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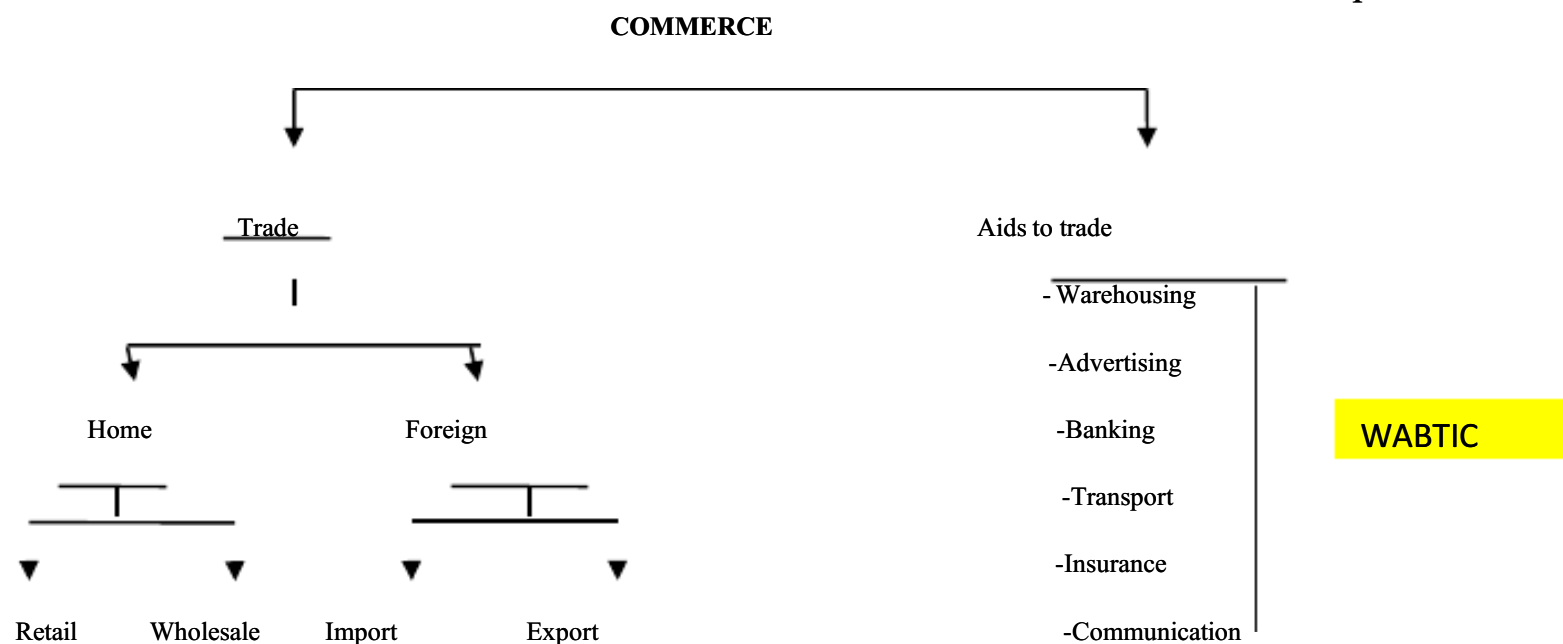
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INTRODUCTION TO COMMERCE

COMMERCE

- Commerce is **trade** and **aids to trade**.
- It aims at the distribution of goods and services in order to satisfy human wants and needs.
- **Trade** is the buying and selling of goods and services with a view of trying profit.
- There are two types of trade namely, home (local) trade and International or foreign trade.
- **Aids to trade** are commercial activities or services that assist trade to take place.



Commercial activities

- Commercial activities are all activities concerned with the distribution of goods and services.
- They include Trade which is necessary for the purchase and sell of goods and services which include raw materials such as timber, cotton, and finished goods such as equipment, books, clothes, services such as entertainment, tourism.
- And Trade which is done for a profit
- Also they include Aids to trade which makes trade to be possible or smoothens or helps in the distribution of goods and services.

The importance of commercial services in trade

Commercial services are aids to trade (WABTIC) that help to make trade possible in the following ways:-

Warehousing

- Storing raw materials awaiting processing
- By storing finished goods awaiting sale
- Protecting goods against bad elements such as unfavorable weather, fire, theft, etc.
- By storing goods, warehousing prevents shortages
- helps in stabilizing prices.
- Stores dutiable goods in bonded warehouses until after duty is paid.

Transport

- Delivering equipment and raw materials to industries.
- Delivering finished goods to local and international markets.
- Moving workers to and from their work places to enhance production
- Carrying company executives and agents to far places in order to meet their clients.

Advertising

- By informing the members of public on the availability of goods and services on the market.
- Persuading potential customers to buy the goods and services available.
- By informing the public on job vacancies with a view of recruiting new staff
- By Informing/spreading awareness on matters of public interest.

Banking

- Finances the traders by means of loans and overdrafts
- Safe-guards the trader's money and other valuables.
- Facilitates the payment of huge sums through cheques
- Offers special facilities to traders such as standing orders, direct debits, credit transfers, discounting bills of exchange, etc.

Insurance

- Compensates/ restores/indemnifies traders in case of a risk occurring.
- Protects traders against financial losses resulting from either fire, theft, etc
- And against claims from third parties.
- In terms of life assurance, it provides a saving plan to surviving dependents.
- Provides confidence or encouragement to traders to go into huge businesses without fear of making a loss.

Communication

- Informs the public on the availability of goods and services on the market
- Allows customers and suppliers to contact each other speedily

- By means of telephone, facsimile (fax), letters, electronic mail (e-mail), etc.

PRODUCTION

- Production is the provision of goods and services in order to satisfy human needs and wants.
- There are three branches of production namely industry, commerce, and direct services.
- Industry it deals with extraction of natural resources (raw materials) and transforming them into semi- finished or finished goods.
- Commerce it deals with the distribution of both raw materials and finished goods from the source /place of extraction or manufacturing to the place of demand/scarcity.
- Direct service plays an indirect role in production whose services are essential in enhancing production. This includes teachers' doctors' architects, the police, the lawyers or any service rendered by any service worker and three.

THE METHODS OF PRODUCTION

The satisfaction of human needs and wants are achieved either by direct and indirect production. There are two main types of method of production namely:-

Direct Production

- It is the production of goods for own use
- that is done on subsistence level
- there is no need for exchange with others
- Only satisfies one's own needs and wants.

Indirect Production

- it is the production for the benefit of others
- which involves trading what has been produced
- and helps one obtain what he / she can't produce
- it depends upon trade
- makes people to specialize one field
- so as to sell their value

THE FACTORS OF PRODUCTION

Factors of production are essential resources or inputs that must be in place before any production of goods or services can take place. There are four factors of production namely:-

Land

- Land implies the place or venue where production is done.
- It includes all kinds of natural resources found on earth and underground
- Examples of land are copper, coal, fish, water, animals' trees.
- The providers of land are called landlords
- The benefit or reward to land is *Rent or Rates*.

Labour

- This is the human effort that is applied in production,
- It may be divided into Manual/physical (unskilled) or professional/mental (Skilled) labour.
- Providers of labour are called workers
- The reward for labour is a *salary or a wage*

Capital

- These are resources that man uses to produce goods and services.
- Examples are money buildings, machinery, raw materials etc.
- Providers of capital are called capitalists
- The reward for capital is *interest*.

Enterprise/ Entrepreneurship

- It is the ability to organize other factors of production.
- It involves making decisions
- Examples of decision are expansion of businesses, investing, buying a new vehicle, ploughing back.
- Providers are called Entrepreneurs, organizers or enterprise
- Entrepreneurs receive a reward called *profit or loss*.

THE BRANCHES OF PRODUCTION

Production is classified into three main branches namely industry, commerce and direct services

Industry:

Industry concerned with

- The obtaining of raw materials
- Processing it into finished goods
- And it is divided into extractive (primary)
- Manufacturing and (secondary industry)
- Construction (secondary industry)

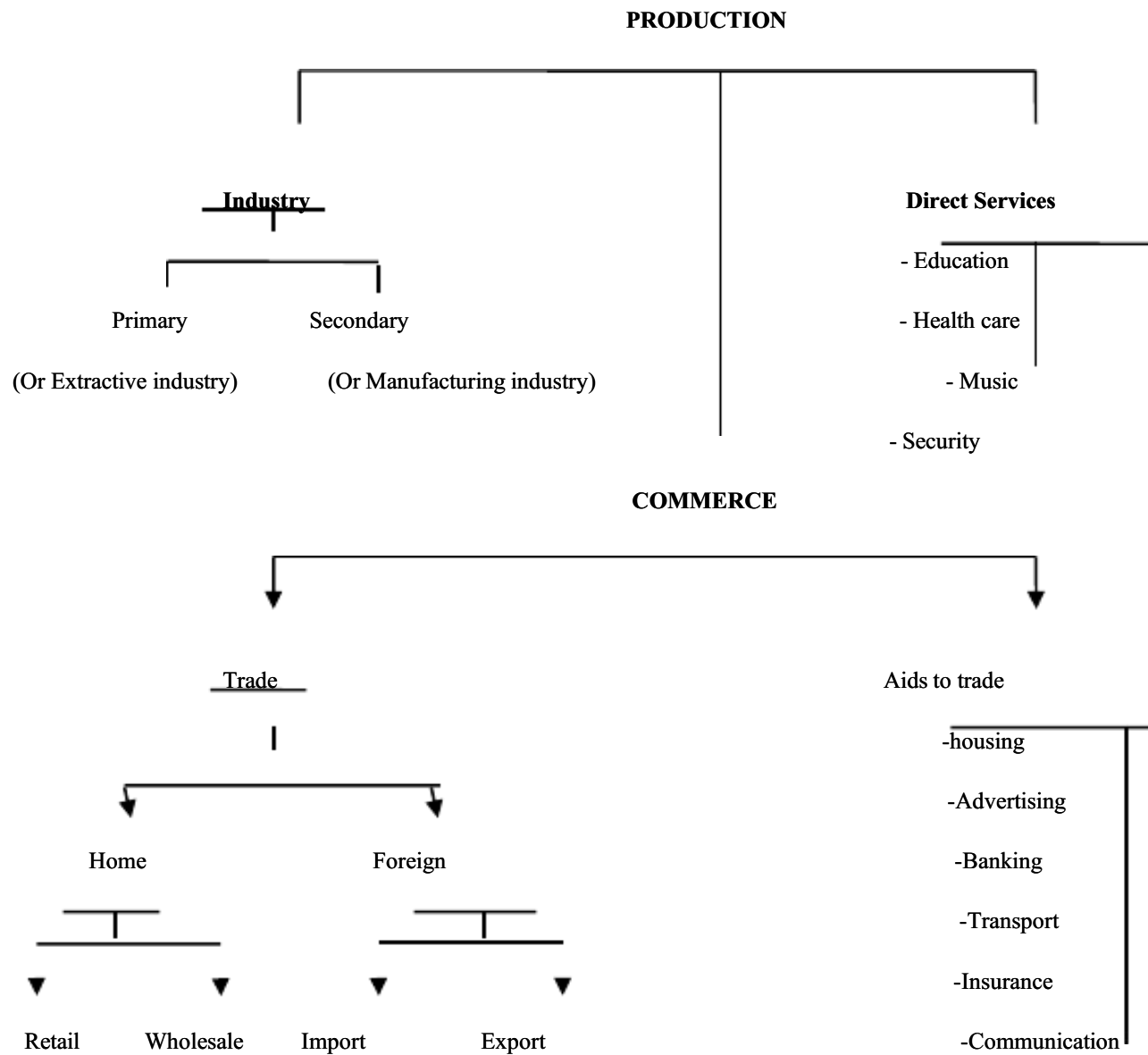
Commerce:

- Trade and aids to trade
- It contributes to the satisfaction of human wants by distributing goods and services to consumers through warehousing, communication, transport, insurance, banking and advertising.

Direct services:

- These are non-material goods.
- They contribute to the satisfaction of human wants by providing a variety of public and personal services.

BRANCHES OF PRODUCTION



The inter- dependence of commerce and industry

- Industries is concerned with
- Obtain raw materials and process them into finished goods.
- They are divided into extraction, manufacturing and construction while
- Commerce will concern all activities which aid extractive industry to final consumer
- It will be impossible for industries to operate without activities of commerce.
- These are trade and aids to trade i.e. transport, communication, advertising, insurance, banking, warehousing.

EXAMINATION QUESTION

1. Explain the meaning of commerce?
2. What do you understand by commercial activities?
3. Explain how commercial activities assists trade?
4. Explain the meaning of the term production
5. Describe the following method of production:-
6. state and explain the factors of production
7. state and explain the factors of production
8. Describe the three branches of production
9. Explain the inter- dependence of commerce and industry

HOME TRADE

- It is trade that is conducted within the country
- it is divided into retail and wholesale trade
- Retail is the buying in bulk and breaking the bulk into smaller quantities
- wholesale trade is the buying of goods in bulk and selling them in large quantities
- **RETAIL TRADE**
Retail is a word which means to cut again
- retail trade is the buying of goods in bulk and breaking the bulk to suit the needs of consumers

The Functions of a Retailer are to

- break bulk
- provide a variety of goods
- credit to trusted customers
- offer delivery on some goods
- pass information to wholesalers
- give advice to consumers
- package goods before sale
- provide a local supply of goods
- display goods in retail shops
- provide presales and after sales service

Factors to consider when establishing a retail shop

- Capital
- Location of the retail shop
- Business experience of the owner
- Goods for sale
- Method of selling

- Name of the shop
- Right quantities of goods should be stocked
- How to inform the customers about the shop

Factors to consider when choosing the location of retail shop

- Cost of site
- How much competition is there
- Sufficient customers
- Trade growth
- Security of the shop
- The transport and communication facilities
- Sources of supply
- Capital

- Price of goods
- Accessibility to the shop
- Parking space

PRE- SALES SERVICE

Features of a Self Service store?

