COMMERCE
FOR
Senior Secondary School 2

AKADALEARN

SS 2
FIRST TERM NOTES ON COMMERCE

TABLE OF CONTENT

FIRST TERM

WEEK 1:	PUBLIC ENTERPRISES/CORPORATION
WEEK 2:	LIMITED COMPANIES
WEEK 3:	SOURCES OF CAPITAL FOR LIMITED COMPANIES
WEEK 4:	CO-OPERATIVE SOCIETIES
WEEK 5:	COMMODITY MARKET
WEEK 6:	REQUIREMENTS FOR COMMODITY TRADING
WEEK 7:	CONSTRAINTS TO COMMODITY TRADING
WEEK 8:	BUYING AND SELLING (DOCUMENTS)
WEEK 9:	TERMS OF TRADE
WEEK 10:	TERMS OF TRADE (CONTINUATION)

Commerce, SS2 First Term,

WEEK 1

Topic: Public Enterprises/Corporation

Contents:

1. **Meaning of public Enterprises/Corporation**
2. **formation and management of Public Enterprises**
3. **Sources of Capital, Reasons for government ownership of Public Enterprises**
4. **Advantages and disadvantages of public corporation**

Meaning of Public Enterprises

Public Enterprises means an entity that is created by the state to carry out public missions and services. A public enterprise is a large scale business organization set up, owned and financed by the government of a country with the aim of providing services to the members of the public. In order to carry out these public missions and services, a public corporation participates in activities or provides services that are also provided by private enterprise. A public corporation is also known as a public enterprise and a statutory corporation. The public corporation is managed and controlled by the board of directors appointed by the government.

Examples of public corporation are:

1. Federal Radio Corporation of Nigeria (F.R.C.N)
2. Nigeria National Petroleum Corporation (N.N.P.C)
3. Nigerian Telecommunication Limited (NITEL)
4. Nigeria Ports Authority (N.P.A)
5. Power Holding Company Of Nigeria (P.H.C.N)

Formation of public enterprises

1. **Public Corporation:** public corporations are organizations controlled by board of directors appointed by the government while the minister in charge is the overall controller.
2. **Quasi Government departments:** They perform some commercial functions. They are responsible to the government through the minister, e.g. Hospitals.
3. **State government owned enterprise:** These are enterprises established and controlled by the state government. State government owned enterprise is established by edicts. Example: Lagos State Transport Corporation.
4. **Local Enterprises:** They are managed by the local government; they are mostly facilitated in the rural area to ensure development in such areas.

Sources of capital to public corporations
The government can get finance from the following sources

1. **Internally generated revenue:** This is known as the profit made from the already existing businesses, they get finance from revenue generated internally.
2. **Grant from foreign countries:** Countries like United State of America can help in granting loans or financial aids to set up public corporation.
3. **Grant from international financial institution:** Public corporation can also get their finance from some international financial institutions like International Monetary Fund (I.M.F)
4. **Loans and Overdraft:** Public corporation can also obtain loans and overdrafts from commercial or development banks.

Reasons for government ownership of Public Enterprises
Public Corporation is established for the following reasons

1. **Employment opportunities:** This is one of the major reasons for the establishment of public corporation, the provision of business by the government create avenue for the unemployed to get a job to do.

2. **For strategic and security reasons:** The Government establish public corporation for the purpose of controlling some certain key industries like the airports, seaports, the oil industry for strategic reasons.
3. **To provide infrastructural facilities:** The governments also establish certain enterprises to provide infrastructural facilities like roads. railways etc
4. **To prevent Monopolistic:** The Government established public corporation also to prevent private sectors from exploiting the general public.
5. **To promote Economic Development:** Government invests in enterprises like banks, insurance etc in order to have firm control over the economy and to regulate it.
6. **To ensure even distribution of income:** Government engages in some business enterprises in order to ensure fair and even distribution of income.
7. **To prevent foreign dominance of the economy:** Government ventures into business in order to prevent or reduce foreign control of the economy by foreign investors.
8. **High capital requirement:** Public corporation requires a lot of money to start which cannot be provided by private sectors or individual.

Advantages of public corporation

The following points below are the reason/ advantages of public corporation. Some of which are:

1. There will be availability of large and sufficient capital to work with.
2. They base their decisions on the full costs and benefits involved.
3. They can be used to influence economic activity. To boost the country's output, public corporations can be directly encouraged to increase their output.
4. In cases where it is practical to have only one firm in the industry, such as rail infrastructure, a public corporation would not abuse its market power.

5. Ownership of a whole industry by the government makes planning and coordination easier. For instance, if the state runs the train system, it can ensure that train timetables are coordinated.
6. It is important to ensure that basic industries, so much as electricity and transport survive, charge low prices and produce good quality as other domestic industries depend on them.
7. It serves as a creation of higher standard of living for the people.
8. It also caters for the interest of the workers.
9. There will be continuity; there is perpetual existence.
10. Avoidance of exploitation of consumers.

Disadvantages of Public Corporation

The following below are the disadvantages of Public corporation.

1. It requires a large capital
2. There is inefficiency in the operation
3. There is usually corruption and mismanagement of the public funds
4. It is not profitable
5. There is lack of initiative
6. There is lack of privacy
7. There is usually wastage
8. There is danger of monopoly
9. Decision making is usually slow
10. Government regular interference.

Test and Exercise

1. A public corporation objective is to (a) make profit (b) exploit consumers (c) to render essential service to the public (d) to get more customers.
2. The public corporation is managed and controlled by the (a) individual (b) the workers (c) the tax payers (d) government.
3. The following are examples of public corporation except (a) Power Holding Company Of Nigeria (P.H.C.N) (b) Guarantee Trust Bank (GTB)

(c) Nigeria Ports Authority (N.P.A) (c) Nigerian Telecommunication Limited (NITEL) (d)Nigeria Railway Corporation (N.R.C).

4. All the following are advantages of public corporation except (a) there is continuity (b) danger of monopoly (c) availability of large capital (d) creation of higher standard.
5. The employees in public corporation are regarded as (a) public servants (b) private servants (c) company workers (d) none of the above.

SS 2 Commerce First Term

WEEK 2

Topic: Limited Companies

Content-

- **Meaning – Types Private, Public etc**
- **Formation (Legal requirement (a)Memorandum of Association (b) Article of Association**

Meaning of Liability Company

A limited company is a business that is owned by its shareholders, run by directors and, most importantly, where the liability of shareholders for the debts of the company is limited.

Limited liability means that the investors can only lose the money they have invested and no more. This encourages people to finance the company, and/or set up such a business, knowing that they can only lose what they put in, if the company fails.

For people or businesses who have a claim against the company, "limited liability" means that they can only recover money from the existing assets of the business. They cannot claim the personal assets of the shareholders to recover amounts owed by the company.

To set up as a limited company, a company has to register with Companies House and is issued with aCertificate of Incorporation. It also needs to have a Memorandum of Association which sets out what the company has been formed to do, and Articles of Association which are internal rules over including what the directors can do and voting rights of the shareholders.

Types of Liability Companies

Private Limited Company – Limited by Shares (Ltd.)

A company owned by private shareholders who's liability/responsibility of the company is limited by their initial percentage of capital invested in the company. So if a shareholder invested 30% of the capital, then that shareholder is only liable for 30% of all debts, legal liabilities and responsibilities etc. Because this is a 'Private' Limited Company, this means the shares cannot be offered to the public and are purely owned by private shareholders.

Private Limited Company – Limited by Guarantee (LBG)
This type of setup is primarily used by non-profit organisations since there are no shareholders or capital in the company, instead you have 'members' who act as guarantors for the company and may invest charitable donations into the business to help keep it running. Things like sports clubs and associations are good examples of companies 'Limited by Guarantee'.

Limited Liability Partnership (LLP)
This is similar to the 'Limited by Shares' type of company, but instead of shareholders owning part of your company you have partners each owning part of the company. The difference here is that the amount of liability/responsibility of each partner isn't based upon their initial capital invested, instead the company is equally shared out and divided between the amount of partners in the company. For example, if 2 people went into an LLP together, they would each be liable for 50% of the company, no matter what their initial capital investment was in the company. This is more designed for a company who wants to have partners working together instead of shareholders who only own shares of the company and don't necessarily work for the company.

Public Limited Company (PLC)
This type of company allows its shares to be owned, sold and freely traded to the general public. You can either be listed or unlisted on the Stock Exchange, but you will tend to find them listed on there which allows the public to easily buy and sell their shares. There are 2 guidelines which must be adhered to when setting up a PLC in the UK, firstly the share of the company you're offering to the public must be a minimum of £50,000 and

once you are set up you must always put 'PLC' after your company name so it is clear that you are a publicly owned company.

Private Unlimited Company

This is quite a rare type of company and is a hybrid company which is set up much alike a Limited Company however the shareholders/members all have the 'unlimited' liability of the company, no matter how many shareholders there or or what capital they invested etc. Every member is equally responsible for all of the liabilities and responsibilities of the company. So why would anyone want this type of company right? Well it's usually set up by companies who want to keep some form of secrecy since they don't have to submit any

Formation of Limited Liability Company

Members

The first step in forming a limited liability company is determining precisely who will own the business, according to "Limited Liability Companies For Dummies" by Jennifer Reuting. A limited liability company's owners are called members. A limited liability company must have at least one member but, in theory, there is no limit to how many members the business includes.

Types

In forming a limited liability company, members are not limited to individuals. Any type of legal entity — a corporation, a partnership or another limited liability company — can be a member of a limited liability company. A single limited liability company can have a combination of these types of owners.

Articles of Association

The legal document used to create a limited liability company is known as its articles of organization. An articles of organization form typically is available through the secretary of state's office. Often the form is available online through the agency's website as well. Completing the articles of organization form is not a complicated task. The document requires basic information about the business, including the names of members and its principal location in the state.

Time Frame

A limited liability company legally is formed the moment the articles of organization are filed with the secretary of state. If there is a need to organize the limited liability company quickly, using a secretary of state's online portal is the best course. A limited liability company can be legally created within a matter of minutes online.

Expert Assistance

Generally speaking, legal assistance is not necessary when forming a basic limited liability company. A secretary of state's office generally provides user-friendly resources to accomplish this task. With that noted, complicated legal issues can arise in the operation and management of a limited liability company. Therefore, retaining a lawyer is advisable in these situations. The American Bar Association maintains resources to assist in finding a qualified attorney.annual returns or financial statements like other all other companies.

Exercises

1. What is a liability company?
2. Mention five (5) types of liability company.
3. Give four (4) features of a liability company.
4. Explain article of association.
5. How is a limited liability company formed?

SS 2 Commerce First Term

WEEK 3

Topic: Sources of Capital for Limited Companies

Content

- **Shares**
- **Stocks**
- **Debentures**
- **Retained Profits**
- **Loan and Overdraft**
- **Trade Credit**
- **Leasing**
- **Factoring**

Sources of Capital for Limited Companies

There are different sources of capital for limited companies. These include:

SHARES

Shares are usually raised by shareholders (owners), which form the capital base of the company. A share can be defined as the individual portion of the company's capital owned by a shareholder. It is the interest which a shareholder has in a company. It is issued to the general public. Equity shareholders do not enjoy any preferential rights with regard to repayment of capital and dividend. They are entitled to residual income of the company, but they enjoy the right to control the affairs of the business and all the shareholders collectively are the owners of the company.

Advantages of Shares

1. They are a permanent source of capital and as such; do not involve any repayment liability.
2. They do not have any obligation regarding payment of dividend.
3. Larger equity capital base increases the creditworthiness of the company among the creditors and investors.

Disadvantages of Shares

1. Cost of equity is the highest among all the sources of finance.
2. Payment of dividend on equity shares is not tax deductible expenditure.
3. As compared to other sources of finance, issue of equity shares involves higher floatation expenses of brokerage, underwriting commission, etc.

