insurer.
6. After a few days insurance policy is issued.

Effecting Insurance Claim

1. After the accident, Insured or beneficiary will contact insurer and the police department.
2. Insurer will appoint a surveyor.
3. Surveyor will contact the insured or beneficiary and give him/her a claim form.
4. The insured/beneficiary will fill in the claim form and provide all relevant documentary evidence.
5. If the surveyor and police department find out correctness of the claim, payment will be made to the beneficiary.

Foreign/International Trade

International trade is the exchange of capital, goods, and services across international borders

Types of International/Foreign Trade

Export Trade	Import Trade	Enterport Trade
Sales of goods and services to another country	Purchases of goods and services from another country	Importing with the purpose of re-exporting
Foreign exchange enters the country	Foreign exchange leaves the country	No effect on foreign exchange

Visible and Invisible Trade

Visible Trade	Invisible Trade
Sales of goods to another country is called visible export	Sales of services to another country is called invisible export
Purchases of goods from another country is called visible import	Purchases of services from another country is called invisible import

Why Foreign Trade has increased?

1. Gap between the rich and poor countries has increased.
2. Role of IMF (International Monetary Fund), SDR (Special Drawing Rights) decreases the risk of foreign exchange fluctuations.
3. WTO (World Trade Organization).
4. Improvement in technology has led to increased production.
5. Globalization.
6. Improved standards of living.
7. Efforts of governments to improve trades.
8. Role of trading blocs e.g ASEAN.

Problems in Foreign Trade

1. Different languages and culture.
2. Additional cost of transportation.
3. Additional cost of packing and insurance.
4. Excessive documentation.
5. Government rules in importing country.
6. Import and export duty.
7. Different units of measurement.
8. Trade barriers like trade embargo and strict quota.
9. Payment can be delayed.
10. More risks involved.
11. Exchange rate fluctuations

Risks in Foreign Trade

Economic risks

1. Risk of insolvency of the buyer,
2. Risk of protracted default - the failure of the buyer to pay the amount due within six months after the due date
3. Risk of non-acceptance
4. Surrendering economic sovereignty
5. Risk of Exchange rate

Political risks

1. Risk of cancellation or non-renewal of export or import licenses
2. War risks
3. Risk of expropriation or confiscation of the importer's company
4. Risk of the imposition of an import ban after the shipment of the goods
5. Transfer risk - imposition of exchange controls by the importer's country or foreign currency shortages
6. Surrendering political sovereignty
7. Influence of political parties in importer's company

Advantages of Foreign Trade

1. A greater variety of goods and services become available.
2. Local shortages can be complemented.
3. Government earns revenue (by import/export duties).
4. More foreign exchange reserves (in case of export).
5. A country can specialize in producing certain goods and services.
6. Links between countries develops.
7. More employment is created (All three sectors in case of export and tertiary sector in case of import).
8. Increases competition and thus quality of local production.

Disadvantages of Foreign Trade

1. Loss of employment in Primary and Secondary sector in case of import.
2. Loss to the local producers.
3. Loss of foreign exchange (in case of import).
4. Importing country can become dependent.
5. Dumping can occur (selling products at a loss).
6. Harmful goods can enter the country.
7. Increase in price level.
8. Exploitation of importing country.
9. Depreciation of currency of importing country.

Steps to be taken in Exporting

1. Market research for:
   i. Size of market.
   ii. Competitions.
   iii. Economy of importing country.
   iv. Government policies..
   v. Public Demand.
2. Signing contract with buyer.
3. Getting order from importer.
4. Preparing the consignment.
5. Mode of transportation.
6. Reshipments inspections.
7. Dispatch of cargo.
8. Getting payment.

Documents in Foreign Trade

Indent

Issued by: Importer

Issued to: Exporter/Agent

Purpose: It is an order for goods. It gives full particulars and conditions as regards price, packing and shipment etc.

Shipping Note

Issued by: Exporter

Issued to: Port Authority

Purpose: To request port authority to load the goods to be exported, specifying the quantity of goods and vessel on which goods are to be boarded. Sent together with goods and sometimes before goods are send so that space is reserved for them**.**

Bill of Lading (BOL) or (B/L)

Issued by: Master of ship in triplet.