- Provide trolleys to customers
- sell packaged branded and price goods
- have large trading space
- Offer additional customer facilities such as car park
- have two or more check out points where cashiers collect payment from customers.
- Sell goods at cheaper prices
- may belong to large retail chain
- buy direct from producers at factory prices

Main Characteristics of E- commerce

- It is selling of goods and services on internet
- It is also called online shopping
- customers can buy goods from the comfort of their homes
- customers do not need to travel to buy goods
- sellers have a world wide market
- buyers are able to look for the goods 24hours daily and 7days a week
- Online customers are able to access a variety of goods and services

Main Characteristics of Small Scale Retailers

- One person owns a small retail business
- have limited capital
- cannot advertise on a national scale
- do not employ skillful workers to run the business
- do not have large capital to expand their business
- open businesses for long hours (open early and close late)
- offer personal service to customers
- are located in townships
- unlimited liability since most small retail businesses are owned by sole traders

Main Characteristics of large Scale Retailers

- Goods are bought in bulk direct from manufacturers at factory prices
- have their own transport and warehousing facilities
- can afford to employ experts to run businesses
- are able to advertise on national scale
- offer self service
- Provide customer facilities such as restaurants, car parks, filling stations, hair saloons

- located in town centres and different parts of large cities
- Offer a variety of goods
- Most large retail shops belong a chain f stores
- offer after sales services to the customers
- have large amounts of capital
- sell their goods at competitive prices
- have an attractive display of goods in appropriate sections to encourage impulse buying
- use loss leaders to attract customers into shop

Invoice

- a bill for goods or services supplied by the seller to the buyer.
- Prepared by the seller and sent to the buyer.
- Sent when goods are sold on credit.
- Quantity and description of goods
- Contains details such as:
- Quantity and description of goods
- Units and total prices of goods
- Indicates the discounts offered if any.
- Indicates the terms of payment
- Value Added Tax (VAT)
- It starts the Accounting Process
- For: purchases day book & Sales Day Book
- it forms a basis of a contract of purchase or sale of goods,

INVOICE

<p style="text-align: center;">Seller's Address</p> <p style="text-align: center;">.....</p> <p style="text-align: center;">.....</p> <p style="text-align: right; margin-right: 50px;">Date.....</p> <p>Buyer's Address</p> <p>.....</p> <p>.....</p>			
Quantity	Description	Unit Price	Total Price
	E.O&E		

Monthly Statement of Account

- Contains a Summary of transactions as invoices, debit notes, credit notes, payment in given period.
- Sent by the seller to the buyer.
- Sent at the end of the month
- Shows amount owing to the seller.
- Helps the buyer to compare entries in his books
- It is a polite reminder for payment

MONTHLY STATEMENT OF ACCOUNT

Seller's Address					
Date..... Buyer's Address					
Date	Details	folio	Debit	Credit	Balance

FUNCTIONS OF A WHOLESALER

- One who buys goods in bulk and sells them in bulk.
- Warehousing goods
- Risk bearing
- Keeping prices stable
- Breaking the Bulk
- providing a variety
- Information
- The Financier
- Transport

- Preparing goods for sale
- Marketing

CHARACTERISTICS OF CASH AND CARRY WHOLESALERS

- It is wholesale that sells goods strictly on cash basis
- deal mainly in groceries
- Goods sold do not require self service
- Stocks a variety of goods
- Goods sold are displayed on shelves
- Operates from large buildings
- Sells goods by use of self service
- may sell goods to both retailers and consumers

MAIN CHARACTERISTICS OF A HIRE PURCHASE AGREEMENT

- A down payment called deposit is made first
- followed by the fixed instalments at regular intervals
- payments are made in in specified period of time
- buyer then takes possession of the goods
- buyer does not become the owner of the goods
- buyer becomes the owner after paying the last instalment
- item bought may not be sold until the payment is completed
- Legally the item bought remains the property of the seller until last payment (instalment).
- seller can repossess the item if the buyer defaults(fails to pay)
- it is suitable for selling durable goods such as furniture, stoves, refrigerators

ADVANTAGES OF HIRE PURCHASE AGREEMENT

- Buyers can manage to buy expensive goods
- Buyers have a possibility of obtaining special reduction (price cuts)
- Buyers benefit if the rate of inflation is greater than the cost of credit
- Payments are spread over a period of time he can save money for other
- Items bought are used while paying for them

DISADVANTAGES OF HIRE PURCHASE AGREEMENT

- cost of buying goods on credit is more expensive because of interest
- Buyers are made to buy what they cannot afford
- buyer suffers with instalments for a long time
- Items bought can be repossessed if the buyer fails to pay the full instalments
- buyer cannot sell the item until he has finished paying for it
- buyer will not be the owner until the final instalment has been paid

SAMPLE EXAMINATION QUESTIONS

1. List the Functions of a Retailer
2. Outline the Factors to consider when establishing a retail shop
3. Explain the Factors to consider when choosing the location of retail shop
4. Explain the meaning of Pre- Sales Service
5. Explain the Features of a Self Service Store?
6. Describe the Main Characteristics of E- commerce
7. Explain the Main Characteristics of Small Scale Retailers
8. List and explain the Main Characteristics of large Scale Retailers
9. Distinguish between small scale and large scale retailers
10. Describe an invoice and a Monthly Statement of Account
11. Explain the Functions of a Wholesaler
12. Explain the main characteristics of a cash and carry wholesaler
13. Outline the main characteristics of a hire purchase agreement
14. Explain the advantages and disadvantages of a hire purchase agreement

FOREIGN TRADE

Foreign trade is the buying and selling of goods and services between two or more countries. This can take place between individuals, companies from different countries

Reasons why countries trade with one another.

- Due to unfavorable climatic conditions that exist in different countries.
- In order to obtain supplement good from other countries.
- In order to foster political friendship.
- To widen countries market for goods and services.
- To sell the surplus goods and services to other countries.
- To import raw material for local industries that does not exist in the origin country.
- To improve the standard of living in the country.

Advantages and disadvantages that traders face in foreign trade.

ADVANTAGES OF INTERNATIONAL TRADE

- A country can obtain goods it can't produce from other countries it cannot produce.
- Enable surplus goods to be exported to other countries.
- It may be cheaper to buy certain goods from abroad.
- To bring foreign currency to the country.
- To allow exchange of technology between countries.

Disadvantages of international trade

- Causes of natural resources to be exhausted.
- Even undesirable and harmful goods may be imported e.g fire arms and cocaine.
- Exposure of the county to dumping.
- It cause over dependence between countries.

Documents as used in international trade

- Bill of lading
- Indent
- Charter party
- Manifest
- Customs specification

Bill of lading

- It a document when goods are sent by sea transport.
- It is a document of title and its quas negotiable.
- It acts as a receipt when good are sent by sea on board.
- Its evidence of contract of carriage of goods.
- It gives details of goods carried by the ship.

- It state the condition of goods received on the ship i.e the captain can sign the clean and dirty bill of lading.

Indent

- It's a document used in foreign trade.
- It is an order from abroad containing description of goods e.g price and quantity.
- It may be sent through a buying agent.
- A close indent gives the specific good to be ordered.
- An open indent gives freedom of choose of goods to be sent to the importer.

Charter party

- It's a document used in foreign trade.
- It is used when hiring a ship for transportation of cargo.
- It's a contract for hire of ship between the transporter and the business person for the ship.
- There is a voyage charter and a time charter.
- Voyage cheater is the hire of the ship for the single journey.
- A time charter is the hire of ship for a certain period of time.

Manifest

- It's the document used in foreign trade.
- It's prepared by the shipping company when goods are received.
- It is used when checking goods exported.
- Its checked against the details of specification.
- When details are different the custom official check goods physically.

Customs specification

- A customs specification is a shipping note prepared by the exporter of goods going by sea transport.
- Information on it is used for compilation of statistics on imports and exports.
- It provides details of goods being exported.
- It can be used to check on goods on export.

Functions of the customs and Excise Authorities

- Customs authority can be the government authority or government agent that supervises the movement of goods and services in and out of the country.
- Supervises the movement of ships, vehicles, aircraft, etc.
- Correct statistics on imports and exports.
- Prevent smuggling of goods.
- Control bonded warehouses.
- To inspect documents used in foreign trade.
- Control public health.

Reasons why the customs and Excise Authority collect statistics on imports and exports.

- To give details of imported and goods such as value, volume, etc.
- Enable calculation of the balance of trade and balance of payment.
- To enable the government to know the state of foreign trade and take remedial actions as required.
- To give details of exported goods.

Reasons why customs authorities required to undertake the following

- Enforcement of quotas.
- Controlling of bonded warehouses.
- Collecting of customs duties.

Enforcement of quotas

- A quota is a restriction on the number of goods that must be imported in the country.
- To prevent dumping of cheap and poor quality goods into the country.
- To protect local industries against unfair competition in foreign goods.
- To allow home industries to become more competitive.
- To help collect unfavorable balance of trade position.

Controlling bonded ware houses

- To enforce of payment of custom duties on datable goods in bonded warehouses.
- To store dutiable goods on which customs duties are not being paid.

Collection of customs duty

- To raise the revenue for the government.
- To protect home industries against unfair competition.
- To save foreign currency by reducing imports.
- To correct the unfavorable balance of payment.
- To discourage the importation of harmful or undesirable goods such tobacco and spirits.

Types of custom duty

- Customs duty is the charge or levy imposed on imported dutiable goods from a difference customs area.
- There are two types of customs duty i.e ad valorem duty and specific duty.

Ad valorem duty

- This is a duty charged as a percentage of the value of imported goods.

Specific duty

- Specific duty is customs duty charge according to the quantity of imported goods.
- The quantity may be in terms of value, weight or number of goods.

Excise duty

- This is a charge levied on certain locally produced goods such as cigarettes, spirits etc.

Terms as used in international trade

- i. Customs draw back
- ii. Entre pot trade

Customs draw back

- It's the refunding of custom duty paid on goods that are re-exported

Entre pot trade

- It's a form of international trade where goods are temporally imported into a country, processed and then re-export to other countries such as spirits, diamond, tea, etc.

EXAMINATION QUESTIONS

Q1. (a) Give two differences between home trade and foreign trade

- (b) What is dirty bill of lading?
- (c) What is dumping in foreign trade?
- (d) State two reasons why countries trade with one another

Q2. (a) International trade provided a number of benefits to many countries.

- (i) Why, despite such benefits, do countries impose tariffs and trade restrictions?
- (ii) Explain briefly the functions of the customs and excise authority.
- (iii) Describe briefly the importance of bill of lading in foreign trade
- (iv) Explain the reasons the Customs and Excise duty Authorities collect statistics on imports and exports

(b) Explain the importance of the following documents in relation to international trade:

- (i) Customs specification (or shipping note)
- (ii) Manifest
- (iii) customs draw back
- (v) indent
- (vi) airway bill

(c) Show what remedial measures government can put in place to improve the unfavorable balance of payment prevailing in a country

Q3. (a) Explain the means of payment in foreign trade:

- (i) Bills of exchange
- (ii) Cable transfer
- (iii) Bankers draft
- (iv) Documenter credit
- (v) Bill of exchange

Q4. For what reasons are customs authorities required to undertake the following:

- (i) Collections of statistics on imports and exports

- (ii) Enforcement of quotas
- (iii) Controlling of bonded warehouses
- (iv) Collection of customs duties

Q5. explain the following terms as used in foreign trade:

- (i) Balance of trade
- (ii) Balance of payment
- (iii) Favorable balance of payment
- (iv) Unfavorable balance of payment

What measures can the country put in place to control unfavorable balance of trade?

Q6. (a) State four differences between home trade and international trade

(b) Why are the following necessary in international trade?

- (i) Collection of statistics by customs officials
- (ii) Enforcement of quotas
- (iii) Completion of document such as the charter party and the airway bill
- (iv) Provision of warehousing at ports and airports.

BUSINESS UNITS

Business units refers to the various ways of owning the business

There are two main types of business units

- Private enterprise
- Public enterprises

Explain what is meant by the term private enterprise

- A private enterprise is a business owned and controlled by private individual in which the government has no say. It consists of sole trader, partnership, private limited companies, public limited companies, multinational companies, clubs and cooperatives.

Outline the features of sole trading

Features /characteristics of sole trading

- Easy to set up
- Little capital required
- Flexible (can easily switch from one business to the other if not profitable)
- Less documentation required
- Suitable for many different business
- Independent and quick decisions are made
- Profits are not shared
- Business affairs kept privately (secrete)
- There is personal contact with customers
- Easy to control and manage

State the advantages and disadvantages of a sole trader

Advantages of sole trading

- It is easy to set up
- It is easy to control and manage
- It requires small amount of capital to set up
- There is independent and quick decision on how to run the business
- The owner has personal contact with customers
- Profit is not shared
- Business affairs are kept private
- Less documentations required
- It is flexible (easy to switch from one business to another if not profitable.
- Suitable for many different business e.g. retailing, butcheries.

Disadvantages of sole trading

- Unlimited liability
- lacks continuity of existence (death of a sole trader may end up the business)
- Has no separate legal status – He can sue or be sued in his/her individual capacity.
- has little capital for business expansion.
- lacks borrowing capacity because of limited capacity.

PARTNERSHIP

A partnership is an association of people who agree to run the business together with a view to make profit

Formation of partnership

Explain how the partnership is formed

- The number of people to form a partnership is two (2) to twenty (20) except for professional partnership. When forming a partnership some legal formalities are required e.g Article of Partnership or partnership Deed, which spells out the duties and rights of partnership, it includes the following.

What is a partnership deed?

- **This is a written agreement or document which spells out the duties**

Outline the contents of the articles of partnership or partnership deed

- Name of partnership
- Amount of capital each to contribute
- The sharing ratio of profits and losses
- Specific roles each partners has to play
- Salaries of partners
- How and where to keep the financial records
- How much each partners can withdraw from the business

If this article is not drawn, then the rules of the partnership Act 1890 will apply.

Content of the partnership Act of 1890

- Profits and losses are shared equally
- All partners to contribute equal capital
- No partners can claim salaries
- Book of accounts are kept at the central place

Types of partnership

Ordinary partnership: partners

- Have unlimited liability
- They take active part in the running of the business
- They are responsible for debts of the business

Limited partnership: Partners

- Have limited liability
- They do not take part actively in the running of the business, hence they are called dormant partners or sleeping partners

FEATURES /CHARACTERISTICS OF PARTNERSHIP

- Partners have unlimited liability except limited partners
- It has no separate legal status; no deference between the owners and the business
- It lack continuity of existence, death of a partner may end the business
- Membership is from two (20 to twenty (20) except for professional partnership
- Financial records are kept private
- It is easy to set up as compared to public limited companies

- It has limited capital and lacks borrowing capacity
- Partners are the owners of the business
- Expenses and management of the business is shared among the partners
- Mr Kangwa and Mr Kabungo are both sole traders who intend join together into partnership explain to them the benefits of entering into a partnership

ADVANTAGES OF PARTNERSHIP

- It is easy to set up as compared to public limited company
- More capital as it is contributed by many people as compare to sole trader
- Business affairs continues even when one is ill
- Decision making is consultative, as a result, the quality of decisions tends to better than of a sole trader
- Financial record are not published to the public
- There is division of labour
- Few documents are required to set up as compared to public/private companies

DISADVANTAGES OF PARTNERSHIP

- Partners have limited liability except for limited liability
- Lacks continuity of existence; death of a partners may end the business
- It has no separate legal status; no difference between the partners and the business
- Disagreements and quarrels are obvious to happen and it can lead to dissolution of partnership
- Sharing of profits may be a source of conflict especially if there is no pre- agreed sharing ratio
- A contract made by one partners bind every one.

SIMILARITIES BETWEEN THE SOLE TRADE AND PARTNERSHIP

- Both have limited liability
- Both have no separate legal status
- Both have no assured continuity of existence after the death of one partner
- Both business affairs and account are kept private

DIFFERENCES BETWEEN THE SOLE TRADE AND PARTNERSHIP

SOLE TRADER	PARTNERSHIP
-Formed by one person	-Formed by 2 to 20 members except for professional partnership
-Profits are not shared	-Profits are shared
-Capital is less than of partnership	-More capital is contributed by partners
-No division of labour	-There is division of labour

COMPANIES

Formation /registration of companies

The people who initiate the formation of a company are called **Promoters**

The promoters of both the private and public limited companies start the registration procedures with drawing up of **Article of Association**. The documents are submitted to the **REGISTRAR OF COMPANIES** for approval

ARTICLE OF ASSOCIATION

An article of association contains the internal rules of conducting the affairs of the company. It states clearly how the company is going to be run and managed. It includes the following;

- Voting rights of the shareholders
- Powers and duties of the board of directors
- Procedures for transfers of shares and payment dividend
- Procedure of conducting annual general meeting
- Methods of keeping the books of accounts
- Procedure of electing the directors
- The borrowing capacity of the company
- The procedures of dealing with any alteration in the amount of capital
- Procedures of distributing profit and carrying out auditing

Once the registrar of companies is satisfied with the details of the article of association, the Certificate of incorporation is issued.