STOCKS

One method a business can use to raise funds is selling stock to potential investors. Stock is a type of security that represents an ownership interest in a company. Stock can be defined as the bundle of shares or mass of capital which can be transferred in fractional amount. Some stocks are publicly traded on a stock exchange, such as the Nigerian Stock Exchange.

Advantages of Stocks

1. Selling stock is an efficient way to raise funds.
2. Depending upon the offering method, the amount raised for a small business can vary from under N500,000 to several million Naira.
3. While borrowing funds increases operating costs by the interest amount, a stock offering does not.
4. An aura of success surrounds a stock offering — it signals to the business community that others have confidence in a company's future.
5. This can make doing business easier.and all the shareholders collectively are the owners of the company.

Disadvantages of Stocks

1. When a company sells stock, it gives up some rights to investors.
2. If investors lose faith in the leadership of the business, the company's stock price may fall, hurting the company's image.
3. It can lead to loss of control of the company by the original owner as investors may decide to appoint their representatives to manage the business.

DEBENTURES

A debenture is a bond, acknowledging a loan, generally under the company's seal nd bearing a fixed rate of interest, and usually giving security for the repayment of the loan and the payment of the interest. In other words, it is a document setting out the terms of s loan to a company, i.e., a certificate of indebtedness. Debentures is a type of debt which is issued by the company, the person who holds debentures receive regular interest and on maturity principal amount is repaid to debenture holders.

Advantages of Debentures

1. When the company issues debentures it does not result in dilution of ownership as is the case with the issue of equity shares and therefore owners of company get funds without diluting the control of the company.
2. It also has the tax advantage because interest paid on debentures is a tax deductible expense and hence company gets the tax benefit which leads to more profits for the company because of lower tax payment.
3. Since debenture holders do not have any voting rights they do not interfere with the working of the organization and hence does not create any obstacles in decision making process of the organization.
4. If the firm makes good profits during the year then unlike equity shares where you have to distribute that profit to the shareholders, debentures holders' payment of interest is fixed and hence firm does not need to share profits with them.

Disadvantages of Debentures

1. Payment of interest on debentures is mandatory and when company is making low profits or losses than these payments can lead to more strain on company's balance sheet and nonpayment of interest can even lead to bankruptcy for the firm.
2. Since debentures are considered as loans or borrowings, the ability of the company to borrow further in case of need of funds reduces considerably.
3. Since on maturity they have to be repaid, company needs to plan properly and keep funds for the same because when they are repaid it

involves substantial cash outflows and if company has not maintained enough funds it is a recipe for disaster.
4. Unlike equity shares which are bought even by small retail investors, debentures are bought by large institutional investors and hence at times it may prove to be costly and difficult source of finance for the company.

RETAINED PROFITS

Retained profits or earnings is the capital left after dividends and taxes have been paid. The company gets to keep this money to reinvest in the business or pay off debts.

Advantages of Retained Profits

1. These earnings are readily available, and the company is not required to seek help from the shareholders or lenders in case of urgency of funds.
2. The use of retained earnings reduces the cost of issuing the external equity and also eliminates the losses incurred on under-pricing.
3. There will be no dilution of control and ownership, in case the firm relies on the retained earnings.
4. Generally, the stock market views the equity issue as doubtful and therefore, these earnings do not carry a negative connotation.

Disadvantages of Retained Profits

1. Despite several advantages of the accrual earnings, it is not free from certain bottlenecks which are as follows:
2. The amount raised through the accrual earnings could be limited and also it tends to be highly variable because certain firms follow a stable dividend policy.
3. The opportunity cost of these earnings is relatively high because it shows that amount of earnings, which have been foregone by the equity shareholders.
4. Some companies do not give much importance to the opportunity cost of these earnings and invest these into sub-marginal projects that have negative NPV.

LOAN AND OVERDRAFT

Loan and overdraft is a temporary facility extended by a bank to a company to withdraw funds from their account in excess of the balance. This facility is provided by the bank for a fee and interest is charged on the excess amount that is withdrawn for the length of the time.

Advantages of Loans and Overdraft

1. Help companies to handle any financial difficulties that may arise
2. The owners of the business can and will maintain ownership of the company.
3. There is no collateral required. In general, there are two types of loans, secured and unsecured. Working capital loans come in both flavors, although many are unsecured. Unsecured working capital loans are given only to those small businesses that have a very good credit history and/or have little or no risk of default.
4. They offer shorter terms for short-term problems.
5. They save time as they can be gotten immediately when needed.

Disadvantages of Loans and Overdraft

1. There are higher interest rates.
2. Some collateral is required.
3. There are short terms. Yes, this is both a benefit and a disadvantage based on the business needs. A major disadvantage of getting funds from this type of loan is the fact that the funding is only intended for short-term solutions. These loans will not suffice for long-term business goals or comprehensive business projects that will need higher investments with longer repayment terms.
4. They must be repaid.

TRADE CREDIT

Trade credit is offered by many suppliers to trade channel buyers to encourage more frequent and higher volume purchases. Smaller companies with limited cash on hand often rely on trade credit to make inventory purchases on a regular basis. Trade credit is an important external source of working capital financing. It is a short-term credit extended by suppliers of goods and services in the normal course of business, to a buyer in order to enhance sales. Trade credit arises when a supplier of goods or services allows customers to pay for goods and services at a later date. Cash is not immediately paid and deferral of payment represents a source of finance.

Advantages of Trade Credit

1. It is easy and automatic source of short-term finance.
2. It reduces the capital requirement.
3. It helps the business focus on core activities.
4. It does not require any negotiation or formal agreement.

Disadvantages of Trade Credit

i. Trade credit is available only to those companies that have a good track record of repayment in the past.
ii. For a new business, it is very difficult to finance working capital through trade credit.
iii. It is very expensive, if payment is not made on the due date.

LEASING

Leasing means an agreement between the leasing company (called lessor) and the user (called lessee), under which the former undertakes to buy the capital equipment for use by the latter. The lessor remains owner of the asset during the specified period. The lessee has to pay rentals to the lessor.
The different types of leasing are: Operating Lease, Financial Lease, Sale and Lease Back, Leveraged Lease,

Advantages of Leasing

1. **Liquidity**:
The lessee can use the asset to earn without investing money in the asset. He can employ his funds for working capital needs.
2. **Convenience**:

Leasing is the easiest method of financing fixed assets. No mortgage or hypothecation is required. Restrictions involved in long-term borrowing from financial institutions are avoided. Formalities involved in leasing are much less than in case of borrowing from financial institutions.

3. **Hidden Liability**:

Lease obligations are not reported as a liability in the company's balance sheet. On the other hand, loans raised to buy assets are reported as liability. Thus, leasing helps the lessee to report a better debt-equity ratio.

4. **Time Saving**:

The asset is available for use immediately without loss of time in applying for the loan, wanting for approval and sanction, etc. Lease rentals can be matched with cash flows of the lessee.

5. **No Risk of Obsolescence**:

The risk of the asset becoming obsolete due to technological advancements is borne by the lessor.

6. **Cost Saving**:

Lease rentals are deductible from taxable income. The lessee has lower obligation in bankruptcy than under debt financing.

7. **Flexibility**:

Leasing arrangement is more flexible. The rental schedule can be adjusted to accommodate genuine needs and problems of the lessee.

Disadvantages of Leasing

1. The lessee gets only the right to use the asset. In case the leasing company is wound up the asset may be taken back from the lessee thereby disrupting his operations.
2. The lessee cannot make alterations or improvements in the asset without the prior approval of the lessor. The lessor may also put some restrictions on the lessee.
3. The lessee has to pay lease rentals on a regular basis to the lessor.

FACTORING

Factoring is short term working capital that comes from a business selling its accounts receivable to a factoring company or bank. The amount available generally depends upon the invoice volume.

Advantages of Factoring

1. Factoring is a way to finance requirement of working capital of the company in respect of receivables.
2. It provides a large and quick increase in cash flow of the business.
3. Due to existence of many factoring companies prices are usually competitive.
4. It is a cost effective way of outsourcing your sales ledger at the same time managing your business.
5. Factoring firms are specialized in their field thus the company might get useful information about the creditworthiness of its customers.
6. Protection from bad debts if non-recourse factoring is chosen.
7. Factors check the credibility of company's customers which help business trade with better quality customers.

Disadvantages of Factoring

1. Cost: Factoring is a costly mean of financing as the cash price of the invoices is discounted by the factor company, the upfront cash price being usually 70-90% of the face value, depending on the credit history of the customers and the nature of selling company's business which reduces the profit margin of the selling company.
2. Selling company gets locked in to the relationship with the factor as they rely completely on the services of a factor because of the cash flow implications of any arrangements.
3. Possible harm to the customer: Selling company fully gives the charge of collecting invoice to the factoring company and pays more attention on money collection methods which impairs company's relationship with their customers.

4. Company image distortion: In the past, factoring was considered a sign on the financial difficulties of the company. However in recent times this perception has changed and it has considered a normal way of doing business.
5. Impose constrains the way of doing business: In the case of non-recourse factoring the factoring company pre-approve the selling company's customers, which cause delay in placing new orders. Also the factoring company applies its credit limits to individual customers and will apply credit limits to individual customers.
6. The selling company may have to pay extra to remove its liability for bad debtors.
7. Some customers might want to deal directly with the selling company instead of dealing with factor.

Exercises
1. What is shares?
2. State five (5) advantages of stocks.
3. What are the distinguishing features of debentures?
4. State the advantages and disadvantages of retained profits.
5. Define trade credit.

SS 2 Commerce First Term

WEEK 4

Topic: Co-operative Societies

CONTENT –

- Definition, History, Characteristics
- Types of Cooperative Societies
- Advantages and Disadvantages
- Problems of Cooperative Societies
- Similarities and Differences between Cooperative Societies and Company

Definition of Cooperative Society

Co-operative societies is a voluntary organizations in which individual, business man, and traders with common interest pool their resources together to promote the economic and the interest of their members.
A co-operative society is managed and controlled by the members. It is not owned or controlled by the government or anybody outside the group.

History of Cooperative Society

The history of cooperative movement cannot be completed without mentioning Robert Owe, 1771 – 1858. He established the first cooperative society at New Lonark, England. The producer cooperative only has little success in that period.
The success of retail cooperative society is dated back to the one started by Rochdole Pioneers in 1844. A group of twenty-eight weavers launched it for their benefit. The objective was to raise capital to fund a provision and clothing store and to provide employment to members.
The first attempt at cooperation in production in Nigeria was in 1922 when a producer cooperative was established by cocoa farmers. The objective was to get reasonable price for their products. In recent years, there has been tremendous growth in the number of cooperative societies and different cooperative laws have been enacted to propagate the principle

of cooperation. The consumer cooperative societies were established to ensure constant supply of food items at reduced prices.
Presently, cooperative societies can be found in virtually all commercial activities. It has really contributed to the development of the Nigerian economy by increase the standard of living of the people.

Characteristics of Cooperative Societies
Co-operative societies is characterized with the following

- **Democratic in nature**: It is democratic in nature i.e every member of the group can contribute and participate in the decision making of the organization. Each member is entitled on to equal vote irrespective of your contribution.
- **Managed by a committee**: The control and management of the organization is by an elected committee whose member must be member of the group.
- **The objective s to promote the interest of the members**: The aim and objective of the group is to ensure that the interest of the members are protected and improved.
- **Owned by people with common interest**: Members of the same co-operative society must be member with common interest.
- **Profit is shared based on patronage**: Surplus for the year is shared based on their patronage during the year
- **Perpetual existence**: There is continuity in co-operative societies. The death of a member of the group cannot bring the society to a close
- **Capital is provided by the members**: The capital of the group is contributed by the members of the group.
- **Registered as a Limited Liability**: the liability is limited to the shares held by individual shareholders.