Issued to: Exporter, Importer, Shipmaster**.**

Purpose: Acknowledging that specified goods have been received on board as cargo for conveyance to a named place for delivery to the consignee who is usually identified Importance.

1. Document of title .
2. Contract of carriage.
3. Receipt of goods.
4. Importer cannot release the cargo from its port unless he has the bill.
5. Exporter can get bank loan against the dispatched cargo upon presentation of documents including bill of lading.

6. Required by custom authority for appraisement of cargo and for verifying quantities.
7. It is also a document of transfer, being freely transferable but not a negotiable instrument.

Information:

1. Name of exporter.
2. Name of importer.
3. Name of agent.
4. Full details of goods.
5. Place of departure and place of arrival of goods.
6. Name of ship carrying goods.

Consignment Note

Issued by: Trucking company (Goods forwarder).
Information: Quantity and description of goods being dispatched.
Purpose: Evidence of contract.

Airway bill

Issued by: Airway company.
Purpose: Same as consignment note, in case of air transportation.

Bill of Exchange

- It is unconditional order in writing, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay on demand or future time, a sum of certain money.
- By this purchases promises to settle a debt on a specific date.
- Can be discounted by the bank.

Bill of Exchange

London, 31 January 2000 Amount US$ 250,000
At 60 days after sight pay against this Sole Bill of Exchange
to the order of Ourselves
the sum of US Dollars Two hundred and fifty thousand
for value Received

To:
Singapore Import Banking Company
Bank Street
Singapore

Drawn under UK Export Banking
Company Ltd, Documentary Credit
Nº 12345, Dated 29 September 1999

For and on behalf of:
UK Export Company Ltd
Jas. Smith
James Smith, Director

Negotiating and discounting bill of exchange

- If the exporter has bill of exchange of future maturity date, then exporter can ask his bank to release payment against the bill of exchange signed by the importer and other shipping documents.
- Bank will discount the bill at the prevailing rate and give the exporter money less than the face value of the bill.
- On maturity of bill of exchange, the exporter has to pay in full to the bank.

Customs

Customs is an authority or agency in a country responsible for collecting and safeguarding customs duties and for controlling the flow of goods (like animals) and hazardous items in and out of a country.

Functions of Customs

1. Prevention of smuggling.
2. Collection of revenue (duties).
3. Appraisement of cargo.
4. Maintenance of statistical data required for construction balance of trade.
5. Enforcement of quotas.
6. Control of bonded warehouses (where dutiable goods are kept until duty on them is paid).

Types of Duties Levied

1. **Export duty** levied on locally produced goods for export**.**
2. **Import duty** levied on goods imported.
3. **Excise duty** imposed on locally produced goods for home consumption.

Basis of Calculation of the Duties

1. **Ad valorem duty:** A certain percentage of price is added**.**
2. **Specific duty:** A fixed sum of dutiable good is taxed**.**

Free trade zone

- It is an area, normally close to port, where prevailing taxes on international trade are not applicable.
- This zone is used for:
    1. Blending.
    2. Packing.
    3. Sub-Assembly.
    4. And for re-exporting without payment of duties.

Balance of Payments

- It is the summary of a country's total payments and receipts with the rests of the world.
- It includes all items of visible trade, visible trade and capital movement.
- If total payments exceed total receipt then it is called balance of payment deficit, which is undesirable.
- If total receipts exceed total payments then it is called balance of payment surplus, which is desirable

BOP: Current Account

Balance of Trade

- Difference between the visible exports and visible imports is called balance of trade.
- If visible exports exceed visible imports than it is favourable and if visible imports exceed visible exports than it is unfavourable.

Invisible trade

- The balance of invisible trade measures the net flow of funds resulting from the trade of services. This balance of invisible trade will include all of the following inflows or outflows of funds:
    - flows resulting from financial services e.g. banking , insurance , brokerage firms
    - flows from shipping and aviation services
    - expenditure by foreign government on embassies and military bases
    - flows from tourist services
    - gifts of money from overseas residents to domestic residents
    - net property income from or paid abroad
    - payments of interest on official debt.