CERTIFICATE OF INCORPORATION

- This is issued by the registrar of companies after ensuring that the article of association is in accordance with the provisions of the companies act.
- It certifies that the company has been registered and incorporated as a separate legal body, which means the new company has its own existence as a business organization and becomes deferent from the people who formed it, and it can be sued and sue using a business name.
- A private limited company can start trading upon receipt of a certificate of incorporation, but a public limited company awaits for a certificate of trading to be issued

PROSPECTUS

A prospectus is an advertisement that invites members of the public to buy shares in a company so that the required capital is raised

It is issued by the promoters of the company

Prospectus may contain information like:

- Type, number and price of shares the company is selling
- The past performance of the company and its future prospects
- Any other information of interest to potential investors

BOARD OF DIRECTORS

- A limited company is controlled and governed by a board of directors which are elected by the shareholders at the annual general meeting
- The board of directors draws up the policy of the company
- It is headed by the chairperson
- The powers and limitations of the board of directors are stated in the article of association of the company
- The day to day running of the business is in the hands of the managing director or general managers

ANNUAL GENERAL MEETING

The company's act requires a limited company to hold an annual general meeting (which is a meeting of all shareholders) every year

Purpose:

- Approve the audited accounts presented by the managing directors
- To elect the board of directors (only the ordinary shareholders are allowed to vote)
- Receive the directors' report
- Discuss the affairs of the business (company)
- Deal with issues that could not be settled by the board of directors.

PRIVATE LIMITED COMPANY

FEATURES /CHARACTERISTICS

- Membership is from 2 shareholders and no maximum
- shareholders have limited liability
- shareholders are the owners of the company
- It is registered with the registrar of companies
- Capital is raised through the sales of shares
- It holds annual general meeting
- It is controlled by the board of Directors elected by fellow shareholders at the annual general meeting
- There is continuity of existence even after the death of important shareholders
- It has a separate legal status
- The letter Ltd (Limited) is written after the company name
- Shares are not sold at stock exchange
- Shares are not transferrable
- financial records are not filed with the registrar of companies
- It can start trading as soon as it is incorporated

ADVANTAGES OF PRIVATE LIMITED COMPANY

- All shareholders have limited liability
- There is continuity of existence even after the death of important shareholder
- It has a separate legal status from the promoters
- it has more capital because of more shareholders and
- It has more borrowing capacity compared to partnership
- Financial accounts are kept private

DISADVANTAGES OF PRIVATE LIMITED COMPANIES

- Shares are not sold to the public hence limits the amount of capital raised
- Shares are not transferable
- There are more formalities in running a company such as holding annual general meeting are compared to partnership
- There are more formalities in forming a company as compared to partnership such as formulating a memorandum of Association and article of association
- Share are not sold at stock exchange
- It is more expensive to set up as compared to a sole trader
- It is not flexible as compared to a sole trader as it is governed by two documents drawn up when it is registered as a company

DIFFERENCES BETWEEN PARTNERSHIP AND PRIVATE LIMITED COMPANY

PARTNERSHIP	PRIVATE LIMITED COMPANY
- Partners have unlimited liability	- All shareholders have limited liability
- It lacks continuity of existence	- It has continuity of existence
- It has no separate legal existence	- It has a separate legal existence
- Owned by partners	- Owned by shareholders
- Membership is from 2 to 20 except professional partnership	- Membership is from 2 and no maximum number
- Controlled by partners	- Controlled by the board of directors
- It lacks borrowing capacity	- It has greater borrowing capacity
- Less documentations are required to set up	- More documents are required to set up

PUBLIC LIMITED COMPANY

Public limited company is a corporate association of at least two persons which is registered with registrar of companies and owned by shareholders who have limited liability

The word public means that the general public are welcome to buy shares in the company

The word limited means:

- The liability of the company is limited to its total resources
- The liabilities/ debts of shareholders are confined/restricted to the amount of capital/money they have invested/put in or agreed to pay in limited company
- Their private estates/ properties cannot be touched or tempered with when the company is liquidated or bankrupt or insolvent.

FEATURES/CHARACTERISTICS

- Membership is from 2 shareholders and no maximum
- Shareholders have limited liability
- Shareholders are the owners of the company
- It is registered with the registrar of companies
- Capital is raised through the sales of shares
- It holds annual general meeting

- It is controlled by the board of Directors elected by fellow shares holders at the annual general meeting
- There is continuity of existence even after the death of important shareholders
- It has a separate legal status
- The letter Plc is written after the company name
- Shares are sold at stock exchange
- Shares are transferrable
- Financial records are filed with the registrar of companies
- Shares sold to the general public

ADVANTAGES OF PUBLIC LIMITED COMPANY

- All shareholders have limited liability
- There is continuity of existence even after the death of important shareholder
- It has a separate legal status from the promoters
- It has more capital because of more shareholders and
- It has more borrowing capacity compared to partnership
- More capital is raised through the sales of shares
- Shares are sold to the public hence more capital
- Shares are freely transferable

DISADVANTAGES OF PUBLIC LIMITED LIABILITY

- There are more formalities in running a company such as holding annual general meeting are compared to partnership
- There are more formalities in forming a company as compared to partnership such as formulating a memorandum of Association and article of association
- It is more expensive to set up as compared to a sole trader
- It is not flexible as compared to a sole trader as it is governed by two documents drawn up when it is registered as a company
- It is taken over if another company buys 51% of its shares
- There is little secrecy as its accounts must be published annually.

Similarities of public and private limited companies

Both private and public limited companies;

- Are registered with the registrar of companies
- Can be formed by minimum of two person and have no maximum
- Shareholders have limited liability
- Have separate legal status
- Are controlled by the board of directors
- Capital is raised through a sales of shares
- Are legally required to hold an annual general meeting
- Are required to prepared the memorandum of association and article of association prior to registration
- Are owned by shareholders who limited liabilities
- Assured maximum continuity of existence

BETWEEN A PRIVATE LIMITED COMPANY AND A PUBLIC LIMITED COMPANY

- Private limited company	- Public limited company
- Shares are sold privately to friends, relatives	- Shares are sold to the public
- Shares are not offered for sales on stock exchange	- Shares are freely offered for sale on stock exchange
- The name end with “Ltd”	- The names ends with ‘Plc”
- Financial records are not publishes to the public	- Financial accounts are published to the general public
- It starts the business immediately it is incorporated	- It start business after receiving a certificate of trading
- Shares are not freely transferable	- Shares are freely transferable.

MULTINATIONAL COMPANIES

It is a company that is based on one country but operates factories, sales offices in other countries. Example: BP Company, Total companies, Shoprite Checkers, Bata Shoe Company, coca colonial company they are also public limited companies

Advantages

- They have worldwide contacts which the host country can use to boost its export sales
- They pay tax which boost the governments income
- They provide jobs (Employment) around the world
- They bring business knowledge, skills and technology with them
- They bring foreign exchange by selling their goods abroad
- They provide quality and services to private households as well as other companies

Disadvantages

- They tend to exploit undeveloped economies thorough practices such as reducing the price lower than the local traders
- They dominate most export market and forces the small local companies out of business or take over the local firms-
- They usually bring their own expert instead of training the locals too participate in important decision making
- They are able to pay high salaries and offer better conditions to attract most of the skilled locals people at the expense of the local industries
- Remittance of their profits are taken bank home, hence draining the host countries foreign exchange reserves
- They are centrally controlled and do not take into account the conditions in field in host countries when drawing up their policies.

PUBLIC ENTERPRISES

These consists of the business and controlled by the central government e.g. ZESCO, ZISC

Public corporation

Public corporation is a business organization set up by the act of parliament to run and control a nationalized industry. Examples of public corporation in Zambia. ZESCO, ZSIC

Features of public corporation

- It is owned by the government on behalf of the country
- Its purpose is to provide members of the public with goods and services at a reason able price
- Its capital is provided by the government inform of grants
- It is controlled by the board of directors appointed by the minister in charge of the ministry under which the corporation falls
- Profits made by the public corporation are used:
 - o To improve infrastructure in the country such as buildings off health clinics, schools
 - o Some are retained in business for repairing the machines, buy more goods for resale
 - o Some are used to repay the loans
- It working is investigated through the a selected committee

Advantages

Profit made are used to develop the country by constructing roads, schools and hospitals

- It provides secure employment to large number of the country citizen
- It is able to save the public even in remote areas of the country
- There is a large scale of production as government can raise any money or capital required for investment
- It can help the government to implement the policies e.g. maintaining law prices
- It is big hence enjoys the economies of scale that resulting in cheeap gods and services being offered to the general public
- Is a source of income to government and may therefore reduce the tax such as pay as you earn (PAYE)

Disadvantages

- There are too much bureaucracy and the red tape in decision making
- Tax payers pay losses made in the public corporation
- The I don't care attitude of workers contributed the inefficient and poor performance of public corporation
- Political interference may adversely affect its performance
- Workers usually have no self interest to perform duties efficiently and it leads to poor service and goods offered to the public
- It is expensive to run

Difference between a public limited company and the public corporation

Public limited company	Public corporation
It is formed by a minimum of two shareholders with no maximum	It is set up by the act of parliament
It is owned by shareholders	It is owned by the government
Its motive is to make profit	Its motive is to provide goods and services at a reasonable price
Capital is raised through the sale of shares to the public	Capital is raised through government grants
Board of directors are elected by shareholders	Board of directors are appointed by the minister
Its working is controlled by the board of directors	Its working is investigated by the parliament through the selected committees
Profits made are distributed to shareholders as dividends	Profits made are used for improvements of infrastructure in the country e.g. hospital, schools

CAPITAL OF THE COMPANIES

TYPES OF CAPITALS

SHARE CAPITAL: The term “Share Capital” has different meanings with reference to a company and it may be classified as follows:

- **Nominal or authorised share capital:** This is the amount of Share Capital, which a company is authorised to issue as per its Memorandum of Association.
- **Issued or allotted share capital:** This is that part of the company’s authorised Share Capital, which is issued to the shareholders.
- **Paid up share capital:** That part of the Issued Capital, which is paid up by the shareholders, is known as Paid Up Share Capital. The remainder of the Issued Share Capital is termed Uncalled Share Capital. The company can call this up at any time in accordance with the Article of Association of the company.

CLASSES OF SHARES

According to the rights attached to each, share may be classified as follows:

Preference Shares

- Preference Shares are that type of shares, which are entitled to some priority over the other classes of shares in the company. This may be a right to preference in payment of dividends when dividends are declared at a pre-determined fixed rate, or it may be a preference in repayment of capital when the company is wound up.
- Preference Shares may be of different classes according to the rights attached to each.
- **Cumulative Preference Shares:** Cumulative Preference Shares are a type of preference shares to the holder of which the fixed percentage of profit accumulates until it is completely paid during the continuance of the company.

- **Non-cumulative Preference Shares:** Holders of Non-cumulative Preference Shares also have a preferential right to receive dividends at a fixed rate. But if the profit earned by the company is not sufficient to distribute dividends, they will not have any claim on arrears of dividends.
 - **Participating Preference Shares:** Participating Preference Shares have a right to participate in the surplus profits of the company after satisfying the claims of all shares. These Participating Preference Shares will first get their fixed rate of dividend and then a share in the surplus profits, if any, along with the equity shareholders. These shares also have a right to participate in the remaining balance of assets in the event of winding up of the company. If it is not specifically mentioned, Preference Shares are deemed to be non-participating.
- a. Redeemable Preference Shares:** Redeemable Preference Shares are those type of Preference Shares issued with a condition that the amount of the shares will be repaid to the shareholders after a fixed period of time. The fixed percentage of dividend will be paid, if there is sufficient profit, until it is redeemed.

Ordinary Shares

- Ordinary Shares are also called Equity Shares.
- These are shares, which have no preferential right.
- The Ordinary shareholder will get a dividend only if there is any balance of profit left after paying dividends to all the Preference Shares. - No fixed rate of dividend
- In the event of winding up the Ordinary shareholder will only get anything after satisfying the claims of the Preference shareholders.
- Ordinary shareholders have voting rights concerning all matters and they are entitled to manage the company.
- Those that are willing to take risk and interest in the administration of the company prefer Ordinary shares.

Deferred Shares

Deferred Shares are generally issued to the promoters or founders of the company for services rendered by them to the company. They are also called Founders or Management shares. The rights of the deferred shareholders will depend on the Article of Association and the terms of issue.

Characteristics of debentures

- These are loans to a company; debentures holders are called the creditors
- Debenture holders are the first to be paid the fixed rate of interest out of the company's profit for shareholders are paid their dividends
- Debentures are repaid on fixed dates
- Debentures holders do not participate in any company affairs
- Debentures holders do not carry any voting rights
- They are quoted on stock exchange

Different Kinds of Debentures

1. Secured Debentures

Generally when Debentures are issued, a charge on the properties or assets of the company is created, which means the assets or properties of the company are mortgaged with the Debenture holder. If the company fails to pay either the Debenture interest or the principal on the expiry of the specified period, the Debenture holder can recover the money by getting the assets. This type of Debenture is called Secured Debentures or Mortgaged Debentures.

Charges securing the Debentures may be either:

- A specific or fixed charge
- A floating charge

A specific or fixed charge is a mortgage of definite and ascertained property like specified factory building, machinery, etc. This prevents the company from realising that property without the consent of the holder of the charge.

A Floating Charge remains dormant until the person in whose favour the charge is created intervenes or until the company ceases to be going concern.

Unsecured or Naked Debentures

Debentures not secured by either a fixed charge or a floating charge are called Unsecured Debentures. They are also known as Naked Debentures or Simple Debentures. The unsecured Debenture holders are treated as ordinary creditors on winding up the company.

Differences between Shares and Debentures

SHARES	DEBENTURES
- Shares are part of the Company's Share Capital	- A Debenture is a loan due by the Company
- A Shareholder gets dividends	- Debenture holders get interest for the amount of the Debenture
- A Shareholder is a member of the company	- A Debenture holder is only a creditor of the company
- The rate of dividend received but a Shareholder varies according to the profit earned by the company (Ordinary Shareholders)	- Interest on debentures is definite and at fixed rate
- A Shareholder is entitled to vote and can participate in the management of the business as Director.	- A Debenture holder can not vote or participate in management.
- The Share amount is not refunded except in the case of Redeemable	- The Debenture amount may be refunded after a fixed period.

Preference Shares or on winding up.	
- On winding up of the company, shareholders will get anything only after paying the Debenture holders.	- Debentures as creditors of the company have first priority in getting their share upon the winding up of the company.

EXAMINATION QUESTIONS

Q1. Silungwe and Kambone decided to start a manufacturing business making baskets. They discuss whether to enter into partnership or to form a private limited company.