Types of co-operative societies

The various types of co- operative societies are:

1. **Retail co-operative society**: This is a co-operative society formed by many small independent retailers who pooled their resources together to enable them buy in bulk and then sell the goods at lower prices to their members who receive some form of patronage returns based on the amount of goods they purchased.
2. **Wholesale Co-operative society:** This is formed by small scale wholesalers who purchase goods in bulk from the manufacturers at a reasonable price and sell in small quantities to retail co-operatives. They raise a large sum of money to finance wholesale purchase when they come together.
3. **Producer co-operative society**: This is formed by producers of similar products who organize co-operative production and undertake joint marketing of the products on wholesale or retail basis. An example is a situation whereby farmers purchase farm implements or seeds in large quantity and sell to members at reduced prices.
4. **Consumers co-operative society**: Consumers co-operative society is owned and operated by a group of ultimate consumers who pool their resources together to purchase goods and services in large quantity and distribute primarily to its member.
5. **Credit and thrift society**: Credit and thrift is an association of low income earners who jointly pool large resources or funds together by contributing on a weekly or monthly basis. This is a way of encouraging people to save money.They also help to give loans to their members with low rate of interest.
6. **Multipurpose co-operative society**: This is a society formed by existing co-operative societies. It undertakes any form of activity that is profitable to the society.

Advantages of Co-operative Societies

1. **It helps in marketing members product**: Co-operative society helps their members in marketing their products and ensuring fair prices for their product.
2. **Perpetual existence**: There is continuity in co-operative societies; the death of a member cannot bring the group to an end.
3. **It encourages savings**: It encourages saving habit among members
4. They help to educate members: They help to pass information and educate their members on techniques that can be used to earn better sales etc.
5. **Loan facilities from banks or Government**: They can obtain loan easily from the banks and can also receive assistance from the Government.
6. **Ensure low price of goods:** They buy from producers and sell to members at low prices, hence the middlemen and the attendant high prices of goods are bypassed.
7. **Render financial assistance to members**: They can mobilize fund needed for business investment and expansion by giving loans to members
8. **Improve members standard of living**: They improve standard of living of their members by providing goods which they cannot buy normally on their own.

Disadvantages of Co-operative Societies

1. **Financial problems**: Lack of adequate capital to run the society because the major source of their finance is members contribution.
2. **Low Dividend**: People prefer to invest their monies on other areas because of the low level of dividend from co-operative societies.
3. **Weak and unprofessional management**: The leaders or committee in charged of the society are not specialist, hence the society might not be efficiently and effectively managed.
4. **Political intervention and Government control**: The Government interferes into the administration of the society, this is possible because

every society must registered with the ministry of commerce and industries.

5. **Opportunity for embezzlement of funds**: The so called leaders or board of directors sees this as an opportunity to become richer, so they tend to embezzle the society funds. Most times they give large to themselves even when they are not qualified for it.
6. **High level of illiteracy**: The high level of illiteracy in Africa has made the training and education of members very difficult.

Problems of Cooperative Societies

Some of the problems militating against cooperative societies n Nigeria include:

Poor management:

Generally, members of the management committee who are elected from members of the society lack business experience. These people lack managerial talent and this makes for the cooperative not to function efficiently. Also in some cases, these members who were elected may not show keen interest in the running of the cooperative. There is also delay in decision making as the leader lack business experience.

Insufficient capital:

The amount of capital that a cooperative can raise from its members is very limited because the membership is generally confined to a particular section of the society. Again due to low rate of return, the members do not invest more capital. Thus, cooperatives are not suitable for the large scale business which require huge capital. And also, due to lack of capital, the cooperative in the other hand cannot afford to get the benefits of professional management as their leaders lack managerial skills and talent.

Lack of commitment:
There is lack of total commitment/apathy among members. As cooperative is not a profit earning institution, members do show indifference attitude towards the cooperative and this is an obstacle in the way of its progress.

Absence of cooperation:
In most cases, there is absence of cooperation among members of the cooperative. Due to internal quarrels and individualistic tendencies-especially the Igbos, there is little or no cooperation spirit among the members which becomes the cause of business failure.

Dishonesty of cooperative leaders and committee members:
Basically, the management of the cooperative remains in the hands of the selfish and dishonest members and they take undue advantages of their powers. This has negative effects on the business.

Illiteracy:
There is poor member education and high level of illiteracy among members. Members lack experience. Most do not know the principles and rules of the cooperative so they create problem for it.

Unplanned and Unprofitable Investments:
Due to their members high level of illiteracy and the leaders' inexperienced status, the cooperative ventures into unprofitable investments and this causes the cooperative to be stagnant

Wrong conception of what cooperatives are:
Many members cannot distinguish between the cooperative and their political parties. Political parties get involved in it due to which the basic principle of the cooperative comes to an end. This leads to corruption of power and money in the society and may result in quarrels and disputes amongst the members thereby constraining the progress of the cooperative.

Inadequate external and internal funding:
Cooperative's financial strength depend on the capital contributed by its members and loan raising capacity from state cooperative banks. The membership fee is limited for which they are unable to raise large amount of resources as their members belong to the lower and middle class. Thus, cooperatives are not suitable for the large scale business which require huge capital as the external resources of the organisation is also limited.

Overdue loans:
This also emerges as a problem to cooperatives as members who took loan from the society could not pay back as at when due. At this juncture, the cooperative is faced with a serious problem.

Personality and community clashes:
Internal quarrels and rivalries among members is another limitation of cooperatives. As a result of these internal quarrels, personality clashes and tensions, general body members cease to take any interest in the working of the cooperative. All these frictions ultimately bring the cooperative to ruin.

Dishonesty of employees:
In most cases, the employees in the cooperative tend to be very dishonest, cunning and selfish. This leads to lack of confidence not only in the cooperative but beyond it as non-members wouldn't be motivated to join and this comes in the way of the development of cooperatives.

Dilapidated Infrastructure:
For the progress and continuity of cooperatives, there should be adequate infrastructure and enabling ground. But with reference to Nigeria infrastructural development status, one would see it is almost impossible for cooperatives to survive for long in the country as there is poor infrastructure and amenities to enable there business success.

Government intervention:

The inadequacy of capital and various other limitations make cooperatives dependent on the government for support and patronage in terms of grants, loans, subsidies etc. Due to this, the government sometimes directly interferes in the management of the cooperative and also audits their annual accounts. Sometimes government goes further to put a nominee in the board of management of cooperative. They influence the decision of the board which may or may not be favourable for the interest of the cooperative. Excessive state regulation, interference with the flexibility of its operation affects adversely the efficiency of the management of the cooperative.

Absence of qualified and trained cooperative officer:

Generally, cooperatives lack qualified and trained officers. This tends to be a setback to them as this officers do not know their left from their right. They remain dormant and leave the cooperative stagnated.

Similarities between Co-operative and Company

The similarities between a co-operative society and companies are:

- Both are registered
- The shareholders in both organization receives dividend
- They hold Annual General Meeting (AGM)
- Both are legal entities
- Members buy shares.

Differences between a co-operative society and a company

The differences between co-operative society and a company are:

Co-operative Society	**Limited Liability company**
1. It is aim to promote member's welfare	It is aim is to make profit
2. Members have equal voting right	Members have controlling effect on the basis of their share.

3. Surplus is divided on patronage basis	Surplus is divided in proportion to shareholding
4. Members pay registration fees apart from the shares	Registration fees are not paid after paying fully for the shares held
5. It is managed and controlled by elected member of the society	The shareholders elect the board of directors
6. It can only be registered under co-operative laws	Must be registered and incorporated under the company act
7. Members have equal voting right	Members have controlling effect on the basis of their share

Exercises

1. Define co-operative society.
2. Give any five (5) features of a co-operative society.
3. Describe any four (4) types of co-operative society.
4. Explain three (3) advantages and disadvantages of co-operative society.
5. State five (5) problems of co-operative societies.

SS 2 Commerce First Term

WEEK 5

Topic: Commodity Market

Content:

- Meaning of Commodity Exchange
- Tradeable Commodity Exchange
- Types of Commodity Exchange

Meaning of Commodity Exchange

A commodities exchange is an exchange where various commodities and derivatives products are traded. Most commodity markets across the world trade in agricultural products and other raw materials (like wheat, barley, sugar, maize, cotton, cocoa, coffee, milk products, pork bellies, oil, metals, etc.) and contracts based on them. These contracts can include spot prices, forwards, futures and options on futures. Other sophisticated products may include interest rates, environmental instruments, swaps, or ocean freight contracts.

Commodities exchanges usually trade futures contracts on commodities, such as trading contracts to receive something, say corn, in a certain month. A farmer raising corn can sell a future contract on his corn, which will not be harvested for several months, and guarantee the price he will be paid when he delivers; a breakfast cereal producer buys the contract now and guarantees the price will not go up when it is delivered. This protects the farmer from price drops and the buyer from price rises.

Speculators and investors also buy and sell the futures contracts in attempt to make a profit and provide liquidity to the system. However, due to the financial leverage provided to traders by the exchange, commodity futures traders face a substantial risk.

Tradeable Commodity Exchange

Tradeable commodities consist of basic goods used in commerce that are often interchangeable with other goods of the same type. These tradeable

commodities are usually seen inputs in the production of other goods or services.
Tradeable commodities are usually categorized into four basic groups: energy, metals, livestock and agriculture.

Agricultural Produce

Commodity	Main Exchange	Contract Size	Trading Symbol [1]
Cocoa	ICE	10 tons	CC
Coffee *C*	ICE	37,500 lb	KC
Corn	CBOT	5000 bu	C/ZC (Electronic)
Corn	EURONEXT	50 tons	EMA
Cotton No.2	ICE	50,000 lb	CT
Frozen Concentrated Orange Juice	ICE	15,000 lbs	FCOJ-A
Milk	Chicago Mercantile Exchange	200,000 lbs	DC
Oats	CBOT	5000 bu	O/ZO (Electronic)
Rapeseed	EURONEXT	50 tons	ECO
Rough Rice	CBOT	2000 cwt	ZR
Soybean Meal	CBOT	100 short tons	SM/ZM (Electronic)
Soybean Oil	CBOT	60,000 lb	BO/ZL (Electronic)
Soybeans	CBOT	5000 bu	S/ZS (Electronic)
Sugar No.11	ICE	112,000 lb	SB
Sugar No.14	ICE	112,000 lb	SE

Commodity	Main Exchange	Contract Size	Trading Symbol [1]
Wheat	CBOT	5000 bu	W/ZW (Electronic)
Wheat	EURONEXT	50 tons	EBL

Livestock and meat

Commodity	Contract Size	Currency	Main Exchange	Trading Symbol
Lean Hogs	40,000 lb (20 tons)	USD ($)	Chicago Mercantile Exchange	HE
Live Cattle	40,000 lb (20 tons)	USD ($)	Chicago Mercantile Exchange	LE
Feeder Cattle	50,000 lb (25 tons)	USD ($)	Chicago Mercantile Exchange	FC

Energy

Commodity	Main Exchange	Contract Size	Trading Symbol
WTI Crude Oil	NYMEX, ICE	1000 bbl (42,000 U.S. gal)	CL (NYMEX), WTI (ICE)
Brent Crude	ICE	1000 bbl (42,000 U.S. gal)	B
Ethanol	CBOT	29,000 U.S. gal	AC (Open Auction) ZE (Electronic)
Natural gas	NYMEX	10,000 mmBTU	NG
Heating Oil	NYMEX	1000 bbl (42,000 U.S. gal)	HO
Gulf Coast Gasoline	NYMEX	1000 bbl (42,000 U.S. gal)	LR
RBOB Gasoline (reformulated gasoline	NYMEX	1000 bbl (42,000 U.S. gal)	RB

Commodity	Main Exchange	Contract Size	Trading Symbol
blendstock for oxygen blending)			
Propane	NYMEX	1000 bbl (42,000 U.S. gal)	PN
Purified Terephthalic Acid (PTA)	ZCE	5 Tons	TA

Metals

COMMODITY	UNIT	CURRENCY	MAIN EXCHANGE
Copper	Metric Ton	USD ($)	London Metal Exchange, New York
Lead	Metric Ton	USD ($)	London Metal Exchange
Zinc	Metric Ton	USD ($)	London Metal Exchange
Tin	Metric Ton	USD ($)	London Metal Exchange
Aluminium	Metric Ton	USD ($)	London Metal Exchange, New York
Aluminium alloy	Metric Ton	USD ($)	London Metal Exchange
Nickel	Metric Ton	USD ($)	London Metal Exchange
Cobalt	Metric Ton	USD ($)	London Metal Exchange
Molybdenum	Metric Ton	USD ($)	London Metal Exchange.,
Recycled steel	Metric Ton	USD ($)	Rotterdam[citation needed]

Precious Metal

Commodity	Unit	Currency	Main Exchange
Gold	troy ounce	USD ($)	COMEX
Platinum	troy ounce	USD ($)	NYMEX
Palladium	troy ounce	USD ($)	NYMEX
Silver	troy ounce	USD ($)	COMEX

Other

Commodity	Unit	Currency	Bourse
Palm Oil	1000 kg	Malaysian Ringgit (RM)	Bursa Malaysia
Rubber	1 kg	US cents (¢)	TOCOM
Wool	1 kg	AUD ($)	ASX
Amber	1 kg	Rub (₽)	Saint Petersburg “Bourse”

Exercises

1. What is commodity exchange?
2. Define tradeable commodity exchange.
3. State 6 types of commodity exchange.
4. Give 10 types of products that can be traded in the commodity exchange.
5. Explain trade futures contracts.