BOP: Capital Account

The capital account records inflows and outflows of foreign exchange that result from capital flows

Capital Account Transactions

- Repaying of debt to foreign commercial banks, foreign governments and multinational agencies such as the IMF.
- Borrowing from foreign governments and foreign commercial banks
- flows of aid into the country from overseas agencies
- flows of foreign direct investment such as investment by multinational corporations
- Resident capital outflow or capital flight as a country's citizens send money out of the country into foreign banks
- Purchase foreign property or financial assets.

Financing

- Use up reserves of foreign currencies held at the Central Bank.
- Borrow from foreign central or commercial banks
- Borrow from organisations such as the International Monetary Fund
- Reschedule its debt or having its debt reduced

Why deficit in Balance of Payments and Balance of Trade is undesirable

1. Loss of foreign exchange.
2. Depreciation of currency.
3. Imports will become expensive and it can create inflation.

How to protect from imports-to make balance of payment surplus?

- **Tariffs or duties –** imposing import duties on goods to make them more expensive than home produced goods.
- **Quotas –** imposing limits on the amount of imports allowed into a country in a given year.
- **Embargoes/Import ban** – total exclusion of certain types of goods. This is often applied to harmful goods e.g. firearms.
- **Exchange control –** limiting the amount of currency that can leave the country.
- **Increased documentation and bureaucracy at point of entry –** making importing more difficult by increasing the rules and regulations for imports.
- **Giving subsidies to local producers.**
- **Exchange control.**

Foreign Exchange Market

The foreign exchange market is where currency trading takes place. It is where banks and other official institutions facilitate the buying and selling of foreign currencies.

Exchange rates

The price of one country's currency expressed in another country's currency. In other words, the rate at which one currency can be exchanged for another.

Factors determining exchange rates

1) Trade (exports/imports)

2) Interest Rates

3) Inflation

4) Currency Speculation

Currency fluctuation

A currency has value, or worth, in relation to other currencies, and those values change constantly.

Exchange gain/ (loss)

A gain (loss) on the exchange of one currency for another due to appreciation (depreciation) in the home currency (for receivables).

Government & Commerce | Chapter 22

Government

Government is the body within any organization that has the authority to make and the power to enforce laws, regulations, or rules.

The need for government Intervention

1. **To provide public services**

   Mean services provided by government to its citizens, either directly (through the public sector) or indirectly. Eg- defence, law enforcement, electricity, water supply, police services, infrastructure ect.

2. **Subsidized Services**

   Services which could be marketed in the ordinary way would be too expensive for a large proportion of the population. E.g. Health, Education

3. **Prevention of abuse**

   Government takes action to govern the economic and commercial life of the country, mainly to prevent exploitation of one group by the other.

4. **Assistance to Industry**

   The government provides grants to some industries in order to protect and charge tax and tariffs to some industries to avoid harm to the society.

5. **To achieve government aim**

   Every government has its own economic as well as political objectives.

Government Income /Revenue

Government income includes gross proceeds from income taxes on companies and individuals

1. Excise duties,
2. Customs duties,
3. Other taxes
4. Sales of goods and services,
5. Dividends and interest.

Direct tax/ Income tax

An **income tax** is a tax levied on the financial income of people, corporations, or other legal entities.

Indirect tax

1.Sales tax,

2.Value added tax (VAT),

3.Goods and services tax (GST))

4. Excise duty

Government Expenditure

7. Government consumption on goods and services
8. To provide public services
9. To providing social security – Defense Forces
10. Providing free education
11. Free medical services
12. Running day to day administration of the country

Government Services to Commerce

1. Information Services
2. Co-ordinating Bodies
3. Financial Assistance

References

Derek Lobley (1993).*Success in Commerce* (4th Ed).John Murray (Publishers Limited) Euston Road , London.

Muhammad Nadeem (2008), "Book for preparing O /Level Commerce" Copyright free materials: Retrieved April 01, 2009, from < http:// http://www.gcse-commerce.co.uk/ >.

Commerce 7100, Syllabus (2008) Edexcel Examinations Publications

Balance of Payment/Foreign Trade/Government in Business (2009). Retrieved February 25, 2009, from < http://en.wikipedia.org/wiki/Research_objective >.

Corresponding author

P.Suthaharan

BBA. (Marketing Sp)(Col)

Can be contacted at: ***haran5555@gmail.com***