- (a) Explain the difference between a partnership and a private limited company.
- (b) In the formation of a partnership, a partnership deed may be required.
 - (i) What is a partnership deed?
 - (ii) What information does it contain
- (c) A limited company raises its capital by issue of debentures. List four features of a debenture

Q2. In connection with public limited company, explain the meaning of ;

- (i) Public
- (ii) Limited
- (iii) Separate legal entity
- (iv) Unlimited liability
- (v) Why may public limited company issue a prospectus and what information does it contain.

Q3.(a) Why a sole trader is the most common form of business ownership in most places

(b) Compare and contrast between;

- (i) a sole trader and partnership.
- (ii) Public limited company and public corporation

LUSAKA STOCK EXCHANGE

Lusaka stock exchange (LUSE) was open on 21st February 1994 as non-profit organization limited company

Stock exchange is a highly organized market shares and other securities are bought and sold

Functions of the stock exchange

- Provide a market where stocks, shares can be sold or bought
- Enable companies to raise their capital required by offering shares for sale to the public
- Compensate members of the public defrauded by dealers
- Provide rules that protect investors against fraudulent acts by some licensed members of the stock exchange
- Enables the government raise loan capital requirements to build schools, hospitals etc
- Publish prices at which shares are traded at the stock exchange
- Provide the exchange of second hand securities
- Give some indication to investors that a company quoted is reputable
- Establishes prices for shares based on supply and demand
- Prepare reports and data concerning all organization on stock exchange and how they are trading

REASONS/PURPOSE FOR THE ESTABLISHING OF LUSAKA STOCK EXCHANGE.

- To promote and encourage private sector enterprises and initiative
- To facilitate raising of capital by companies
- Through the sale of shares for new companies
- To facilitate secondary trading of shares and other securities
- To help in the process of privatization of companies
- To enable broad and wide share ownership
- To help in e valuation and pricing in investment
- To develop and establish securities exchange in Zambia

FUNCTIONS OF THE LUSAKA STOCK EXCHANGE

- Provide a source of cheaper, long term capital for existing and new companies
- Encourage investment and the growth in industries and commerce in Zambia
- Provide an opportunities for the Zambian people to share in the success of private enterprises and the privatizes parastatal companies
- Facilitate the privatization of the states owned companies
- Promote private sectors initiative and create a free market system
- Promote wealth creation though wide ownership of shares by Zambian citizen
- Provide and efficient and orderly in shares and other marketable securities

HOW LUSE FACILITATE SECONDARY TRADING

- By allowing the selling and buying of shares of profit
- By allowing investors to buy shares when they are low and sell them when they are at a high price

- By enabling people/companies to sell shares when the prices are high and buy the shares when they low
- By permitting the buying in newly formed companies of shares at normal values and resale them when the price is high

LISTED COMPANIES ON LUSE

- These are companies which are admitted to the financial list of LUSE controlled by the securities and the exchange commission (SEC) and LUSE Regulations
- Whose shares are available to the general public through LUSE
- Shares in these companies are freely transferable
- Such companies must operate in transparent manner,
- And shows good corporate governance
- Must treat all shareholders equally

ADVANTAGES OF SHARE HOLDERS IN LISTED COMPANIES

- Listing improves the liquidity of shares
- Shareholders benefit from several tax exemptions i.e no capital gain tax
- Companies income tax is reduced
- There is no property transfers tax
- Improve and enhance the image to the company

Many prayers of the Lusaka Stock Exchange

Stock Brokers

- Acts as an agent
- Buy and sell shares on behalf the general public
- Endeavoring to obtain the best possible prices for his clients
- He is remunerated by a commission
- Advise buyers and sellers on a particular type of shares to buy or sell
- Takes care of all the details required to complete the process of buying and selling shares at the stock exchange
- Compares prices in the market and will then buy or sell according to his clients instructions, then prepares a contract note

Dealers

- Are the principles
- Buy and sell shares and stocks on own behalf
- Deals only with stock brokers with a view of making profit
- May specialize in a certain type of shares or securities e.g. dealing in mining shares
- Prepare documentation e.g. contract note when a deal to buy or sell share sis concluded.

BUYING AND SELLING OF SHARES AT THE LUSE

- Members of the of the public are not allowed to deal directly with the Lusaka Stock exchange hence they should contact a licensed stock broker who is a member of the stock exchange
- First step is to contact a one of the stock brokers and he/she will advise you on particular shares to buy or sell and which company
- ~~When buying of selling shares you should open an account with the stock broker~~
- Once an account is opened, a person may buy or sell shares through a broker with whom an account has opened
- If a person is selling shares, the broker will demand that a client's shares certificate be deposited in the account opened with him before he could place an order to sell them
- Three days after the sale of shares, the shares are transferred to the account of a new buyer, and then the broker must receive money for shares sold so that he is able to pay his clients whose shares were sold
- If a person is buying shares, he/she must pay for money for shares to the broker in advance so that the broker is in position to pay for shares three days after the shares have been bought. When the buyer of the shares ask for a shares certificate with the shares registered in him/her name the Lusaka Stock Exchange charges a fee for arranging certificate to be issued .

EXAMINATION QUESTIONS

Q1. (a) what is a stock exchange

- (b) When was the Lusaka stock exchange opened?
- (c) Outline the benefits of being the shareholder.
- (d) Describe the functions of the stock exchange.

2. Explain the roles of any two of following main players on the Lusaka Stock exchange:

- (a) Brokers /dealers
- (b) Listed companies
- (c) Underwriters
- (d) The government
- (e) Explain what is expected from a broker when he acts as dealer at the Stock Exchange
- (f) Outline the "T+3" trading system used in the Stock Exchange system.

BANKING

1. Define banking

A Bank is a financial institution set up to promote and facilitate financial transactions. It's any financial institution that lends and borrows moneys from the members of the public and the business community.

BANKING INSTITUTIONS (TYPES OF BANKS)

There are many types of banks including the

- Central Bank, (Bank of Zambia)
- Commercial Banks (Zambia National Commercial Bank, Barclays Bank, Standard Chartered Bank, Indo-Zambia Bank, Finance Bank, New Capital Bank, Stanbic Bank)
- Co-operative Banks,
- Development Banks
- Savings and Credit Banks.

SERVICES /FUNCTIONS OFFERED BY COMMERCIAL BANKS

2. Describe the main services offered by commercial banks

- They safeguard money in vaults and safe deposits
- They finance traders by means of loans and overdrafts
- They give advice to customers on business investments
- They give trading information to traders on local and international markets
- They receive payments on behalf of customers
- They provide customers with night safe facilities
- They buy and sell shares at the stock exchange on behalf of the customers
- They provide foreign exchange to the general public especially those engaged in foreign trade
- They may act as executors and trustees for customers
- They issue customers with credit cards
- They provide customers with Electronic Funds Transfers at the point of sale (EFTPOS) cards
- They provide ATM facilities

HOW COMMERCIAL BANKS FINANCE BOTH HOME AND FOREIGN TRADE

There are many ways by which commercial banks help business people with finance.

This can be done through bank loan and bank overdrafts

Loans

- A bank loan is a fixed sum of money borrowed by a customer for a specific purpose, usually for the purchase of a capital item.
- A business may for example, apply for a loan to purchase the building, equipment and machinery' used in operation or to buy trucks used for delivering goods to customers and collecting raw materials from suppliers.
- When a customer is granted a loan a separate loan account is opened to which the customer makes regular payments.

- The sum borrowed is paid into the person's account and interest is charged on the full amount of the loan.
- Loans are normally granted against a collateral security, preferable an immovable asset, which the bank would hold onto until the loan is repaid.

Overdraft

- An overdraft is a facility that may be granted to a current account holder by arrangement with the bank.
- Under this agreement the account holder is allowed to draw more money from his/her account than the balance actually available.
- Interest is charged on actual amount overdrawn and as soon as it is repaid interest charges stop

3. State the differences between a loan and overdraft

The difference between bank loan and overdraft

Bank loan	Bank Overdraft
1 Usually used for the purchase of Capital items	1 Used for short-term financial needs
2 Collateral security is required	2 Mostly does not require security
3 Interest is charged on the full amount	3 Interest charged on the amount over-drawn
4 Its an expensive way of borrowing	4 It's a cheaper way of borrowing
5 It's a formal way of borrowing	5 It's an informal way of borrowing
6 When granted a loan a/c is opened	6 No separate a/c opened for repayment
7 Money deposited has no effect on loan	7 Money deposited affects the amount of overdraft

4. What factors will the Bank Manager consider before granting the loan or overdraft to an Enterprises/ individual?

- The purpose for which the loan is required,
- The amount of the loan i.e. how much money the customer needs;
- The security against which the loan would be given, preferably an immovable asset either a house or land.
- Banks may also accept a written letter of guarantee from a recognised guarantor or employer. Assets such as shares, life assurance policies and even money kept in a fixed deposit account are accepted as security.
- The credit worthiness of the customer, For example, the manager would make inquiries to establish whether the customer has other loans with other institutions that he/she has failed to pay

Bank Facilities and how they operate

Credit transfers

- Funds can be transferred electronically to another account at the same branch, to accounts at another branch or to accounts at a different bank.
- It is an instant and fast means of payment and funds are available in the beneficiaries' account the same day.

- Only one debit entry is made into the customer's account against numerous payments.
- Charges are levied by the bank for the service
- Software can be installed at the customer's computers to facilitate this transaction.

Standing Orders

- This is a facility used when making regular payments of fixed amounts such as rentals, hire purchase instalments, insurance premium, club subscriptions etc.
- The account holder provides the bank with a written order to regularly debit money from his/her account and pays it to the payee's account.
- He/she states the name of payee, account number, bank/branch, and date of payment and amount to be paid.
- The bank simply transfers the required amount from the customer's account to the account of the payee as the date falls due.

Direct Debit

- This facility is also used for making regular payments but only when the amounts are to be paid varies (Not Fixed) and is to be made at regular intervals.
- It may be used for example, when paying electricity, water and telephone bills.
- A business may also use it to pay for supplies obtained on a regular basis

5. Differentiate between a standing order and direct debit

Standing order	Direct debit
The amounts are fixed such as rentals, hire purchase instalments, insurance premium e.t.c	The amounts to be paid varies (Not Fixed) and is to be made at regular intervals. Eg electricity, water bills
It is the debtor who takes the initiative to instruct his or her bank to transfer money to the creditors bank account	It is the creditor who takes the initiative to instruct his or her bank to transfer money to the debtors bank account
Amounts can be increased or reduced	The amount cannot be increased or reduced
Payments are made on fixed dates	Payments are made on varying dates

TYPES OF ACCOUNTS

Banks provide a safe place to keep your money. To keep your money in a bank or indeed to keep your valuables, one needs to have a bank account of which there are many types

DEPOSIT ACCOUNT

This is a type of account, which is suitable for keeping temporary liquid capital, or money, which one does not want to use immediately. A high interest is paid by the bank on this account depending on the amount deposited and the duration

SAVINGS ACCOUNT

This type of account provides a safe place for people to keep their money until they need it. It is intended for small savers with regular incomes but who do not qualify for a current account.

CURRENT ACCOUNT

- This is a non-interest bearing account, which provides customers with cheque books and cash cards for easy deposit and withdrawal.
- It is available for members of the public especially businessmen and women. Cheque books are issued to the account holders for withdrawal and payments.

BUILDING SOCIETIES (MAIN SERVICES)

- to maintain share account for clients
- provision of long term loans –mortgage
- buying of stock and shares on behalf of clients
- provision of estate and insurance services
- it also offers saving account and may provide overdraft
- may deposits from the private sector
- buy and sell foreign exchange

NATIONAL SAVING AND CREDIT BANK (SERVICES/FUNCTIONS)

- offers following the account ordinary saving account ,fixed deposit account ,investment account
- offers money transfer services
- customer can withdraw money from any branch because account are centrally kept
- offer loans
- they offer advances to their customer who are salaried
- buy and sells foreign exchange
- allows accounts holders to withdraw their money as their accounts are kept centrally

6. Describe the difference between a current account and a deposit account

	Fixed Deposit Account	Current Account
1.	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 large deposit.	Opened without deposit.
3.	Earns high interest.	Earns no interest.
4.	No need to pay bank charges.	It has high bank charges
5.	Amount of deposit remains fixed. Cannot be withdrawn.	Money can be deposited and withdrawn any time.

6.	Money cannot be withdrawn until a specific period expires.	No Limit of withdrawing money.
7.	Certificate of deposit.	A cheque book is issued for withdrawal

THE CHEQUE SYSTEM

Def: A cheque is an unconditional order to the bank to pay a certain amount to a bank to pay a certain amount to a named person or company

Types of Cheques

- a) **Open Cheque**
 - This is a cheque which does not bear a specific name as a payee
 - Anybody that comes across this type of a cheque can cash it over the counter
- b) **Bearer Cheque**
 - This is a cheque made payable to bearer i.e. to anybody who is to present it to the bank.
 - It is not a safe means of payment since anyone who presents it to the bank would be paid
- c) **Order Cheque**
 - This is a cheque made payable to a named person or to his order.
 - The order or instruction to the bank reads: Pay..... or order.
 - It is safer than a bearer cheque as the bank checks the identity before making payments.
 - The named person can transfer it by endorsing or signing at the back.
- d) **Crossed Cheques**
 - A cheque, which is not crossed, is known as an open cheque.
 - Crossing a cheque refers to drawing two parallel lines down the face of the cheque.
 - The purpose of crossing the cheque is to ensure that it is deposited into a bank account and not cashed across the counter

7. **A cheque is an unconditional order to the bank to pay a certain amount to a bank to pay a certain amount to a named person or company. Explain to the client the advantages of using a cheque**

Solutions

- i. Safer than cash
- ii. Convenient
- iii. Can be traced if lost
- iv. Less time spent counting money
- v. Provides record of payment
- vi. Can be sent by post when crossed

TYPES OF CHEQUE CROSSINGS

There are two ways of crossing cheques namely, general crossing and special crossing

i. GENERAL CROSSING

- A cheque is said to be generally crossed if two lines are drawn across its face.
- The phrase “Account payee only” or “And Company” or “Not negotiable” may be added in between the parallel lines.
- The effect of general crossing is that the cheque can only be deposited or paid into a bank account and not exchanged for cash across the counter

ii. SPECIAL CLOSING

- Special crossing also involves drawing two parallel lines on the face of a cheque.
- The name of the payee’s branch is written in between the lines.
- This means that the cheque can only be paid into an account at that branch named in the crossing.

8. State the effects of the following crossing on the cheque

(i)

A/C Payee Only

(ii)

EDUBANK LTD
KABWE BRANCH

A/C payee Only

- It is a general crossing
- The effect is that, the payee should deposit the cheque in his/her account only

EDUBANK LTD: KABWE BRANCH

- It is a special crossing
- The effect is that, the payee should deposit the cheques in his account in Kabwe, at EDUBANK LTD only

DISHONoured CHEQUE

A cheque is an order to the bank to pay a certain amount of money to a named Person or his order. It is an order because the money involved belongs to the account holder who is instructing the bank to make the payment.

The refusal by the bank to obey the order is what is called dishonouring the acceptance of the cheque. Instead the bank teller would write RD, meaning, “Refer to Drawer”, on the face of the cheque and return it to the payee.