SS 2 Commerce First Term

WEEK 6

Topic: Requirements for Commodity Trading

Content-

- Requirement for trading: grading System, warehousing clearing system, standardizing,
- Methods of trading: open outcry, electronic
- Benefits of commodity exchange

Requirements for trading

Commodity trading in the exchanges can require agreed-upon standards so that trades can be executed (without visual inspection). You don't want to buy 100 units of cattle only to find out that the cattle are sick, or discover that the sugar purchased is of inferior or unacceptable quality.

Warehouse clearing system

A warehouse receipt system (WRS) enables farmers to deposit storable goods (usually grains or coffee) in exchange for a warehouse receipt (WR). A WR is a document issued by warehouse operators as evidence that specified commodities of stated quantity and quality have been deposited at a particular location.

Grading System

Grading means sorting of unlike lots of produce into different lots according to quality specification laid down. Each lots has substantially the same characteristics as far as quality is concerned. Grading is an important function of standardization. It implies the division of products into classes made up of unit possessing similar characteristics of size and quality. Grading is mostly done in case of raw materials, mineral products and agricultural products. There is no need to divided industrial product as they are produced according to pre- determined standards. There may be difference in quality or size or shape or characteristics of the products. The grade standards for commodities are laid down first and than the commodities are sorted out according to accepted standards. Grading helps the producer to get proper prices for these products because different price may be fixed for different lots.

Standardization

Standardization is the process of fixing certain norms for the product. These norms are established by customs or tradition or by certain authority. It involves determination of basic characteristic of a product on the basis of which the product can be divided into various groups. It also means determining the standard of product to be produced with regard to size, color, form, weight, shape and quality. Standards are model products which form the basis of comparison.

Without standardization the rule of caveat (law) prevails and there may be confusion and unfairness. The term of standardization is used in a broader sense. Standardization is a application of standard to goods meant for marketing with a view to further sub dividing them into several grades or classes. Thus standardization means making the quality specification of the grade uniform among buyers and sellers over space and time.

Methods of Commodity Trading

Open Outcry:

A vanishing method of communicating on a stock, commodity or futures exchange that involves verbal bids and offers as well as hand signals to convey trading information in the trading pits. Trading pits are the parts of trading floors where trading takes place. A contract is made when one trader cries out that they want to sell at a certain price and another trader responds that they will buy at that same price. Most exchanges now use electronic trading systems, and the open outcry exchanges have gradually been replaced by electronic trading, which reduces the costs and improves trade execution speed.

Electronic

Electronic trading, sometimes called etrading, is a method of trading securities (such as stocks, and bonds), foreign exchange or financial derivatives electronically. Information technology is used to bring together buyers and sellers through an electronic trading platform and network to create virtual market places. They can include various exchange-based systems, such as NASDAQ, NYSE Arca and Globex, as well as other types of trading platforms, such as electronic communication networks (ECNs), alternative trading systems, crossing networks and “dark pools”. Electronic trading is rapidly replacing human trading in global securities markets. Electronic trading is in contrast to older floor trading and phone trading and has a number of advantages, but glitches and cancelled trades do still occur.

Benefits of Commodity Trading

Liquidity:

Unlike investment vehicles like real estate, investments in commodity futures offer high liquidity. It is equally easy to both buy and sell futures and an investor can easily liquidate his position whenever required. There is also another advantage of being able to use the profits from a trade elsewhere, without having to close the position.

Diversification:

Investments in commodities markets are an excellent means of portfolio diversification. For example, gold prices have historically shown a low correlation with most other asset prices (such as equities) and thus offer an excellent means for portfolio diversification.

Inflation Hedge:

As the commodity prices determine price levels and consequently inflation, investing in commodity futures can act as a hedge against inflation.

Total Transparency:
To start with, an electronic trading platform helps in creating a transparent price discovery mechanism on the commodities futures exchanges without any intervention by sellers or buyers. It is driven totally by market fundamentals and the risk factor associated with manipulation is effectively negated.

Managing the risk:
Risk management is a major benefit for commodities traders in India. Exchanges have well-structured settlement procedures and prudent risk management practices, which reassures an investor. The absence of counter party risk also stands as an advantage to commodities traders.

Helping farmers as well:
Even the agricultural sector benefits from the commodities futures trading. Nigeria is largely an agricultural economy and fluctuation in prices during the harvesting period has always been a major concern for the farming community. Futures trading has emerged as a viable option for providing a greater degree of assurance on the price front. For instance, a farmer growing soybean is exposed to the risk of fall in prices when his harvest comes out. Using futures market, he can sell the soybean contract today at the futures platform and lock in the price which could eliminate his risk of price fluctuations.

Exercises
1. Outline the requirements of commodity trading.
2. Describe the warehouse receipt system (WRS).
3. How is grading carried out?
4. Explain the methods of commodity trading.
5. Enumerate five (5) benefits of commodity trading.

SS 2 Commerce First Term

<u>WEEK 7</u>

Topic: **Constraints to Commodity Trading**

Content –

- **Constraints to Commodity Trading**
- **Difference Between Commodity Trading and Stock**
- **Methods of Pricing**

Constraints to Commodity Trading

The major constraints to commodity trading are:

Inadequate supply

The agricultural holdings are very small and scattered throughout the country, as a result of which the marketable surplus generated is very meagre. It is not an easy task organizing how the goods can be assembled for efficient marketing. Moreover there are many varieties of particular crops such as yam and this poses problems in pricing

Bad weatherproof storage

For instance, many times we see rough and careless treatment in the packing and initial handling of fruits and vegetables. Green vegetables are packed in heavy sacks which will be heated up quickly at the centre, wilt and rot soon. Workers or passengers are allowed to ride on top of a load of vegetables, which will result in physical damage. Careless handling of fruits and insanitary handling of the produce are other problems. Poor handling and packing expose the products to substantial physical damage and quality deterioration. If there are no processing facilities, say, for tomatoes, it means all the harvested crops must be sold within a given time and because there are packaging problems, quite a substantial part of the produce may be lost before getting to the market. Not only do these losses cut down the supply of products reaching the consumers, but also raise the price of the remaining portion, which must bear all costs.

Inadequate knowledge of the working of the commodity exchange
Intelligence indicates a record of past information in relation to prices, market arrivals, etc. It essentially helps to make decisions in future based on the past information. Market news on the other hand, provides current information on prices, arrivals, etc. But in reality the farmers more often than not, are in total dark as far as this information is concerned. The farmers do not know the information on the existing prices of the products in the important markets. By and large, the farmers rely on the price information furnished by the traders. The price information provided generally is quite advantageous to the traders, rather than to the farmers. Other constraints are:

Leverage: Can be a double edged sword. Low margin requirements can encourage poor money management, leading to excessive risk taking. Not only are profits enhanced but so are losses!

Speed of trading: Traditionally commodities are pit traded and in order to trade a speculator would need to contact a broker by telephone to place the order who then transmits that order to the pit to be executed. Once the trade is filled the pit trader informs the broker who then then informs his client. This can take some take and the risk of slippage occurring can be high. Online futures trading can help to reduce this time by providing the client with a direct link to an electronic exchange.
You might find a truck of corn on your doorstep! Actually, most futures contracts are not deliverable and are cash settled at expiry. However some, like corn, are deliverable although you will get plenty of warning and opportunity to close out a position before the truck turns up.

Difference Between Commodity Trading and Stock
Stocks and commodities are two very different types of investments, though both are traded on open exchanges most weekdays. Stock investing involves buying and selling of shares in corporations. Commodities investing involves buying and selling of futures contracts with publicly traded commodities.

The fundamental differences between the stock market and the commodities market are the products they deal with, and thus the manner in which they work. The stock market deals in ownership shares of a company, while the futures market deals in contracts to provide or receive a shipment and the cash market deals in the actual items in the shipment. In addition, while a share of stock represents an actual — albeit minute — percentage of ownership in the company, it is essentially paper (although few companies issue actual stock certificates in the 21st century). Cash market commodities are actual pigs, cows or portions thereof. Futures market contracts are paper like stocks, but they do not provide ownership in any way: You do not own a commodity; you have a contract to own it.

Methods of Pricing

When two parties are negotiating a contract for the delivery of a commodity, the price can present an obstacle. Prices can be determined by different methods such as a fixed price, a floating price or a combination of both.

Fixed Price

A fixed price is the most basic form for settling a price for a commodity or futures contract. A fixed price is determined at the start of a contract and is in many cases based on the price futures, that have a comparable size and delivery date. This agreed upon price is the price for which the contract will be settled at the delivery date. This fixed price is an insurance for both parties against negative price movements on their position. There is the possibility both parties agree on the option to periodically revise the price of their contract. This way the contract will remain in accordance with the exchange prices.

Floor and Ceiling Price

Parties can also agree on minimum and maximum price, called floor and ceiling prices. In this situation, when a price would move outside of these boundaries, both parties would share the profit from this price evolution. This way both parties benefit from large price movements. When the price remains within the boundaries, the contract will be settled according the market price upon the time of delivery.

Floating Price

Another method for determining a price for a commodity contract, is using a floating price. A floating price can be calculated as an average of a reference price over a set period of time. This methods reduces the risks of an temporarily extreme price at the date of delivery. While calculating averages, a sudden increase will only have a small effect on the overall price of the commodity. This type of pricing is especially effective for long-term contracts, because the chance for price fluctuation increases with the increased duration of a contract. The reference price for such a contract is determined at the start of a contract and is in many cases the spot price of a commodity on a leading exchange.

Another way of using a floating price is by agreeing to pay the spot price at the time of delivery or the spot price at a date near the delivery date. Hereby it is again important the parties agree on the exchange which will be used as reference price. This pricing method is very risky due to the uncertainty of the price in the future, it can move either way. Usually participants will hedge their price risks on an exchange to cover themselves against adverse price movement.

Exercises

1. What are the constraints to commodity trading.
2. Differentiate between commodity trading and stocks.
3. Explain the different methods of pricing.
4. What is the different between floor and ceiling price.
5. Explain the importance of proper storage system to commodity trading.