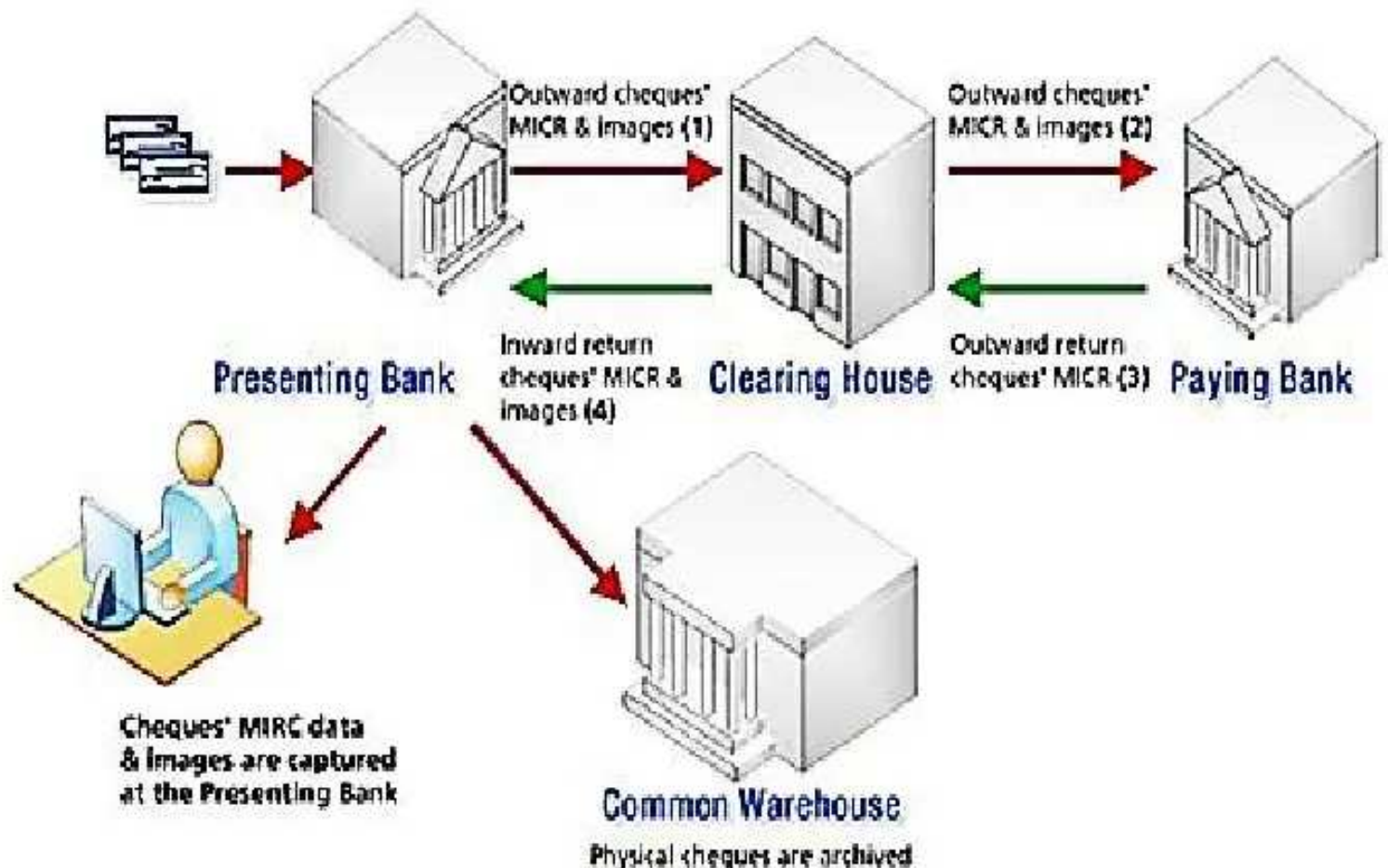
9. Give reasons why a cheque may be dishonoured. Or Explain in details why the bank can refuse to cash a cheque.

- The drawer does not have enough money in his/her account
- The signature on the cheque differs from the specimen given to the bank
- The amount in words differ from that in figures
- It is post-dated i.e. bears a future date
- It has expired by not having been presented for more than six months – Stale cheque

- The drawer has made a stop order
- The cheque has been altered and the drawer has not counter signed against the alteration
- The drawer has already closed the account
- The bank has been notified of the death, insanity or bankruptcy of the drawer
- The cheque has some errors e.g. the date is not written or it not signed etc

THE BANK – CHEQUE CLEARING SYSTEM

The clearing system is a process by which various banks come together and settle the amounts they owe each other as a result of their customers' business transactions. It takes place in a place called the clearinghouse. Initially this house was situated at the Central bank, which is the Bank of Zambia (BOZ). Currently the cheque clearing system is done electronically as shown in the diagram below.



The main purposes of the bank clearing house.

- It is a central office where banks exchange cheque and other financial documents
- To settle Debit and credit instructions are on the transfer date, at same day value
- To record Interbank transfers
- To regulate the transfer of drafts and settlements between the banks.
- To act as middlemen between buyers and sellers,
- To provide both efficiency and stability to the banking systems they serve.

- To facilitate the clearing of cheques , interbank payments, foreign exchange transactions, and other fund transfers in the banking system

Credit Cards

A credit card is a card that enables the holder to buy goods and services on credit from certain businesses (which could be shops, hotels/restaurants, garages or petrol stations). Credit card companies such as **Access, Barclaycard, Premium card** and **VISA** issue them.

To buy goods from the registered businesses cardholders simply present the cards to the cashier and sign the invoice. The businesses that have sold goods to credit cardholders will send the invoice to the credit company. Upon receipt of the bill, the company immediately pays it off, but less a commission, and then charges the cardholders' account with the full invoice price

Credit Cards

- i. Increases sales
- ii. Allows credit
- iii. Can be used for large amounts

Automatic Teller Machine – Cash Dispenser (ATM)

These are machines from which account holder can withdraw money. They are situated outside the bank building so money can be obtained 24 hours a day. The customer is provided with a coded plastic cash card (ATM card) and a secret Personal Identification Number or **PIN**. To obtain money from his/her account the customer inserts the card into the machine and enters his/her PIN and the amount of money to be withdrawn. The machine then gives the money, provided there are sufficient funds in the

Services provided by ATMs:

1. Mini Bank Statement.
2. Utility Bills payment.
3. Balance enquiry.
4. Balance Transfer (BTF).

Automatic teller machines (ATMs) are increasingly gaining popularity in Zambia today because: - (advantages)

- i. Cash withdrawals can be at any time
- ii. Available 24 hours a day
- iii. Saves customers time
- iv. No need for queuing in the bank for cashier services
- v. Quick and easy to use
- vi. Mini statement readily available

10. It is common practice for many commercial banks to withdraw money from their accounts using ATM cards. What important rules should a customer have in mind when transacting using an ATM card?

- Not to disclose the Personal Identification number (PIN)
- Should hide when entering the PIN while withdrawing

THE CENTRAL BANK

All countries, by means of international agreement have what is referred to as Central Bank. In the case of Zambia the Bank of Zambia is our Central bank established by an act of parliament. The bank Governor and a board of directors run the Central bank. The Governor is appointed by the Republican President and approved by Parliament. (Take note of the **current** bank governor). The Bank of Zambia, BOZ as it is commonly referred to; is the nation's banker. Its main customers are the government and commercial banks. Normally, individuals, companies and businesses cannot open accounts with the central bank.

Describe the main functions/ services offered by the central bank

- *Issuing bank notes and coins*
 - o BOZ is responsible for arranging the printing, minting, storing and circulation of all Kwacha notes and ngwees.
- *Keeping the Governments Account*
 - o The government has account at the Bank of Zambia from which payments are made and to which revenues are deposited
- *Servicing the national debt*
 - o The government, just like individuals also borrows money
 - o It is the Central Bank that is supposed to manage these loans.
- *Lender of last resort.*
- The Central Bank may lend money to commercial banks as a last resort if they cannot get money from any other source.
- ***The banker's bank***
- All commercial banks maintain a deposit account at the central bank. This makes it possible for the settlement of balances during cheque clearing.
- *Supervision of the banking System*
- The bank of Zambia supervises the commercial banks and other deposit taking institutions, to make sure the banking system in Zambia is strong and customer's money is safe.
- ***Banker's Clearinghouse***
- The central bank has a department responsible for helping in the clearing of the cheques, which move between the various commercial banks.
- *Advisor to the government*
- The BOZ advises the government on monetary policy matters, such as inflation, taxation and exchange rates.
-
- ***Management of the country's foreign exchange reserves***

- The BOZ controls the amount of foreign currencies that are made available for buying goods and services from other countries. This is called exchange control. The BOZ also makes sure that the value of the kwacha is reasonably stable against other countries

Explain the rights of a customer in banking

- The right to secrecy of he/she bank's account details
- The right to provide with the bank statement within reasonable time
- The bank to honour customer payment instructions provided
- Customers instructions are properly drawn especially cheque payments
- The right to have money and cheque deposited
- Right to be paid money on demand during banking hours
- The right to be informed of forgery of signature immediately it is detected
- The right to be given reasonable notice of closure of the bank account
- The right to have safe ,secure and reliable banking and payment system
- The right not to be discriminated against any race, religion, age, pregnancy ,marital status ,disability ,sex and HIV /AIDS
- The rights to be informed of any changes in interest rates and banking services
- The right to be provided with services that meet required banking standards
- The right to be given information on banking services in plain banking language

EXAMINATION QUESTIONS

Question 1

- (a) It is common practice for many commercial banks to withdraw money from their accounts using ATM cards. What important rules should a customer have in mind when transacting using an ATM card? [2]
- (b)
- A cheque is an unconditional order to the bank to pay a certain amount to a bank to pay a certain amount to a named person or company. Explain to the client the advantages of using a cheque [4]
 - Give reasons why a cheque may be dishonoured. Or Explain in details why the can refuse to cash a cheque. [6]
 - Differentiate between a standing order and direct debit. [8]

Question 2

- Define a cheque [2]
- (i) Describe the main functions/ services offered by the central bank [6]
- (ii) Explain the rights of a customer in banking
- Describe the main purposes of the bank clearing house.
State the effects of the following crossing on the cheque

 & CO.

 BARCLAYS BANK
 KASAMA BRANCH

Question 3

- a. Describe the main services offered by commercial banks [6]
- b. Explain in details why the can refuse to cash a cheque [6]
- c. Describe the difference between a current account and a deposit account [6]
- d. Dalitso Enterprises is a stationery dealer and operates a current account with ZANACO.
It now wishes to get a loan from the bank in order to expand its business
- e. What factors will the Bank Manager consider before granting the loan to Dalitso Enterprises?
- f. State the four differences between a loan and overdraft
- g. Explain the main services offered by commercial Banks to account holders
- h. Describe the electronic clearing system

FINANCING OF BUSINESS UNIT

Businesses may need additional finance for the for the following reasons

- for the expansion of the existing business
- to pay for business bills
- when there is need to replace equipment
- to take over another business
- to increase working capital
- to meet increased business costs

Methods of financing businesses

- Trade credit
- Hire purchase
- bank over draft
- bank loan
- Debentures
- Mortgaging property
- ploughing back profit
- share issue
- Government grants and loans
- Bill of exchange
- Documentary credit

Trade credit

- trade credit is an arrangement whereby a trader to purchase goods and sell them at an increased price before paying for them i.e the trader pays from the sales revenue
- Only finance goods for resale.
- Used when the buyer and the seller have long trading relationship.

Hire purchase

- This method is used for purchase of durable goods such as cars, furniture, etc.
- First payment is deposited followed by installments.
- The buyer does not become the owner until the last installment is paid

Bank over draft

- This a method of financing day to day running of businesses expenses such as purchase of additional goods for resale, paying electricity bills. Etc

Reasons for choice of a bank overdraft as means of payment

- Easy to arrange
- The trader must be the current account holder
- The duration of payment is shorter
- Interest is charged on daily balance
- It is paid off as goods or stock is sold off

Bank loan

- A bank loan is a method of financing capital projects such as purchase of motor vehicle, extension of business premises, etc

Reasons for choice of a bank overdraft

- is given as lump sum
- obtained for specific purpose
- Easily arranged
- Long term finance
- arranged with any bank offering lowest interest
- Repayment is over a long period of time

Debentures

- Debentures are a long term finance of purchase of premises, machinery construction of building, etc.

Reasons for choice of a debenture

- They are loans to the company and are paid on fixed dates
- interest is fixed
- Quoted on stock exchange

Mortgaging property

- Mortgaging property is a long term finance obtained by getting a loan from a bank or building society which is secured on assets such as a house or land.

Reasons for the choice

- The buyer becomes the owner of property immediately.
- Repayments are for a long period
- Lump sum of money is offered

Factoring

- is the sell of goods to customers on credit by a business.
- Financing company issues the invoice immediately it sells the goods.
- Financing company collects money from customers.
- Financing company deals also with bad debts

Reasons for choice of factoring

- Reduces bad debts.
- Improves working capital by amount paid.
- Business pays creditors immediately due to crease in working capital.

Ploughing back profits

- Is the retention of some profits after paying dividend to shareholders.

Reason for choice

- No collateral security is required.
- No cost of borrowing
- Retained profits are readily available
- Some profits are kept for emergency

Share capital

- Is a long term finance used by limited companies to purchase premises, equipments, and other large projects

Reasons for choice

- Attracts capital from many potential investors.
- No interest is paid on capital raised by issue of shares.
- Large sum of money can be raised.
- Repayment of capital is not required.
- Easy to raise money for business

Rights issue

- This is the selling of shares to existing shareholders.
- It also finances large projects such as constructions.

Reasons for choice

- Saves on cost of advertising.
- Easy to raise money.
- No interest is charge on capital raised.

Government grants and loans

- Government finances some business through grant and overdrafts
- Lump sum is paid on approved business to receive grant

Bill of exchange

- This is the means of financing traders in foreign trade.
- The exporter writes the document requesting the importer to pay for goods supplied.
- Importer signs the document to agree for payment for goods received at some future date.
- The importer discounts the signed bill of exchange at a bank at less value.

Reasons for choice

- Ready cash is obtained by the exporter.
- Acts as evidence in courts of law of a debt.
- Delay of payment until the maturity date of the bill.

FORMULAS

- Working capital = current assets – current liabilities
- Turn over = sales – sales returns or
- Turn over = cost of goods sold + gross profit
- Average stock = $\frac{\text{opening stock} + \text{closing stock}}{2}$
- Cost of goods sold = opening stock + purchases – closing stock.
- Cost of goods sold = average stock x Rate of stock turn.
- Rate of stock turn = $\frac{\text{cost of goods sold at buying price}}{\text{Average stock at buying price}}$

- Rate of stock turn = $\frac{\text{turn over at selling price}}{\text{Average stock at selling price}}$
- Gross profit = turn over – cost of goods sold
- Net profit = Gross profit – Expenses

EXAMINATION QUESTIONS

- Q1.(a) State the circumstances in which the business may need additional finance
- (b) Explain ten ways of financing a business.
 - (c) What is the importance of working capital to a business?
 - (d) Explain some of the ways in which a business can increase working capital

Q2. Explain the following terms as used in business

- (i) assets
- (ii) working capital
- (iii) liabilities
- (iv) debenture
- (v) liquid capital

- Q3.a. Describe briefly and explain the importance of fixed assets in business.
b. show the formula for calculating working capital

Q4. The following figures were extracted from the books of Mpombo enterprise

Turnover	K9600
Purchases	K5440
Opening stock	K1680
Cash in hand	K800
Debtors	K240
Creditors	K480
Bank overdraft	K400
Advertising	K500
Other expenses	K1360
Closing stock	K1520

Calculate:

- (i) cost of goods sold
- (ii) Gross profit
- (iii) Net profit
- (iv) Rate of stock
- (v) Working capital

Q5. A good business organization must understand why it is important to have various sources of finance as well as understand why financial statements should be prepared.

- (a) What reasons would a business have for choosing a bank loan as the method of financing capital projects?
- (b) From the following balance sheet of Mutwe a sole trader

Assets		Liabilities	
Premise	K 60 000	Capital at start	K 160 000
Motor vehicle	K 40 000	Bank loan	K40 000
Stock	K60 000	Creditors	K80 000
Debtors	K 70 000		
Cash at bank	K50 000		
	K280 000		K 280 00

Calculate the following:

- (i) The total amount of fixed assets
- (ii) The amount of working capital
- (iii) The accounting ratio;
- a. Current asset ratio
 - b. acid test ratio

INSURANCE

Insurance is a commercial service which protects traders against financial losses caused by risks such as fire theft, accidents e.t.c

Functions/ purpose/importance of insurance

- To cover goods/assets in advance against financial loss
- To cover employers against injury/death while t work
- It covers risks such as fire, accident, floods
- Indemnify/ compensate traders in case of financial loss through third party claims such as
 - Public liability
 - Employers liability
 - Loss of raw materials, equipment, property

State/list risks that a trader firms, company may insure against

- Fire
- Theft/burglary
- Public liability
- Accident
- Employers liability
- Product liability
- Fidelity guarantee

Importance of taking out an insurance cover by traders/business people

- If a loss occurs he/she will receive compensation /be indemnified
- He/she may not end up going out of business if her/his business is large as his losses could be large
- It will give traders confidence to continue in business
- Claims against him/her may be large and without insurance he/she may not be able to meet huge claims arising from the members of the public who may suffer losses
- It is losses by law to protect the general public e.g. employers liability and public liability insurance

Explain the term “pooling of risks”

- People with common risks pay into common fund an amount known as premium
- From which the disadvantages (unfortunate) are paid from
- The burden is made lighter that it would have been
- For a small amount of premium,, the insured is made to be paid the insured property, e.g. property worth K10 million might be insured for a premium of K300 000
- This is because there are many who wish to insure against the same risk, many premiums are contributed but there are proportionately fewer claims
- Hence it enables the fortunately people to help the unfortunately ones
- The insurance company will use the money from the pool as follows
 - To pay compensation to those who suffer losses
 - To meet the running expenses such as salaries, rent, bills
 - To pay dividend to company share holders
 - Surplus funds are invested in property business and some lent out to the government

BUSINESS RISKS

- Insurance risks
- Non- insurable risks

Explain and give explain why some business risks are non-insurable and other are insurable

INSURABLE RISKS

- Are risks whose chances of occurring can be mathematically calculated from carefully kept past records or statistics
- Calculated risks is used as basis for premium to be charged fairly (fair premium can be calculated from the past records)
- Examples of insurable risks; fire, theft, accident, damage of property

NON- INSURABLE RISKS

- Are risks that cannot be assessed
- Due to lack of past records
- Their probability of occurring is not known
- Premium cannot be calculated with certainty
- Examples of non-insurable risks are; loss of profit due to bad management, Change of fashion, Natural Calamity

PRINCIPLES OF INSURANCE

INSURABLE INTEREST

- It states that only the person who stands to lose financially if risk insured against occurs has the right to insure the property or life
- The person must usually own the property he/she has to insure i.e. you cannot insure your friends property
- It prevents people who are not owners of items from insuring it
- No person can insure an item that does not belong to him/her
- People cannot insure anything that does not suffer financial loss because he/she might be tempted to cause a loss

UTMOST GOOD FAITH (UBERRIMA FIDES)

- It states that both the insurance company and the person seeking insurance cover must say the truth or act in good faith by telling the true without leaving out any facts
- Otherwise the contract will be void
- Applies when completing a proposal form so that the insurance company has all the information required in :
 - Assessing the risk
 - Deciding whether to accept the risk or not
 - Able to fix a fair premium

INDEMNITY

- It states that to restore the insured person to his/her former financial position without allowing him/her make profit out of a loss
- With an exception of life assurance / loss of limb/person accident

- Insured should not over insure or under insure
- It is supported by two corollaries of subrogation ad contribution

CONTRIBUTION

- It states that ,if an item is insured with more than one insurance company , if the same item is destroyed by the risk insured against ,the insurance companies involved would contribute proportionately toward the amount of compensation required without allowing the insured person making profit out the lose

SUBROGATION

- It states that once the insured is compensated in full for the loss ,the remains or wreak of damage or recovered items becomes the property of the insurance company
- The insured must not allowed to make profit out of the loss by receiving compensation money and keeping the wreak or removed item
- The right of ownership of the remains item pass to the insurance company immediately the insured is fully indemnified to his /her financial position

Example 1

A computer is insured for k2000 000 it is damaged in fire and the cost of repairing is valued at k1800 000.how many must would be paid in compensations

Solution

K1800 000 would be paid in compensation .this because compensation money would be restricted to the market value of the loss

Example 2

A school staff room valued at k30 000 000 it is insured for k20 000 000 .after getting damaged by fire, the cost of repairs to the staff room as estimated at k18 000 000, how much did the school revive in compensation for a burned staff room .give reason for your answer

Solution

Amount received in compensation = $\frac{\text{Amount Insured}}{\text{True Value}} \times \text{Market Value}$

$$\frac{20\,000\,000}{30\,000\,000} \times 18\,000\,000$$

K12 0000 000

The client must be compensated with K12 000 000 because

- The staff room was under insured
- The guiding principle under insurance claims is **average clause**
- **Average clause** states that the insured his/her own insure for the amount not covered by insurance company
- **Average clause** prevent those who under insure from making profit out lose

PROXIMATE CAUSE

- It states that the insurance company would only compensate a person who has suffered a loss if the risk insured against is the immediately cause of the loss ,he is compensation payable if the loss is caused by a risk not insured against
- Example ,if car is insured against theft is it damaged in accident ,the car will not be replaced because ,it is damaged in an accident not stolen as insured

STEPS TO BE TAKEN WHEN EFFECTING AN INSURANCE COVER

- Approach an insurance broker /company
- Obtain a proposal form
- Fill in details in utmost good faith
- Otherwise the contract will void
- Insurance broker /company will assess the risk calculate the correct premium and deciding whether to take the risk or not
- Proposer pays premium and cover note is insured
- Cover note may be used to make a claim before a policy is issued
- Policy is issued after a period of time ,it contains all terms and condition of contract

PROPOSAL FORM

- A proposal form is an application for insurance
- It gives details of the risk to be insured against
- It gives details of the applicant
- The proposer complete details in the proposal form in utmost good faith
- Giving full; and accurate details about the property and the risk being insured against
- The broker /company will use to
 - Assess the risk
 - Decide whether to accept the risk or not
 - Calculate the premium

PROCEDURE IN MAKING A CLAIM

- Inform the police of the calamity accident immediately it happens
- Notify the insurance company of calamity or accident as soon as possible
- Inform the insurance company if the item was insured with other company
- Complete a claim form giving full details of lose suffered
- Insurance company seed assessors inspect the damage and determine amount of compensation
- The client signs an agreement of loss form
- To bind him to accept the amount of compensation arrived at
- Insurance company settles the client by paying him /her or replacing the item lost
- The remaining of the item is subrogated to the insurance company

INSURANCE BROKER

- These are middle men between the insuring company and the insurer
- They assist the insuring person to obtain insurance by;
 - by linking the company /person with the insurance company
 - by advising the client and seek the best possible policy
 - by giving information to client on kind of insurance policies offered by different insurance companies
 - by approaching and getting quotation from insurance companies on behalf of the client e.g. proposal form
 - by collecting and forwarding premium /make claim on behalf of client
- they are remunerated by a commission called brokerage

LIFE ASSURANCE

The term **assurance** refers to **certainties** i.e. risks that must happen e.g. death

The term **insurance** refers to **probability** i.e. risks that may or may not happen e.g. fire theft, accident

WHOLE LIFE POLICY

- It is a policy which provides compensation money (sum insured) only upon death of the insured person
- The insured person does not receive compensation money before his/her death
- The money is given to his/her beneficiary who may be his/her wife/husband/children
- Premium is paid for whole of his life
- The money will be used to :
 - Pay for funeral expenses of the insured person
 - Pay the outstanding debts if any left by the insured person
 - Other money will be used for upkeep of the beneficiaries

ENDOWMENT POLICY

- Is a policy taken for a specific period of time e.g. from 20 to 60 years
- It provides compensation money (i.e. insured money either at maturity date or at death of the insured person whichever comes first
- It is essential it provides
 - Insurance where assured person dies before maturity
 - Saving money where the assured survives up to maturity date
- It can be with profit or without profit (interest)

FIRE INSURANCE

ORDINARY FIRE INSURANCE

- It provides insurance protection to a wide range of property such as personal and business buildings ,warehouses and their content against damage caused by fire

CONSEQUENTIAL LOSS INSURANCE

- = It is the loss of profit suffered as a result of an insured risk
It provides compensation for:

- Loss of normal business profit as a result of an insured risk and
- Business expenses
- Renting an alternative buildings

FACTORS CONSIDERED WHEN FIXING PREMIUM FOR FIRE INSURANCE

- The particulars of an applicant
- The address and situation of the property to be insured
- Detailed information about the property – if it is a house, state the value, materials used to build it, safety measure provided
- Whether if the similar risk has occurred before

EMPLOYERS LIABILITY INSURANCE

- It provides compensation to employers for death ,diseases etc suffered whilst at work as a result of the employers negligence

PUBLIC LIABILITY INSURANCE

- It covers business owners and manufacturers against claims by members of the general public for death and accident

FIDELITY GUARANTEE INSURANCE POLICY

- Provides compensation to the employers for the money or good embezzled by employees

MARINE INSURANCE

- It covers losses or damage to property and life caused by sea risk transport

HULL INSURANCE

- It covers ships and machine against damage due to fire ,collusions and storm and
- Against other ships
- Policy can either be for a particular journey known as voyage policy or a period of time known as time policy
- It is taken by ship owner

FREIGHT INSURANCE

- Covers for the amount charged for transportation of the cargo or good
- It is refunded if good are un delivered
- It is paid by shipping firms /suppliers
- It is also covers ship owner against the possibility of not being paid freight or hire money by client who don't pay transport charges in advance

CARGO INSURANCE

- Covers good being carried by ship
- Covers may be for a single consignment or may be several consignment known as floating policy
- It is taken by cargo owners

SHIP-OWNER 'S LIABILITY INSURANCE

- a. Covers ship owners against claims that may be made on their for
 - Death or injury caused to crew members/ passengers

- Loss or damaged caused to other ships in collision
- Loss or damaged caused to beaches

MOTOR INSURANCE

This covers a wide range of insurance and it include the following:

MOTOR VEHICLE INSURANCE

- i. It is compulsory y law for motor vehicles owners to insure against loss or damage to third parties
- ii. The third party is any member of the general public to whom death or bodily injury may be caused e.g. passengers, other motorists etc

TYPES OF MOTOR INSURANCE POLICIES

a. Third-party motor insurance

- i. This is a minimum motor insurance any vehicle that moves on the road is required to have
- ii. It provides compensation only to third parties for death or bodily injury caused to them or damaged to their property
- iii. The insured own vehicle is not covered

b. Third party, fire and theft motor insurance

- i. This type of motor insurance provides insurance cover to third parties for death or bodily injury caused to them and their properties
- ii. The insured's own vehicle for accidental damage to the vehicle, injury to drivers, loss of vehicle y fire, theft, or by instant mob justice

c. Full comprehensive motor insurance

- i. This covers a variety of risks that may happen to vehicle.
- ii. It is the best and the most expensive type of motor insurance

Factors to consider when fixing the premium for motor insurance

Number of accident for the type of vehicles being insured has been involved in

Number of people wishing to insure so as to apply the law of big number

Age of a driver

Type of motor insurance required e.g. comprehensive, third party etc

Purpose for which the business is to be used

Number of vehicle using the vehicle

Occupation of the vehicle user

Security gadgets fitted

Make of the vehicle

Value of the vehicle

EXAMINATIONS QUESTION

Question 1

Lwindi has just opened a new retail shop in Chipata, but has not yet insured her premises

- (a) State why Lwindi must insure her business premises [4]
- (b) (i) illustrate the difference between whole life policy and endowment policy [[6]
- (ii) Explain clearly what factors need to be considered when fixing premium for
motor insurance [4]
- (c) Outline with examples the main types of marine insurance [6]

Question 2

Insurance seeks to compensate those that suffer financial risk due to accidents, injuries, thefts and fire.

- (a) How can a risk be considered to be an insurable risk [4]
- (b) (i) why would advise a person to go through an insurance broker to arrange for
Insurance cover and not go direct to an insurance company [4]
- (ii) Describe the two main types of fire insurance [6]
- (iii) Distinguish between contribution and subrogation in relation to indemnity [6]

Question 3

Parmalat Zambia Limited is a producer of various fruit juices and owns a fleet of vehicles used for delivery.

- (a) State four risks that this company can insure against [4]
- (b) (i) Explain the factors that the insurance company considered when fixing premium
for fire insurance [5]
- (ii) Describe the procedure in making an insurance claim [5]
- (c) Distinguish between insurance and non-insurable risk [6]
- (d) Outline the procedure following when taking out insurance cover [6]
- (e) The van was valued at K30, 000. It was insured at K20 000. After getting involved in
an accident, the cost of repairs to the car was estimated at K18 000. How much would be
received in compensation? Give Reasons [6]

Question 4

Insurance is a system of protection against all kinds of insurance risks based on the principle of Pooling of Risks

- a) Explain the term pooling of risks [6]
- b) Insurance requires indemnity. Explain the term indemnity [4]
- c) List six insurance business risks that Mulungushi Textiles Company insure [6]
- d) How might an insurance broker assist the Mulungushi Textiles Company to obtain
insurance [4]

Question 5

Write brief notes on the following

- a. An insurance policy
- b. Insurance Broker
- c. Utmost good faith
- d. Non- insurable interest
- e. Insurable interest
- f. Indemnity

[3x4x3x3x4x3]

COMMUNICATION

Definition

Communication is the process of exchange of information from one person or firm to another. It is an aid to trade concerned with informing people on goods and services available.

The purpose of communication to an organization (firm), business or Trader is to

- obtain information needed for doing business
- Giving instruction to workers
- give orders to workers
- receive orders from customers about goods they need fax, e mail, letter
- contact suppliers when placing orders by fax, e mail, letter
- seek advice or permission
- encourage customers and suppliers
- discuss problems, complaints, queries with suppliers, customers, workers and make business friends.
- be in contact with sales agents in home and overseas markets.