SS 2 Commerce First Term

WEEK 8

Topic: **Buying and Selling (Documents)**

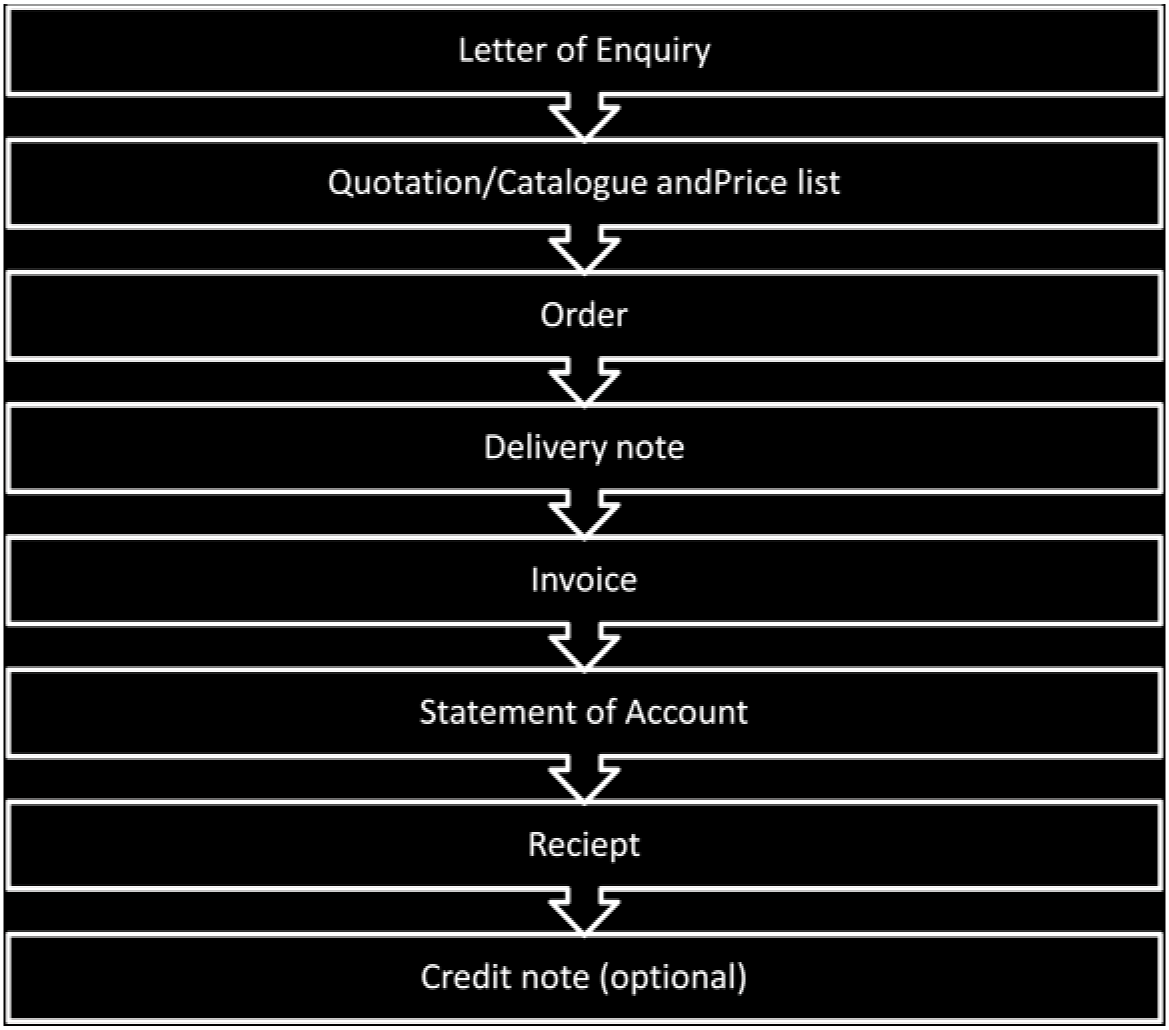
Content-

- Documents in Buying and Selling of Goods
- Procedures of Buying and Selling
- Essential Documents

Documents in Buying and Selling of Goods

Commercial documents are official papers which facilitates the act of buying and selling of goods. All business transactions must be backed by relevant documents in order to show authenticity as well as for record purposes.

Procedures of buying and selling



Essential Documents

The various types of documents currently in use are as follows:

1. Trade Journals

Trade journals are publications which serve as sources of information to the buyer as it contains articles on matters of interest to people in a particular trade. Trade journals contain information about price, terms of payment, terms of sales and delivery. The description of the goods will also be shown in the journal.

2. **Letter of Enquiry**

Letter of enquiry is written by the buyer to the producer or supplier asking for information about certain goods which are for sale. The letter will enquire about the terms of sale, payment, delivery and other relevant information before the buyer decides on one particular producer and what to buy. The prospective buyer may request for the price lists of the goods.

GFC Designs
Unit 15 Newlands Business Park
73 Charles Street East
Toronto
ON M1V 5LR

Look Out Security
1200 Woodroffe Avenue
Ottawa
ON K2C 3X5

3 June, 20—

Dear Sir/Madam

We saw your __________ [1] at the Montreal trade fair, and we would like to __________ [2] more about your CCTV products.

GFC Designs is a graphic design agency, specializing in design solutions for businesses. We have __________ [3] moved to new business premises, and we are __________ [4] to replace our security cameras in the near __________ [5].

__________ [6] you please send us your latest catalogue, __________ [7] a full price list? We would __________ [8] like to know if you install and maintain your security systems.

We look forward to hearing from you soon.

Yours faithfully,

Claude Danvers

Claude Danvers
Facilities Manager
GFC Designs

Sample of letter of enquiry

3. Catalogue and Price list

Catalogue is a pictorial presentation of goods and services available for sale, especially in mail order business. It is a medium of advertising. Price list shows the current prices of the various products of a firm.

4. Quotation

A quotation is used to let a potential customer know the cost of goods or services before they decide to purchase them. When a seller sends a quotation, it commits them to a certain price. This is why quotations are mostly used when costs are relatively stable and the services/goods to be provided can be accurately estimated (labor, cost of raw materials, etc.).

XinCube Inc

Quotation

Quotation No	QUO09080004
Date	13-Aug-2009
Terms	COD
Shipping Date	13-Aug-2009
Shipping Terms	
Sales Person	Charles Wooten
Order No	

380 Francisco St
San Francisco CA
94133 US
Tel: (415) 989-1188 Fax: (415) 989-2288
Email: admin@xincube.com
Website: www.xincube.com

Bill To

John Michaels
Ubertech Corp
1055 Corporate Center Dr. Ste 102
Monterey Park CA
91754 US

Ship To

John Michaels
Ubertech Corp
1055 Corporate Center Dr. Ste 102
Monterey Park CA
91754 US

Qty	SKU / Description	Unit Price (USD)	Amount (USD)
4.00	AMD Athlon X2DC-7450, 2.4GHz/1GB/160GB/SMP-DVD/VB	5,000.00	20,000.00
1.00	LG 18.5" WLCD	230.00	230.00
1.00	HP LaserJet 5200	1,103.00	1,103.00

Sub Total (USD)	Discount (USD)	Shipping (USD)	Total (USD)
21,333.00	0.00	0.00	23,001.98
Sales Tax (USD)			**Deposit (USD)**
1,668.98			0.00
			Amount Due (USD)
			23,001.98

All Payments must be made only in the form of a crossed cheque or cash payable to Xin Cube Inc

Prepared By

Charles Wooten

Approved By

Page 1 of 1

A quotation

5. **Order**
A confirmed request by one party to another to buy, sell, deliver, or receive goods or services under specified terms and conditions. When accepted by the receiving party, an order becomes a legally binding contract.

6 **Invoice**
A nonnegotiable commercial instrument issued by a seller to a buyer. It identifies both the trading parties and lists, describes, and quantifies the items sold, shows the date of shipment and mode of transport, prices and discounts (if any), and delivery and payment terms.

In certain cases (especially when it is signed by the seller or seller's agent), an invoice serves as a demand for payment and becomes a document of title when paid in full. Types of invoice include commercial invoice, consular invoice, customs invoice, and pro forma invoice. Also called a bill of sale or contract of sale.

Xin Cube Inc
380 Francisco St
San Francisco
CA 94133
US
Tel: (415) 989-1188 Fax: (415) 989-2288
Email: admin@xincube.com
Website: www.xincube.com

Invoice No: **INV10100005**
Currency: **USD**

Invoice

Bill To
John
Synex Inc
128 AA Juanita Ave
Glendora
CA 91740 US

Phone: Fax:

Ship To
John
Synex Inc
128 AA Juanita Ave
Glendora
CA 91740 US

Phone: Fax:

Date	19-Oct-2010	Order No		Sales Person	Charles Wooten
Shipping Date	19-Oct-2010	Shipping Terms		Terms	30 Days

ID	SKU / Description	Unit Price	Qty	Amount
PS.V860.05	AMD Athlon X2DC-7450, 2.4GHz/1GB/160GB/SMP-DVD/VB	580.00	6.00	3,480.00
PS.V880.37	PDC-E5300 - 2.6GHz/1GB/320GB/SMP-DVD/FDD/VB	645.00	4.00	2,580.00
LC.V890.02	LG 18.5" WLCD	230.00	10.00	2,300.00
HP.Q754.71	HP LaserJet 5200	1,100.00	1.00	1,100.00

Note:
Thanks for you business!

Sub Total:	9,460.00
Discount:	0.00
GST	473.00
	0.00
	0.00
Shipping:	0.00
Total:	**9,933.00**
Deposit:	0.00
Amount Due:	**9,933.00**

Page : 1 / 1

An invoice

7 **Delivery Note**

A document accompanying a shipment of goods that lists the description, and quantity of the goods delivered. A copy of the delivery note, signed by the buyer or consignee, is returned to the seller or consignor as a proof of delivery.

8. **Advice Note**

This is a document sent by a supplier to a customer to inform him that goods he ordered have been dispatched. It usually gives details such as the quantity of goods and how they have been sent.

9. **Consigment Note**

Document prepared by a consignor and countersigned by the carrier as a proof of receipt of consignment for delivery at the destination. Used as an alternative to bill of lading (specially in inland transport), it is generally neither a contract of carriage nor a negotiable instrument.

10. **Credit Note**

A form or letter sent by a seller to a buyer, stating that a certain amount has been credited to the buyer's account.

A credit note is issued in various situations to correct a mistake, such as when (1) an invoice amount is overstated, (2) correct discount rate is not applied, (3) goods spoil within guaranty period, or (4) they do not meet the buyer's specifications and are returned. Also called credit memo.

11. The debit note.

It is prepared by the seller and sent to the buyer who has been undercharged on an invoice. It is an additional invoice sent to the buyer to pay the short amount. It informs the buyer that his account is debited, increasing the amount that he owes.

12. **Receipt**

It is issued by the seller to the buyer as a proof of the money received. When the payment is made by cheque, it is not necessary to issue a receipt since the cheque serves as a proof of payment.

13. Statement of account.

It is sent by the seller to the buyer showing the summary of the transactions between the buyer and the seller for a particular period of time. It shows the amount of goods purchased, the returns made, the payments, cash discounts, details of the credit note, debit note and the amount due.

Exercises

1. What are the procedures involved in buying and selling?
2. Give six (6) documents used in buying and selling of goods.
3. Write short names on the following:

a) Order
b) Catalogue/Price list
c) Quotation
d) Credit Note
e) Receipt

SS 2 Commerce First Term

WEEK 9

Topic: Terms of Trade

Contents:

1. **Trade Discount, Cash Discount, Quality discount, Carriage forward, Prompt delivery, Carriage paid etc.**
2. **Trade Abbreviations: C.O.D., C.I.F., F.O.B., F.O.T., E and O.E**

TRADE DISCOUNT

A trade discount is a reduction to the published price of a product. For example, a high-volume wholesaler might be entitled to a 40% trade discount, while a medium-volume wholesaler is given a 30% trade discount. A retail customer will receive no trade discount and will have to pay the published or list price. The use of trade discounts allows for having just one published price for each product.