The importance of an efficient means of communication to an organization (firm) or Trader or business are to enable

- managers to instruct staff or workers on what to do.
- workers to be informed of what is going on in an organization.
- Worker to pass their grievances (complaints) or suggestions to management in a friendly way
- to receive orders from customers
- the firms to contact its customers either by telephone
- a firm to clear or sort out problems, complaints or

TYPES OF COMMUNICATION

There are two main forms of communication namely postal and telecommunication services.

Postal services

These are services provided by the post office for posting and delivering of letters, parcels. The following are the postal services that assist business.

- i. Data post
- ii. Business reply service
- iii. Poste restante
- iv. Express mail service
- v. Parcel post
- vi. Post office boxes
- vii. Recorded delivery
- viii. Franking machine

- ix. Free post
- x. Registered mail/article
- xi. Circular
- xii. Reply coupons
- xiii. Mail
- xiv. Private Bags
- xv. Express post
- xvi. Post card
- xvii. Cash on delivery
- xviii. Postal orders
- xix. Money orders

Data post

- This is a postal service that provides a speedy, secure and highly reliable means of sending and delivering urgent and important packages containing business documents and goods
- It provides 24 hours service of delivering and collection of business documents and goods.
- Parcels and packages are collected and returned at pre agreed times with the post office
- Used for sending items such as computer materials and medical supplies.

Business Reply service

- This is the postal service which licensed business use
- To receive replies or orders from potential customers
- Using special envelopes or forms provided by the seller
- Customers do not pay postage but the addressee (sender or business man)
- Used by mail order businesses/ any other business.

Poste restante

- This is the postal service which is offered by the postal division.
-
- Enables a letter or parcel addressed to a particular post office
And to a particular personal/ addressee
- Collected by the addressee after identifying himself/herself
- The letter or parcel should be marked Post Restante
- Enables salesmen with no fixed address to be communicated to.

Express mail service

- This the postal service
- This is used for sending important or urgent documents and packets
- It enables quick sorting of mail
- In return for an extra fee or charge the mail is personally accepted at the post office by a teller and delivered to the intended destination eg local areas as well as between major cities

- It is a faster and a safer way of sending important documents eg cheques, certificates, title deeds.
- It is also known as express post

Parcel post

- This postal service provides a relatively cheaper but slower service for sending larger or heavier items.
- There is a weight and size limit imposed by post offices
- It also provides a postage forward parcel service which means postal charge can be paid by the receiver
- Special labels are used and a license is required to allow the use of such a service.

Post office boxes

- This is postal service that is used for receiving letters only
- Example an individual or organization renting a post box collects letters from the post office at any time
- Such as on daily or weekly.

Recorded delivery

- This is a postal service that provides a proof of both posting and delivery.
- It is used when sending important documents such as plans, birth certificates, legal documents, examination certificates, wills.
- Sender hands the letter over the counter not in the post box
- A receipt is given as proof of posting
- Recorded delivery letters are separated at the delivery point where they are recorded in a book and delivered to the receiver.

Franking machine

- This are postal service that prints postal impressions on envelopes
- The postal impressions show the amount of postage, place and date of posting.
- used by organizations that send many letters at once.
- They save time in affixing postage stamps on each letter.
- A license to use it must be obtained from the post office.

Free post

- This is postal service that allows potential clients to write to a business
- It is used by businesses who are advertising goods and services
- Example in reply to advertisement without paying for postage
- The envelope is addressed in a special way
- The trader uses one word free post in his address.
- The trader pays postage on all replies received plus a small charge.
- The trader obtain a license or approval from the post office

Registered mail/article

- This is the postal service that enables valuable items such as notes, cheques to be sent through the post office
- The envelope or packet of the registered letter have a large blue cross on it
- The client is compensated if the items get lost.
- A registration fee is paid on posting
- A certificate of posting is issued to the sender as proof of posting upon delivery of the registered article or letter.
- The person receiving the item sign as proof for the item obtained

Circular

- This is a postal service
- Circulars can be posted in bundles.
- A large number of circulars are posted at the same time
- A special low rate of postage will be charged

Reply coupons

- This is a postal service
- This service enables anyone sending a letter eg abroad to prepay for a reply
- That is he or she enclose a reply coupon which is exchangeable for postage stamps at the post office abroad.

Mail

- This is a postal service by which ordinary letter post sent either by first class or second class mail.
- Letters are the most basic method that a firm can use to make contact with other firms, customers or suppliers
- They provide written form which enables them to be stored in a simple filing system

Printed matter

- This is postal service through which printed matters are sent in unsealed envelopes and may be sent by the printed.
- It does not contain letters or messages that constitute personal correspondence.

Philately

- This is postal service
- It issue postage stamps and historic items
- Example
- Products depicting postal events and sold at eh post office, e.g. first day cover envelopes and postage stamps.

Cash-on-Delivery

- This postal service enables a trader to send parcels to customers by post

- And ask the post office to collect the payment when delivering the item.
- The money is the remitted to the trader y the post office, less a small charge.
- It is widely used by mail order firms.

Money order

- This is the service provided by Post office of sending money.
- It is a very fast method of sending money that can be used if there is need to send money urgently to someone.
- Usually a commission is charged for the service.

TELECOMMUNICATION

This are services used by people involved in business. It provides the most direct and immediate means of communication provided by the various telecommunication service providers like, Zamtel, Airtel, MTN Zambia etc.

- Telephone
- Telegram
- Telex
- Phonogram
- Fax (facsimile)
- Radio message
- Cellular phone
- E- mail
- Internet
- Local and truck
- Alarm
- Emergency
- Free phone
- Radio paging
- Confravision

Telephone

- This provides people engaged in commerce with a speedy means of
- contacting other business over any distance either within the country or abroad
- it can be used in a number of circumstances eg when a customer wishes to urgently inform his or her suppliers or when a person wants an immediate response to a query suggestion, complaints
- it enable a discussion or conversation to be held to clear a problem or seek advice or orders between the suppliers and their customer

Telegram

- It is a service that provides business people with speedy means of sending urgent written messages to most parts of the country or the world.
- The message is telephoned or faxed to the post office nearest to the addressee and then delivered by hand
- The charge for the telegram is calculated per word
- Therefore unnecessary punctuations marks and statements should be left out in the message.

Telex

- It is called a teleprinter
- Which is a combination of typewriter and telephone for sending written messages.
- Teleprinter has a telex number
- Which is used to connect one teleprinter with another to a telex line.
- The main advantage of this system is that messages can be received at any time of the day or night

Confravision/ video conferencing.

- It is a communication service that links a group of people in distance studio location by sound and vision
- also called video conferencing
- the service that enables people in different distant localities to communicate
- Through the provision of studios
- Which makes people discuss face to face through in different places
- Yet able to see each other through camera, screen
- Cheaper way of holding meeting by multinational firms
- As it eliminates costs travelling abroad for meeting

Cellular phones

- It is an improved form of ordinary telephone
- called a mobile phone
- can be used anywhere if network is there and at any time
- provides immediate contact
- keeps messages for future reference/voice message
- sometimes has internet facilities eg access to internet banking services

Fax (Facsimile)

- This service enables a business to send exact copies of a document to distant places using telephone lines.
- The document is reproduced (in fact, photocopied) immediately at the receiving end.
- The fax machine is plugged into the telephone network and the bills are added to the user's telephone bills.

- used for sending urgent documents as quickly as a telephone call.
- It is much faster than letters.
- can transmit documents whether printed, typed, hand-written or drawn plans.
- The main advantage is that it can be received 24 hours a day even when it is after working hours for as long as the machine is left on.

Electronic Mail (E-Mail)

- It is service that has many facilities such as the internet
- allows use of computers via telephone circuit/satellite link/dial up.
- It is very quick
- The subscriber has an email address and uses secret password to maintain information.
- Businesses can use it to rapidly exchange printed communication using telecommunication links.
- Its greatest advantage over the post and fax is that it is faster and more flexible and the message can be as short or as long as you like.
- You can send files, spreadsheets, graphics, database, and even audio and video files via E-mail.
- The other advantages of E-Mail is that you only need to make a phone call to send the message anywhere in the world.

Radiophones

- This service provides mobile telephones,
- Which can be hand-held, installed in a car phones or on trains and express coaches.

Radio Paging

- This service allows a user to send a telephone number or message to another user.
- It provides a bleeper, which warns people of the message, either, that they are required, for example, to return to base or to their phone
- Messages of up to 2200 characters can be sent.

- It is commonly used in shops, factories, offices and hospitals.

Internet

- The Internet is a global network of computers,
- Which gives millions of users throughout the world access to the most dynamic form of communication and information.
- It is essentially one network, which is the sum of thousands of individual private and public networks interconnected by satellite, and cable systems.
- It allows people to communicate, in act to “talk” to other people, to shop for goods and services, for education and entertainment.
- The most common users are E-Mail, the worldwide web and news groups.

EXAMINATION QUESTIONS

1. State main purpose of communication within a business.
2. Explain the importance of an efficient means of communication to an organization (firm) or Trader or business?
3. Describe how the following postal and telecommunication services assist business.
4. Name and explain two ways in which information technology has improved business communication
5. Why might an employee use the telephone to set up the meeting
6. What are the benefits of video conferencing
7. Why is rapid and accurate transmission of commercial information important?

TRANSPORT

Define Transportation

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

Explain the Importance of Transportation to people engaged in commerce

- Assists trading.
- Creates utility of place.
- Improves standard of living.
- Provides necessities of life and minimizes shortages.
- International trade is not possible without transportation.
- Efficient transportation system is important for distribution of goods in right form.

Discuss the Modes of Transportation

Road Transport

- This is the movement of people, raw material, goods and equipment by road.

Advantages of road transport

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

Disadvantages of road transport

- Expensive for long distances and heavy loads.
- Slow for long distances.
- Effected by topography.
- Effected by climate.
- Effected by weather conditions.
- Effected by traffic congestions.
- Creates pollution.
- Creates traffic congestions.

Rail Transport

- This is the movement of people, raw material, goods and equipment using the rail line.

Advantages of rail transport

- Cheap for long distances.
- Quick for long distances.
- Good to carry bulky cargo.
- Not effected by traffic.
- Does not create pollution in cities.
- Special transporters may be provided for different specialized items.

- Especially suitable for low value and high volume cargo.

Disadvantages of rail transport

- Involves documentation.
- Need for loading and unloading cargo many times.
- Trains cannot go anywhere.
- Move only according to schedule.
- High costs for short distances and small quantities.
- Located out of cities so depends on road transportation.
- High capital cost of maintenance of tracks and trains.
-

Air Transportation

- This is the movement of people, raw material, goods and equipment using aeroplanes.

Advantages of air transport

- -It is faster.
- Safe handling of cargo.
- Not affected by weather.
- Not much documentation involved.
- Less packing requirement.
- Less insurance cost.
- Especially suitable for high value and low volume cargo.
- Used for urgently required goods.

Disadvantages of air transport

- It is Expensive.
- Effected by weather conditions.
- Carries a limited weight and size of cargo.
- Lies on other forms of transport.
- Causes noise and pollution.
- There is threat of hi-jacking.
- Possibility of total loss of life and property when an aeroplane crashes.
- Limited space.

Sea Transportation

- This is the movement of people, raw material, goods and equipment on water.

Main Types of Sea Transport

- Ships: “Mother Vessel 40,000 MT- 60,000MT” and “Connecting Vessel 20,000 MT” deep port.
- Barge: Small Ship – Shallow port.
- Ferries: Shallow seas and small distance.

- Boats: River inland transportation.

Main Types of Ships

- Passenger liner: Normally used to carrying passengers, mail and some express cargo.
- Cargo liner: Mainly used to carry variety of cargo and sometimes few passengers.
- Tramp: It is cargo ship which does not sail to any special place. It is normally chartered.
- Bulk carrier: It is especially built to carry a particular type of cargo for example oil.
- OBO ship: It is can ore-bulk-oil carrier, carries loose material.
- Roll-on, roll-off: Highly specialized ships that allows loaded vehicles like trucks, trailers, passenger cars etc.

Advantages of sea transport

- It is cheap per unit of cargo for longer distances.
- Highly suitable for bulky cargo.
- Refrigerating and other facilities are available.
- Containerization is possible.
- Not effected by topography.

Disadvantages of sea transport

- Very slow.
- Very rigid.
- It is affected by weather conditions.
- A lot of documentation.
- Lot of handling of cargo is involved.
- 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
- It is mostly used in road transport and sea transport when exporting goods to other countries.
- It can also be used when grouping goods of various kinds for transportation.
- In order to protect goods from bad weather.
- For trans-shipment.
- When speed customs clearance is required.

- 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 of containerization

- Quick movement of cargo.
- Faster turn-around of ships at ports.
- Protection of cargo from being damaged.
- Saving on packing cost.
- Lesser chances of cargo being lost.
- Creates speed of goods delivery
- Quick transfer between different forms of transport
- Reduces pilfering

Disadvantages of containerization

- Expensive to own.
- Dependence on skilled labour.
- Capital cost increases.

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 '*chartered 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 of shipping conferences

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

Disadvantages of shipping conferences

- Rates are made artificially high, expensive rates.
- 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

- Some organizations use their own fleets of trucks to move goods whereas others just hire them

What are some of the advantages of owning your own fleet?

- It is cheaper and profitable where a company produces enough goods to keep trucks busy
- Own vehicles can be used as media of advertising
- Goods can be delivered at any time
- Supplies of raw materials and equipment can be collected at any time
- More care for goods is taken when using your own fleet
- Requires less documentation

Hiring Transportation

Advantages of hiring transport

- Capital cost is saved.
- Running and maintenance cost is saved.
- Saving on problems relating to crew.
- Save on taxes.

Owning Transportation

- Advantages
- Cheaper operational cost.
- Creates good image.
- used for business advertisements.
- Easy to make changes to the transport according to requirements.
- Round the clock availability.
- Reduces dependency.

Outline some of the factors to be considered before deciding for Hiring or Owning transport

- Capital cost.
- Frequency of use.
- Nature and scope of business.
- Business certainty.
- Availability of rental transportation.
- Freight charges of rental transportation.

- Crew costs.

List factors affecting choice of mode of Transportation

- Freight charges.
- Availability.
- Coverage.
- Topography.
- Distance.
- Urgency.
- Value of cargo.
- Nature of cargo.

Recent Trends in Transportation

These are some of the changes or development taking place in transportation

- Chartered transportation.
- Air Freight.
- Express Routes.
- Roll on roll ferries
- Development of trading blocks
- Growth of containerisation
- Main routes (highways) which are made for HTV (heavy transport vehicles).
- There are minimum obstacles.
- Minimum crossing.
- Speedy transportation.

Port Authority

- This can either be the government department or an independent agency that controls the seaport and there facilities to ensure efficiency at the seaport.

Outline the Responsibilities of port authorities

- Provide navigation facilities and to control air and sea traffic.
- Maintain air traffic control tower/light house.
- Maintain run ways/berths/docks.
- Fuelling of planes/ships.
- Provision of supplies to the planes/ships before departure.
- Signing agreement with other port authorities on variety of issues.
- Maintenance of planes/ships before departure.
- Providing facilities to passengers and traders.
- Security arrangement.
- Permits to motor boats/light air planes.