CASH DISCOUNT

A cash discount is a deduction allowed by the seller of goods or by the provider of services in order to motivate the customer to pay within a specified time. The seller or provider often refers to the cash discount as a sales discount. The buyer often refers to the same discount as a purchase discount.

QUALITY DISCOUNT

A quantity discount is an incentive offered to a buyer that results in a decreased cost per unit of goods or materials when purchased in greater numbers. A quantity discount is often offered by sellers to entice buyers to purchase in larger quantities.

CARRIAGE FORWARD

Used to show that the carriage of a delivery of goods will be paid for by their buyer.

PROMPT DELIVERY

The time limit allowed for payment of the debt incurred by purchasing goods or services on credit.

CARRIAGE PAID

This is a commercial term denoting that the seller delivers the goods to a carrier or to another person nominated by the seller, at a place mutually agreed upon by the buyer and seller, and that the seller pays the freight charges to transport the goods to the specified destination.

Net Cash

Amount payable after deducting all discounts.

Prompt Cash

Payment of goods within few days of purchase.

TRADE ABBREVIATION

Cash with Order (C.W.O.)
Payment made together with order.
Cash on Delivery (C.O.D.)
Payment made upon delivery of goods.
Free on Board (F.O.B.)
Seller has paid all the charges upto loading of cargo onto ship. Freight has to be paid by the buyer.
Cost, Insurance, Freight (C.IF.)
Price includes cost of goods, insurance and freight.
Errors and omissions excepted (E&OE)
This is a phrase used in an attempt to reduce legal liability for potentially incorrect or incomplete information supplied in a contractually related document such as a quotation or specification.

Exercises

1. Write short notes on the following

a) Trade Discount
b) Cash Discount
c) Quality discount
d) Carriage forward
2. Write the following abbreviations in full
a) C.O.D.
b) C.I.F.
c) F.O.B.
d) F.O.T.,
e) E and O.E

SS 2 Commerce First Term

WEEK 10

Topic: Terms of Trade II

Content- Terms of Trade (Continuation)

Free on Rail (F.O.R.)

Seller has paid all the charges up to loading on cargo onto rail. Freight has to be paid by the seller.

Spot Cash

Spot cash is a term of payment in which the buyer pays cash immediately for goods bought before he takes them away.

Cash Against Documents

A transaction in which the buyer assumes the title for the goods being purchased upon paying the sale price in cash.

Letter of Credit

A documentary credit confirmed by a bank, often used for export.

Bill of Exchange

A promise to pay at a later date, usually supported by a bank.

C.N.D. – Cash next delivery

C.B.S. – Cash before shipment

C.I.A. – Cash in advance

C.W.O. – Cash with order

1MD

Monthly credit payment of a full month's supply.

2MD

As above plus an extra calendar month.

Contra

Payment from the customer offset against the value of supplies purchased from the customer.

Stage payment
Payment of agreed amounts at stage.
PIA – Payment in advance
Net 7 – Payment seven days after invoice date
Net 10 – Payment ten days after invoice date
Net 30 – Payment 30 days after invoice date
Net 60 – Payment 60 days after invoice date
Net 90 – Payment 90 days after invoice date
EOM – End of month
21 MFI – 21st of the month following invoice date
1% 10 Net 30 – 1% discount if payment received within ten days otherwise payment 30 days after invoice date

Exercises
1. Explain the following terms:
a) Free on Rail (F.O.R.)
b) Spot Cash
c) Cash Against Documents
d) Letter of Credit
e) Bill of Exchange
2. Give the full meaning of the following abbreviations:
a) C.N.D.
b) C.B.S.
c) C.I.A.
d) C.W.O.

SS 2
SECOND TERM NOTES ON COMMERCE

TABLE OF CONTENT

SECOND TERM

WEEK 1:	CREDIT
WEEK 2:	FUNCTIONS OF CREDIT
WEEK 3:	TRADE ASSOCIATION
WEEK 4:	OTHER FORMS OF TRADE ASSOCIATIONS
WEEK 5:	INSURANCE
WEEK 6:	TYPES OF INSURANCE
WEEK 7:	CONSUMER PROTECTION
WEEK 8:	CONSUMER PROTECTION CONTROL
WEEK 9:	TRANSPORTATION
WEEK 10:	DOCUMENTS INVOLVED IN TRANSPORTATION

Commerce, SS2 Second Term

WEEK 1

Topic: Credit

Contents:

1. Meaning of Credit
2. Sources and Types of Credit
3. Mortgage, loan and overdraft, credit purchase, finance houses etc

Meaning of Credit

Credit can be defined as the ability of a customer to obtain goods or services before payment, based on the trust that payment will be made in the future.

Credit occurs when a seller grants permission to a buyer to take possession and enjoy a commodity with the aim or promise to pay in the future.

It is the process whereby goods and services are transferred to the buyer from the seller for his use and enjoyment without value being paid immediately.

Basis for credit sale

The following basis must be considered before granting credit. They are:

- Sources of payment
- The income of the buyer
- The integrity of the person
- Time of payment
- Present employment

Advantages of credit sales

The following are advantages of credit sale

1. It encourages bulk purchase: Credit encourages customer to buy in bulk compare to what they intend to buy at the initial time without credit facilities.

2. Enjoyment of goods without payment: Customers can possess and enjoy the value of goods without immediate payment.
3. Increase in standard of living: Credit sales can increase the living standard of people as buyers can buy goods they never thought they could afford to buy.
4. Means of meeting temporary needs for cash: Credit can serve as serve as a means of meeting temporary needs for cash because the individual can buy on credit and use the money at hand for other things.
5. It can improve a family's level of living. For example, most people use credit to buy their homes. The main reason most people use credit is that they do not have the cash to pay the total cost of an item or service at one time. Another reason is that it may be easier to pay for an item through regular installment payments.

Disadvantages of credit sale

1. Customers can overbuy: The customers can be tempted to buy more than what they intend to buy because of credit sale.
2. Increase in Price: Buying on credit makes the seller to add additional price on the sale of good, thereby bringing about increase in the price of goods.
3. Capital can be tied down: In the process of selling on credit, the capital of the seller can be tied down in the hands of customers which can eventually bring the business to a close.
4. Problems of non payment: Some customers after buying on credit sometimes find it difficult to pay back to the seller.
5. It involves record keeping: Credit sales involves a lot of record keeping as both sales and cash record must be kept.
6. It can lead to court action: If the buyer refuses to pay, it can lead to court

Types of credit sales are:

1. **Hire purchase**: Hire purchase can be defined as the system whereby the buyer or hirer has possession and the use of the goods while the owner retains the ownership of goods until the final payment is made. It is a means of paying for goods through installment.

Features of Hire purchase

- Hire purchase attracts hire prices
- Hire purchase is good for durable goods
- It must be documented
- The cash price and the hire purchase price must be stated to avoid problem
- The seller has the right to claim the goods if the buyer refuses to pay
- The goods will continue to be under hire and will not belong to the buyer until the final installment is made

Advantages of hire purchase to the seller

- It increases the rate of turnover
- Profit will increase as price of goods increases
- It facilitates the promotion of durable goods
- It leads to large scale of production

Disadvantages of hire purchase to the seller

- It can lead to court action
- Goods repossessed becomes difficult to sell
- A lot of capital can be tied down
- Customers may fail to pay and this can lead to bad debt

2. **Mortgage**: This is a system of credit in which building societies or mortgage bank assist in people to buy landed property or houses by lending them a proportion of the purchase money.

Features of Mortgage

- The building or property will be used as collateral security
- Interest will be paid by the mortgagor (the borrower)
- The lender is called the mortgagee

3. **Loan and overdraft**: Loan is a sum of money borrowed by individuals, firms and government from financial institutions or individuals for a particular period at an agreed rate of interest. An overdraft is a form of credit provided by banks in which a customer is allowed to draw over the above the money in his account.
4. **Book-me-down**: This is very common within the low income earners in underdeveloped countries like Nigeria. This is a means whereby the customer will purchase goods on credit and write down their names. Payments may be made at the end of the month after receiving salary.
5. **Leasing:** leasing is a system whereby the owner of a property grants to another the right to exclusive possession for a fixed time in return for periodic payment. E.g leasing of houses.
6. **Factoring**: Factoring can be defined as a system whereby trade debts can be sold immediately for cash to factoring firm (bank) for a lower amount than the actual value of the debt. It
is the business of purchasing and collecting accounts receivable or of adv ancing cash on the basis of accounts receivable.
7. **Budget Account: i**t is a system of account operated by departmental stores where a customers agrees to pay a certain sum per month which enables credit up to eight times that amount to be obtained.

Features of budget account

- It is common in advanced country
- Choice of goods will be restricted to a particular shop
- It is common among the high income earners

8. **Conditional Credit sales**: It is an agreement for the sale of goods and not hire in which the title to goods do not pass completely until all installmental payment has been made. It is

a sale in which the buyer receives title to the property only upon the perfor mance of some condition (usually the full payment of the purchase price)

9. **Trading cheque or voucher**: This system of credit entails a voucher being issued by a club which is formed to enable its members buy from specified local shops in the locality. there will be a certain percentage added to the actual amount which will be paid at an agreed rate.

10. **Finance House:** Finance house is defined as the A financial institution that lends to people or businesses, so that they can buy things such as cars or machinery. Finance companies are often part of commercial banks, but operate independently.

Finance house mobilize funds from deposit from the public which attract high rate of interest or by borrowing from banks e.g merchant banks, commercial banks and insurance.

A finance house is a
financial institution (often affiliated with a holding company or manufactur er) that makes loans to individuals or businesses.

11. **Club Trading**: It is a system of credit whereby some organizations set up clubs to collect regular contribution from members . This contribution can be withdrawn periodically in order to make purchases at the shops

12. **Deferred payment**:This is a system where ownership and possession are transferred immediately to the buyer from the seller after paying an initial deposit then the payment of the balance will be paid later. In deferred payment the seller cannot claim the goods if the buyer defaults in payment, he can only reclaim through court action.

Similarities between hire purchase and deferred payment

The similarities between hire purchase and deferred payment are:

- Durable goods are involved in hire purchase and deferred payment
- Initial deposit is required in both system
- Both accommodate instalmental payment and credit facilities
- The hirer or buyer can use and enjoy the goods before full payment is made.

- Both system of credit ensure that the buyer takes possession of the goods

Differences between Hire purchase and deferred payment

Hire purchase	Deferred payment
1.The price charged is higher	Price charged is lower
2.Goods are on hire	Goods are sold
3.Hire purchase favours the seller	Deferred payment favours the buyer
4.On default, seller can repossess the goods	Seller cannot repossess the goods
5. Durable goods are involved	Less durable goods are sold

Test and Exercise

1. Define credit
2. The things to be considered before giving out credit are ———————.————————,——————
3. Explain the advantages and disadvantages of credit sale
4. Differentiate between deferred payment and hire purchase
5. What are the similarities between hire purchase and deferred payment
6. List and explain various types of credit sales
7. What is a finance house

Commerce, SS2 Second Term

WEEK 2

Topic: Functions of Credit

Contents:

1. **Functions Of Credit**
2. **Credit Instrument**

FUNCTIONS OF CREDIT

Credit is neither capital nor its creates capital. The credit instruments only represent money and facilitate the business. The importance of credit can be judged by the following functions:

1. Large Scale Production :-

Less developing countries like Nigeria face capital shortage problem. Our production sources are limited. So credit instruments have provided the money to the industrialists. Now production is on large scale and cost per unit has been reduced. The quality and quantity has been improved.

2. Increases In Saving Rate :-

Credit provides an opportunity to save the money some people save the money but they are not capable to do any business. So they lend it to the financial institutions. Credit makes possible the shifting of money to those people who can use it for productivity.

3. Shifting Of Capital To Productive Purposes :-

There are so many people who have surplus money but they are not capable to do any business. So they lend it to the financial institutions. Credit makes possible the shifting of money to those people who can use it for productivity.

4. Economy In The Use Of Metal :-

Credit instruments are used in place of metallic coins. So there is a saving of precious metals also. Further use of credit instruments is more effective and convenient.

5. Provision Of Working Capital :-

Some times an industrialist faces the finance problem to purchase the raw material or for the payment of wages. So he avails the credit facility.

6. Sale Of Bonds :-

Some time a firm can obtain credit by selling the bonds. If the firm prospects are bright it will repay the principal amount with interest.

7. Case Of Young Firm :-

Credit enables the manager of a young firm to develop its resources at a rapid speed.

8. Emergency Of New Businessman :-

Credit makes possible the entrance of new talent in the business enterprise. If the person has all the qualities of a good entrepreneur but having no capital, credit provides him the chance to utilize his qualities.

9. Purchase Of Goods :-

Credit enables the consumer to purchase the consumption goods like T.V. Radio, Car House etc.

10. International Payments :-

Through the bills of exchange international payments can be made very easily. There is no need to import or export the gold for the international business transactions.

11. Useful For The State :-

If the Govt. Budget is deficit, it can be met by selling the bonds and receiving the credit. Even in case of emergency, war, credit is very beneficial for the state.

INSTRUMENT OF CREDIT

Promissory Note:

The simplest form of a credit instrument is the promissory note. A promissory note (or pro-note for short) is a written promise from a buyer or a borrower to pay a certain sum of money to the creditor or his order. It is what we call IOU (I owe you), i.e., an acknowledgment of debt and an obligation to repay.

Promissory Note

Rs. 500 *June, 1, 1985*

Two months after date, I promise to pay M/s Singh and Company or order, the sum of Five Hundred Rupees only for value received with interest at the rate of 5 per cent.

| 20 P. Stamp |

Shyam Lal
Per Pro M/s S. Chand & Co.

The words "value received" indicates that the document is the result of some purchase or loan. Interest must be mentioned; otherwise the pro-note is not good in law. Such a document can be used for any kind of transaction, personal or commercial.

Bill of exchange:

A bill of exchange is used in internal as well as foreign trade. It is an order by a seller to a buyer or by a creditor to a debtor to pay a certain sum of money to himself or to bearer or to another person named therein. The seller or the creditor who draws the bill is called the 'drawer'; the purchaser or the debtor on whom the bill is drawn is called the "drawee." The seller may order the payment to be made to a third person called the "payee".
Specimens of inland and foreign bills of exchange are given below:

An Inland Bill of Exchange

Rs. 20,000.00 *Jullundur,*
July 1, 985

Thirty days after date pay to M/s Singh & Co., *or bearer* the sum of twenty thousand rupees, for value received.

For S. Chand & Co.
M/s The Premier Book Depot, *Shyam Lal*
Chandni Chowk, Delhi. *Proprietor.*

In place of the payee's name any of these forms may be used:
1. Pay to bearer,
2. Pay to Dr. J. D. Varma or order, or
3. Pay to my order.

When the bill of exchange begins with "On demand", instead of "thirty days", it is a "demand bill' or "sight bill'.

A Foreign Bill of Exchange

Rs. 1,000.00 — *July 1,1985*

Sixty days after sight of this First of Exchange (second and third of the same tenor and date, unpaid) pay to the order of the *Central Bank of India Ltd.*, the sum of Rs. 1,000 only for value received.

M/s A.V. Thomas & Sons,
Sheffield, England.

For M/s S. Chand & Co.
Rajendra Kumar Gupta,
Manager.

The drawer sends ‘he bill to the drawee who “accepts” it by signing it and putting his office stamp on it. The bill now becomes a negotiable instrument and can be bought and sold in the market. The drawer can now discount it and change it into cash on paying a commission, called discount, at some firm or bank. It may pass through several hands before it ultimately matures or falls due for payment, when the drawee pays his debt by honouring the bill.

If the drawee is not very well known, he secures the services of an Accepting House to sign and accept the Bill. Such houses or firms specialize in providing guarantees and charge a commission for their services. To perform such services the Accepting Houses have to keep themselves well informed of the financial position of the merchants on whose behalf they accept bills.

Bank Drafts:

A cheque can also be used to remit funds to another place. But as the account is held in a different place, from where the cheque is presented, the latter branch of the bank normally gets in touch with the former before making the payment. To avoid this botheration, a banker’s draft is used.

A bank draft is a cheque drawn by a bank on its own branch or on another bank requiring the latter to pay a specified amount to the person named in it or to the order thereof. The cheapest method of sending money is through a bank draft.

Bond/ Debenture

A corporate bond or a debenture is a credit instrument in which the issuer obtains cash from the initial investors at origination and, in return, agrees to make payments of interest and, at maturity, of principal to holders of the securities. A bond or debenture is a long-term, fixed-income, financial security. Debenture holders are creditors or lenders to the firm.

Mortgage Agreement

Mortgage is the transfer of an interest in specific immovable property for the purpose of securing the payment of money advanced by way of loan, an existing or future debt or performance of an engagement, which may give rise to a pecuniary liability.

CHEQUE

A cheque is an unconditional order, drawn on a specified banker and is payable on demand. Cheque is one of the earliest forms of a credit instrument. It is utilized by consumers as a legitimate means of paying for goods and services received; the value of the cheque is underwritten by funds that are placed in a bank account. Upon the presentation by the recipient of the credit instrument, the bank deducts the specified amount as recorded on the cheque by the debtor. While the cheque is no longer the main credit instrument employed in many financial transactions, it remains in use by many businesses and individuals.

LETTER OF CREDIT

In a financial letter of credit (LC), the creditor guarantees the repayment of counter party's obligation and, in return, receives a one-time or periodic fee. Thus, a bank could issue a financial LC in support of a customer obtaining short-term cash from a money market fund that offers an attractive rate. In a financial LC, the bank essentially provides credit insurance. The instrument's contingent pay-offs mirror those of a credit default swap.

A Letter of Credit (LC) is a letter from a bank guaranteeing that a buyer's payment to a seller will be received on time and for the correct amount. In the event that the buyer is unable to make payment on the purchase, the bank is required to cover the full or remaining amount of the purchase. A letter of credit is often abbreviated as LOC or LC, and is also referred to as a documentary credit.

CREDIT CARD

The credit card is an example of a common credit instrument. Using a credit card to pay for a purchase creates a contract between the buyer and the seller. Essentially, the seller is extending credit to the buyer with the assumption that the company issuing the card will cover the amount of the purchase. In turn, the issuer of the credit card is anticipating that the cardholder will eventually pay off the amount of the debt along with applicable interest and finance charges.

Exercises

1.Explain the need for credit.
2. Outline five (5) functions of credit.
3. Credit makes possible the shifting of money to those people who can use it for________(a) needs (b) labour (c) supply (d) productivity
4. How does credit increase savings?
5. Write short notes on the following
a) Promisory note
b) cheque
c) Letter of credit

Commerce, SS2 Second Term,

WEEK 3

Topic: Trade Association

Content

1. **Trade Association – Aims and Functions**
2. **Chamber of Commerce – Aims and Functions**

TRADE ASSOCIATION

Trade association is an association of traders or producers engaged in the same line of trade, whose major aim is to protect and safeguard the interest of their members as well as their businesses.

Trade Associations may offer other services, such as producing conferences, networking or charitable events or offering classes or educational materials. Many associations are non-profit organizations governed by bylaws and directed by officers who are also members.

AIMS AND FUNCTIONS OF TRADE ASSOCIATION

1) Trade association aims at creating uniformity in their business activities.
2) It defends and advances the interest of members.
3) To maintain professional ethics of their line of trade.
4) It ensure their members charge uniform price.
5) To act as pressure groups in order to influence certain government policies.
6) It ensures members comply with industry standard.
7) Trade association mediate in disputes between members.

CHAMBER OF COMMERCE

Chamber of commerce is an association of merchants, manufacturers and businesses from different commercial fields or various lines of businesses with the aim of protecting their business interest.

There are national and international chambers of commerce such as; Lagos Chamber of Commerce, Ibadan Chamber of Commerce, London Chamber of Commerce etc.

AIMS OF CHAMBER OF COMMERCE

1) Chamber of Commerce promotes commercial activities.
2) It liaises with other chamber of commerce in relation to their business interest.
3) It influences the policy of government relating to commercial activities.
4) Chamber of Commerce promotes the business interest of it area of jurisdiction.

FUNCTIONS OF CHAMBER OF COMMERCE

1) It promotes home and foreign trade.
2) To educate members on government legislations.
3) To cooperate with other chambers of commerce.
4) They act as watchdogs in the administration of government laws.
5) To organize trade fairs and exhibitions.
6) To collect and disseminate information to members.

Exercises

1. Define trade association.
2. Give five (5) functions of trade association.
3. Explain the meaning of chamber of commerce.
4. What are the aims of chambers of commerce?
5. List four (4) features of chamber of commerce.

Commerce, SS 2 Second Term

WEEK 4

Topic: Other Forms of Trade Associations.

Content:

- Consortium, Cartel, Amalgamation/Merger, Trust, Holding, Price rings, Syndicate
- Their Aims, Functions, and reason for their Formation

Consortium

Short-term arrangement in which several firms (from the same or different industry sectors or countries) pool their financial and human resources to undertake a large project that benefits all members of the group. A consortium lasts for a period that is usually shorter than that for a syndicate.

Aims and Function of Consortium

1. The purpose of Consortiums is to create a cooperation platform between its members for to implement projects
2. Joint coordination the activities of members in achieving a set goal.
3. To pool together the resources of members in order to achieve a shared objective

Reasons for Forming a Consortium

1. To finance a project which requires large capital outlay
2. When the project is complex in nature

Cartel

A cartel is an organization created from a formal agreement between a group of producers of a good or service to regulate supply in an effort to regulate or manipulate prices. In other words, a cartel is a collection of otherwise independent businesses or countries that act together as if they were a single producer and thus are able to fix prices for the goods they produce and the services they render without competition. The

Organization of Petroleum Exporting Countries (OPEC) is the best example of an international cartel.

Aims and Functions of Cartel

1. The main objectives of cartels is joint profit maximization.
2. Cartels Aiming at the Sharing of the Market.

Reasons for forming a Cartel

1. To keep up the price of their products.
2. To ensure higher profits for members.
3. To reduce waste by eliminating competition.
4 To regulate output.

Amalgamation/Merger

Voluntary amalgamation of two firms on roughly equal terms into one new legal entity. Mergers are effected by exchange of the pre-merger stock (shares) for the stock of the new firm. Owners of each pre-merger firm continue as owners, and the resources of the merging entities are pooled for the benefit of the new entity. If the merged entities were competitors, the merger is called horizontal integration, if they were supplier or customer of one another, it is called vertical integration.

Aims and Objectives of Mergers

1. Economies of scale – bigger firms gains from lower average costs.
2. Market Power. The main benefit of a merger is to gain more market share.
3. More prestige.
4. Risk Avoidance.
5. Other Spheres of Influence.

Reasons for Mergers and Amalgamation

1. It is expected that when two companies merge to form a new bigger company, the value of the new entity will be more than the combined value of two separate companies.

2. Generally, any company has two options to grow, viz. organic growth and external growth. Organic growth is achieved by an increase in sales by making internal investments. External growth is achieved by an increase in sales by buying external resources through mergers and acquisitions.
3. A horizontal merger in a small industry will definitely help in increasing the market share.
4. Not every company can have all the resources or strengths required for a successful growth. There will come a time when the company wants to acquire the competencies and resources that it lacks. This can easily be done through mergers and acquisitions in a very cost effective way as compared to developing the capabilities internally.
5. Diversification of the company's total cash flows is a reason argued by managers for the mergers.