- Providing hanger facilities/wet or dry docks.

Facilities at Ports for Passengers and Traders

- Passenger lounges.
- Fire extinguisher.
- First aid.
- Internet facility
- Café.
- Washroom.
- Shopping area.
- Banks.
- Transportation.
- Offices of airline companies.
- Hotel reservation offices.
- Warehouses.

WAREHOUSING

- *Warehouse* is a large building in which *goods, raw materials, or commodities* are stored.
- *WAREHOUSING* is the storage of goods to protect them from bad weather before sale.

Importance of Warehouses

- Protection of goods against climatic conditions.
- Protection from theft.
- Producers can store raw material for future production.
- Surplus created can be stored before being finally sold.
- Shortages in the market can be avoided.
- Price fluctuations can be minimized.
- International trade is not possible without warehousing.
- Traders can keep their cargos in bonded warehouses, before they pay the duty.
- Plays important role when demand for products or the time of production is seasonal.
- -Provides place for display of goods.

Types of Warehouses

Retailers Warehouse/Depots

- To store bulk purchases for wholesaler or producer.
- Goods are packed and branded in warehouses.
- Retailers can purchase goods when they are cheap and can stock excess purchase.
- So that goods are always available to fill the space on shelves.

Wholesalers Warehouse

- Use warehouses for blending, grading, packing and branding.
- Store goods from variety of manufacturers.
- To store bulk purchases from producer
- Warehousing helps to stabilize prices

Cash and Carry Warehouses

- Retailers can buy in small quantities.
- Cheap because of bulk purchases, no credit facility and no delivery.

Cold Storages

- Special warehouse with refrigerating plants.
- Perishable items can be stored.
- Temperature can be set at will.
- Insulation is done.

Regional Distribution Centers

- Owned and maintained by large scale retailers and wholesalers.
- Located close to a good road network.
- Supermarkets/multiple chains/variety chains/franchise/chain of department stores/hypermarkets mainly use regional distribution centers.

Manufacturers Warehouse

- Used to keep stock of finished goods and raw materials.
- Help producer to carry on production when there is shortage of raw material.
- Can help producer keep on production when there is less demand.
- Produced can get benefit of trade discount by purchasing raw material in bulk.
- Located in manufacturers production houses.

Public Warehouses

- These are owned by public sector (government).
- Different government agencies can stock their material.
- Also available on rent to private sector.

Bonded Warehouses

- Are owned by government and are under the control of custom authorities.
- Dutiable goods are stored, on which duty is not yet paid.
- Normally located on ports.
- Traders have to pay the rent.
- Grading, blending, packing, branding and sub-assembly can be done.
- Trader can also sell the cargo and the new owner has to pay the duties.
- Nothing can be taken out of warehouse without paying duty.
- Trader can pay some of the duty and get proportional amount of cargo released.
- Exporting can also be done without paying duty.
- It enables government to collect custom duties.
- Government gets information about the types of goods imported.

Distinguish between Bonded and Ordinary Warehouses

	Bonded Warehouses	Ordinary Warehouses
(i)	-Located near ports.	-No specific location.
(ii)	-Controlled by custom authority.	-Controlled by the owners.
(iii)	-Stores dutiable goods	-Store finished goods and raw materials.
(iv)	-Dutiable goods cannot be removed until the duty is paid.	-Free movement of goods in and out.
(v)	-Owned by government,	-Owned by private sector.

EXAMINATION QUESTIONS

Q1. (a) Most goods are still carried by sea transport in international trade. Explain, examples, the goods carried by sea transport and the importance of sea transport in international trade.

(b) What are the functions of port authority?

(c) Write notes on the uses of tankers on sea transport in international trade

Q2. A large scale manufacturing company whose products are distributed throughout the world has factories and offices in many countries.

(a) Explain in details why efficient means of transport are important to the company

(b) What factors would influence the company's choice of transport for a particular consignment of goods? Give examples to illustrate your answers.

(c) Given five main reasons why road transport is often used in preference to other forms of transport, for the carriage of goods.

Q3. State with your reasons, the most efficient form of transport to be used in each of the

following circumstances (in each case only one form of transport is to be stated).

(i) Urgently needed spare part from Tokyo, Japan to Lusaka in Zambia

(ii) A large consignment of oil from the middle east to France

(iii) Delivery of bread from a bakery in Mporokoso to a number of shops in Town

Q4. (a) In what circumstance is road Haulage of goods more desirable methods of transport than transport?

(b) State, giving your reason, what methods of transport would be most suitable for;

i. A consignment of diamond from India to Zambia.

ii. 25 tonnes of electric generator from Dar-es-Salaam in Tanzania to Kariba North Bank, Siavonga in Zambia to replace one which was gutted by fire;

iii. 250 tonnes of coal from Hwange in Zimbabwe to Kabompo, Zambia

iv. A human kidney needed for transplant (the patient is in hospital) from Cairo to Kasama, Zambia.

ADVERTISING

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

- Increasing sales.
- Introducing new products.
- Information on improvement or change in product.
- Spreading brand name.
- 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.
- Informing people on matters of public interest. Eg HIV/AIDS Cholera
- Informing people about the changes in location, prices
- The government may use it to announce the results
- The government may use it to inform the public about the government policy.
- Announcing the birth, deaths, marriages, lost and found property, events etc

Persuasive Advertisement

- Telling people that a particular brand is superior to all other brands.
- This type is aimed solely at consumers, and is the kind you see most on television; it tries to persuade you to buy the advertisers' products rather than his competitor's by assuring you that it is better.
- Force customers to buy a product or service using various persuasive techniques
- Obtain and maintain a large market share
- Penetrate the new market
- Widen the market share of a product

Competitive advertising

- It is a type advertising where a particular manufacturer promote its product or brand
- It is used where there are several producers producing on kind of product of service
- Its aim is to"
 - a. Widen the market share
 - b. Giving information to consumers on existing and new products

- c. Penetrate the new market
- d. Maintain the market share of a product
- e. Securing a large market share of a particular product

Collective/Generic Advertisement

- Advertisement of a product not a particular brand.
- For example “*Drinking Milk is essential for children*”
- Financed by all the producers of the product.

Benefit of advertising to the manufacturers

- To introduce new products on the market
- To maintain demand on the old products
- The product is known to as many people as possible hence leading to an increase in profits
- It also helps to project a favourable image to the publics
- It encourages firms to compete amongst themselves / promotes competition between manufacturers hence the reduction in the price to the consumer
- It is also done to persuade people to buy the advertised
- It provides information regarding sources of raw materials / new machinery
- To tell customers about changes to products / prices
- To warn of a fault in the product

Advantages of Advertising:

- it persuades customers on the type of goods to buy
- it helps in the increase of sales
- it is used to penetrate a new market
- it helps to maintain the same level of sales.
- it creates competition which leads to the improvement in quality of goods
- it helps customers to know where to find the goods
- it helps customers know the changes made to products

Disadvantages of advertising:

- it helps the passing of information
- it is expensive when the objective is not achieved
- advertising may be misleading to customers
- advertising makes people’s lives beyond their means
- it promotes impulse buying
- advertising may lower moral standards
- advertising may promote dangerous products

Why do customers need protection from competitive advertising? Dangers of persuasive advertising

- Advertising may influence people to buy goods which are not suitable for their purpose
- Advertising can mislead people
- May create wrong impression
- Advertising is harmful as it imposes bad habits on young people

- Advertising may mislead by advertising only the better points
- Advertising may encourage consumers to buy goods which they cannot afford

Function/roles of an advertising agency/Why companies may need the services of advertising agencies?

- Design and production of adverts
- Maintain good public relations for the clients
- Research space or time on the media
- Medium planning and booking
- Creation to advertising appeals that sell products
- Gives Specialist advice

State the methods of appeal you know

- 1. Personality appeal**
Showing famous people using a product in the advertisement
- 2. Romance**
The advertisement suggests that the user of a product will be more attractive to the opposite sex
- 3. Ambition**
The advertisement suggests that the user of a product will be successful in his or her ambition
- 4. Work specification**
The product is shown to simplify work performance
- 5. Social acceptability**
A product is claimed to make the user more acceptable to other people
- 6. Health**
A product is claimed to make the user healthier, eg most adverts on milk
- 7. Display of goods**
Attractive display of good on window and shelves.
- 8. Excellence**

Method of appeal to potential buyers suggest that the services offered are of high quality.

Protecting the Consumer (Code of Advertising Practice)

Advertising needs to be controlled because some businessmen may abuse it by placing misleading exploitative and even harmful adverts. The reason of controlling

- Bad advertising may mislead or deceive the consumers in an effort of increase the sales
- Untrue statement about a product made in effort to persuade consumers to buy a product
- It may lower moral standards especially the type of advertising aimed at young people
- It may promote dangerous and harmful products
- Some adverts are indecent.
- Some advertisement are illegal
- Some advertisement emphasis only good points of the product

In summary one would say advertising should be controlled in one or more of the following ways:

- i. **By legislation** i.e. passing a law making it illegal to make false advertisements and setting out penalties for offenders. Government can do this.
- ii. **By self-regulation:** The advertisers themselves can come up with a set of standards to be followed by all the members, i.e. self-regulation.
- iii. **By the media:** The media may also help by refusing unsuitable advertisements in the media. The 'messengers' i.e. the advertising agencies should exercise and show a sense of ethics and responsibility whenever they plan and produce adverts. Consumers can also protect themselves. However, by acting voluntarily and rationally consumers can also protect themselves from unscrupulous advertisers. Consumers are advised to exercise maximum care in responding to advertisements.

ADVERTISING MEDIA

NEWSPAPER

Advantages	Disadvantages
It has a Wide coverage	Black and white prints limit the images
There is Daily circulation hence it can be repeated	Reach only literate people
It is affordable because it has Different rates depending on size and location of adverts	Short life, it does not stay long
	Poor quality advertisement
Adverts are read by all classes of people	No audio/visual impact

MAGAZINES

Advantages	Disadvantages
Long life (It takes long to be delated)	It is stricted to sex, gender
It has Better quality of pictures	Uncommon to the targets customers
It is Targeted to a particular group It is still cheap	There is No audio/visual impact It is Suitable only for literate people
Low cost per publicity	

RADIO

Advantages	Disadvantages
It has a Wide coverage	It has No visual impact
Audio impact	Publicity life is very short
Can reach illiterate people	Adverts fail to get attention
It can be Targeted at specific people. (Adverts between programs)	Becoming less popular
It is cheaper compered to TV	

TELEVISION

Advantages	Disadvantages
It has Audio and Visual impact	High absolute cost- it is expensive
It provide display and demonstration of products by means of sound and vision	Wasteful circulation- it is not well received specially when it interrupts interesting programs
It has a Wide coverage	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

POSTERS

- Posters may be made in various sizes and placed in various locations e.g. along the roadside, on walls, at bus stations or railway stations etc.
- They can be long lasting but are normally not very acceptable to even city authorities as they make the city untidy.
- As a result, they are often defaced, torn or vandalised.

LEAFLETS

- The advantage of leaflets is that they are cheaper than television, magazines, radio and posters.
- They are easier and cheaper to make.
- The only problem with leaflets is that the distribution cost is very high for the limited access that it gives and they may not reach those for whom they are intended.
- The other problem is that leaflets are very quickly destroyed or discarded by people so it may not be so effective.

POINT OF SALE DISPLAY

- These include window displays and displays inside the shops.
- Window display in particular is aimed at 'the in-store through traffic' i.e. people who walk in and out on a daily basis.
- Clever display may attract them to enter the shop and buy the item on impulse, or return some other time to buy.
- Attractive packaging and arrangement of goods on shelves are very effective and for this reason many producers supply a range of display materials, including pictures

BILLBOARDS

- These are normally placed in strategic places, which are frequented by people either along the highway, or at bus ranks.
- They may also be placed near traffic lights for motorists who are waiting for the light to turn green to see.
- Whereas many people take them for a joke billboards can be very effective in sending the intended message.

SALES PROMOTIONS

- Advertising is just one of the ways in which producers try to increase sales.
- Other methods of winning the attention of the public belong to the general category of sales promotions.
- The aims are of course the same as with advertising, but promotion schemes tend to demand more of the consumer than just watching or reading an advertisement.

a) Free Samples/ sale sample

- The best way of introducing consumers to a product is to let them try it out free.
- It is a very expensive method of promoting sales, especially where a sample is sent to every household.
- Accordingly, it is a method reserved for things that are cheap and have a notional sale.
- Often the distribution of free samples be linked with an extensive back-up advertising programme. Sometimes free samples are given at particular shops.
- This is the effect of persuading people to do their shopping there, and increasing the retailer's sales.

b) Price Reduction

- These are so widely used that they are no longer regarded as special promotional activities. Households have been conditioned to expect that household detergents or indeed any other usable will be offered at some % less the recommended price, and the cartons are often printed with the price reduction.
- Sometimes the price reductions are indirect or conditional, some manufacturers distribute coupons to householders which can be used in part payment for their goods, and others allow a price reduction in exchange for the label from the previous packet bought.
- In either case the retailer, who is involved in extra work, redeems the labels for cash from the manufacturer or his representative.

c) Competitions

- Sometimes producers organise competitions.
- A condition of entry is the purchase of perhaps six packets of the producer's goods.
- This achieves an immediate boost in sales, which the producer hopes will be sustained, as new customers become regular buyers. Most popular with, Unilever, Coca Cola etc.

d) Free Gifts

- Banks try to increase their sales by giving glasses, footballs or cups away when a certain amount of petrol is bought.
- Stationery shops have a variation of this; they sometimes include giving away diaries, calendars, pictorial deco, on which they give details of what they offer and how they can be contacted.
- This is also becoming popular with most Asian shops in Zambia especially in the Kamwala area.

EXAMINATION QUESTION

Question 1

- (a) List five factors to be considered when choosing the media of advertising. [5]
- (b) Explain the main aims of the following type of advertising.
- i. Persuasive advertising [5]
 - ii. Informative advertising [5]
 - iii. Competitive advertising [5]

Question 2

- (a) It is a common practice for large firms to use advertising agencies instead of advertising on their own.
Give reason why they do so. [5]
- (b) (i) Write briefly on generic advertising. [5]
- (ii) A code of Advertising is a very important instrument. Explain its purpose. [5]
- (iii) Why do consumers need protection from advertising? [4]

Question 3

In order to increase sales in the business, organisations have increased the amounts spent on advertising products to the public.

- (a) List any five methods of appeal used to persuade people to buy products or services. [5]
- (b) Your school, which is a boarding school, wishes to inform parents on the forth coming Annual General Meeting (AGM). The school authority decides to engage the service of the advertising agency.
- (i) with reasons, explain the type of medium that will be used to advertise. [5]
 - (ii) Describe the reasons for engaging the services of an advertising agency. [5]
 - (iii) Explain the need to control advertizing. [5]

Question 4

- (a) Why would most manufacturers consider advertising to be essential? [8]
- (b) Giving examples, distinguish between complete and collective advertising. [8]
- (c) Explain, giving your own reasons, why a firm would advertise using:
- (i) Trade exhibitions [2]
 - (ii) The internet [2]