Trust

Business trust is a form of business organization which is similar to a corporation, in which investors receive transferable certificates of beneficial interest. The trustees are administer it for the advantage of its beneficiaries who hold equitable title to it. They administer the trust based on the terms set forth in the declaration of trust. The beneficiaries receive certificates of beneficial interest as evidence of their interest in the trust, which is freely transferable. Profits and losses resulting from the use and investment of the trust property are shared proportionally by the beneficiaries according to their interests in the trusts.

Aims and Functions of a Trust

1. A trust protects the assets of a business owner against personal creditors, because the assets of the trust belong to the trust alone. This means that creditors can not claim against personal assets
2. The admin costs of a business trust are less than that of a company or CC. For example, a trust is not legally required to hire an auditor, disclose financial statements, pay annual fees to the Registrar, and so on.

3. Taxes related to trusts are less complicated with regards to Income Tax, Capital Gains and the various documents that have to be submitted to FIRS, for example.

Reason for forming a Trust

1. To Protect Separate Property

Trusts are often used when individuals have separate property they do not wish to intermingle with their relationship property. If the separate property is placed in a Trust they no longer own this asset and it can then be kept separate from relationship property. This is particularly important to those people who have just left a relationship or have property and are forming a new relationship.

2. To Reduce Risk of Asset Loss through Business Failure

New Zealand is a country of small businesses and unfortunately some of them do not trade successfully. Placing your house in a Trust may help protect your family in the event of a business failure.

3. To Reduce Risk of Loss of Assets through Legal Action

As a country we seem to be becoming more litigious in nature. If your business is one that could expose you to a legal action through advice or actions, you may wish to protect your family by placing your home into a Trust.

4. For Succession Planning (passing assets from one generation to the next)

Most New Zealanders wish to provide for their families. This may be done by passing on the family farm or business or even just the family home. There are many obstacles to this happening. Using a Trust is a way to plan for the smooth succession of assets from one generation to the next.

5. To Gain Taxation Efficiency

When income is received in a Trust the Trustees can elect to either retain income within the Trust or allocate it to a beneficiary. This decision should be made in conjunction with the Trust's Accountant.

Holding

A holding company is a company that owns other companies' outstanding stock. The term usually refers to a company that does not produce goods or services itself; rather, its purpose is to own shares of other companies to form a corporate group.

A holding is a type of business organization that allows a firm (called parent) and its directors to control or influence other firms (called subsidiaries). This arrangement makes venturing outside one's core industry possible and, under certain conditions, to benefit from tax consolidation, sharing of operating losses, and ease of divestiture. The legal definition of a holding company varies with the legal system. Some require holding of a majority (80 percent) or the entire (100 percent) voting shares of the subsidiary whereas other require as little as five percent.

Price ring

Price rings is an association of a number of competing firms who have agreed to operate a common price policy for their competing products. Price rings advocates uniform price but allows competition among the firms. The firms are loosely associated together.

Syndicate

A syndicate is a temporary professional financial services group formed for the purpose of handling a large transaction that would be hard or impossible for the entities involved to handle individually. Syndication allows companies to pool their resources and share risks. There are several different types of syndicates, including underwriting syndicates, banking syndicates and insurance syndicates.

Exercises

1. Define consortium.
2. What are the main objectives of a business consortium?
3. Explain how cartels are formed.
4. State five (5) reasons for mergers and acquisitions.

5. Differentiate between a holding and a trust.

Commerce, SS 2 Second Term

WEEK 5

Topic: Insurance

Contents:

- **Definition of Insurance**
- **Importance of Insurance to Business and Individual**
- **History of Insurance**
- **Insurable and Non-insurable Risks**
- **Basic Principles: Insurable Interest, Indemnity, Utmost good faith etc**

Definition of Insurance

Insurance is a contract by which one party undertakes to indemnify (restore) another party against loss ,damages or liabilities arising from an unknown event.

It is a system of providing financial compensation for the effects of loss, the payment being made from accumulated contributions of all parties involved in the scheme.

Insurance is another of commerce, it is basically based on the principle of pooling of risk. The insured i.e the person insuring life or property contributes funds called premium to the insurer i.e the party who indemnify, the accumulated premium is then use to compensate the insured when the needs arise.

Assurance on the other hand is the cover on event that will surely occur at some time in the future, it is based on possibilities. Example is the death of a person. Insurable risk: These are the risk whereby the insurer is ready to take cover for because it is possible to collect, calculate and estimate the likely future loss. Example is motor vehicle insurance, fire insurance, life assurance etc.

Importance of Insurance

1. It helps in motivating workers
2. It facilitates international trade

3. It encourages investment
4. It ensures security of goods
5. It serves as an employment opportunities
6. It leads to risk reduction
7. it provides a means of savings
8. It serves as collateral security
9. It is for savings

History of Insurance

To understand how insurance operates in Nigeria, it is important to know the history of insurance in Nigeria. The birth of modern insurance in Nigeria is closely associated with the arrival of British Trading Companies. These companies facilitated inter-regional trade in the country. These foreign companies, therefore, needed to deal with some of their risks at a local level. This changed the shape of the insurance sector in Nigeria.

These trading companies were given insurance agency licenses by their foreign authorities from abroad. The licenses allowed the firms to facilitate claims supervision and issue covers.

In 1918, Africa and East trade companies inaugurated the Royal Exchange Assurance Agency. This was the first insurance company in the history of insurance in Nigeria. Other agencies included:

- BEWAC's Legal and General Assurance
- Patterson Zochonis (PZ) Liverpool
- Law Union and Rock

Due to the tragic effects of the Second World War, trade and commerce suffered both in the United Kingdom and in Nigeria. The initial years of Nigerian insurance companies witnessed slow growth between the 1920s and 1940s. Once the war got over, the insurance industry in Nigeria picked up its pace and made progress that would be embedded forever in the history of insurance in Nigeria.

The first insurance company indigenous to Nigeria was the African Insurance Company Limited. This was established in 1958. On October 1, 1960, the country gained Independence from the British. At the time of

Independence there were twenty five insurance companies in Nigeria. Only four of these were owned by Nigerians. In 1961 the J.C. Obande Commission report, a milestone in the history of insurance in Nigeria, was released. This led to the formation of the Nigerian Department of Insurance as part of the Federal Ministry of Trade. This department was later transferred to the Ministry of Finance. The Insurance Companies Act of 1961 made it necessary for insurance businesses to be grouped into various classes for registration. According to provisions of the Act, the office of the Registrar of Insurance was created. The purpose was to manage insurance practice in the country. Minimum capital requirement and other regulations for registration, monitoring, and control of insurance operations- these are some other provisions that fall under the other provisions of the Act.

In 1976, an Insurance Decree was released. This gave authorization to insurers, transfers, modes of operation, administrative, enforcement guidelines and penalties. By this time, the number of indigenous companies had outnumbered the foreign insurance companies.

In 1997, the National Insurance Commission was established. It was given the duty of overseeing and organizing insurance in Nigeria. This body is functioning as the main insurance regulator in Nigeria. An Insurance Special Supervisory Fund was set up in 1989, which made it compulsory for insurance companies to give in 1 percent of their gross earnings to the fund. This also strengthened the Insurance Supervisory Board.

The insurance industry in Nigeria has been steadily growing ever since.

Insurable and Non-insurable Risk

Non insurable risk: These are the risk whereby the insurer cannot take cover for because the likely future losses cannot be calculated and estimated. Example is loss of profit, risk due to war, poor location of business etc.

Insurable risk: An insurable risk is a risk that meets the ideal criteria for efficient insurance. The concept of insurable risk underlies nearly all insurance decisions. ... In other words, the risk cannot be catastrophic, or so large that no insurer could hope to pay for the loss.

Basic Principles of Insurance

1. Insurable interest: This principle states that a person can insure properties that will bring loss to himself alone and not other person. e.g a person cannot insure the building of his neighbor
2. Contribution: This principle states that in a situation where a person has insured his property in more than one insurance company, he cannot claim compensation from all the insurance company i.e if he has been settle by one of the insurance company he is not entitled to receive compensation from other insurance firm.
3. Proximate cause :This principle states that there must be a close connection between the loss actually suffered and the risk for which insurance has been taken out. Example is if Mr Ade insured his house against fire accident but the house collapse ,the insurance company will not pay compensation because the risk cover is fire accident and not collapsing.
4. Subrogation :This principle states that once the insurer has given indemnity for a loss the insurance company can take over the property insured and the right relating to it. Example is if Olefin's car had an accident and she have been compensated for it, the insurance company can take over the scrap of the car and sell it, the car no longer belongs to Mrs. Olofin but to the insurance company.
5. Abandonment : This principle states that a property can be abandoned if the cost of repairing is more than the actual value or if its actual loss is unavoidable
6. Indemnity : This principle states that the insured should be indemnified to the limit of the amount covered by the policy .it provides that the insured should be adequately compensated.
7. Utmost Good Faith (uberimae Fides) :This principle states that all relevant information about the property or object must be disclose to

the insurance company, this will help the insurer to determine weather to cover the risk or not.

Exercises

1. Define insurance.
2. What is meant by the term insurable risk?
3. Explain any four (4) circumstances when an insured may not be idemnified.
4. Write short notes on the following:

a) Marine insurance
b) Accident insurance
c) Group insurance
d) Fire insurance
e) Life insurance

5. Differentiate between insurable and non-insurable risks.

Commerce, SS2 Second Term

WEEK 6

Topic: Types of Insurance

Content:

1. Life Insurance: whole life and endowment, Non-life Insurance, Motor Vehicle, Fire, Fidelity, Burglary/Robbery/Theft, Accident, Marine, Export Credit etc.
2. Underwriting, Re-Insurance Corporation of Nigeria, Types of Risk, Fundamental risks, Particular risks, Speculation risks, pure risk, etc

Types of Insurance

a) **General Insurance**

a) **Fire Insurance:** Building due to fire.

b) **Contents Insurance:** Contents

c) **Comprehensive Fire Insurance:** Building, Contents, Riots, Floods and Earthquakes.

d) **Consequential Loss Insurance:** Loss of profit while rebuilding is going on.

b) **Motor Insurance**

a) **Minimum Legal Cover:** Injuries to third party on public roads only.

b) **Third Party Cover:** Includes injuries and damage to properties of third parties.

c) **Third Party, fire and theft:** Third Party plus, damage to car by theft or fire.

d) **Comprehensive:** As in C) plus damage to vehicle, personal injuries to driver and loss or damage of personal possessions while in car.

c) **Accidental Insurance**

a) Care Insurance: Theft, Accident and 3rd Party. b) Medical Policy Insurance:

c) Cash in Transit Insurance: Covers against loss due to robbery of cash in transit.

d) Workman compensation Insurance: Compulsory for employers to insure their employees against any accident during working hours.

d) **Liability Insurance**
a) Employer Liability: For accidents at work owing to employers negligence.
b) Public Liability: To cover claims made by the public as a result of damage to their property or life.
c) Professional Liabilities: Taken by lawyers, doctors, architects and engineers to cover against claims due to their personal negligence.
d) Insurance of Interest/ Fidelity bond: Guarantee by to cover embezzlement of employs.
e) **Life Assurance**
a) Whole Life policy: Lump sum payable at death.
b) Endowment policies: Agree sum payable at the end of a number of years on the maturity of the
policy, death which ever is sooner.
c) Family income protection policy: Paid on death of insured in series of regular payment.
d) Mortgage payment Insurance: On the death of legal mortgager, company pays.
e) Group Insurance: Taken by small employer for employees in place of pension scheme for employees
f) **Marine Insurance**
a) Ship and installation
b) Passengers
c) Crew
d) Port and installation
e) Cargo
f) Fright
g) Public Liability
g) **Aviation Insurance**
a) Planes
b) Crew
c) Passengers
d) Port Installation

e) Public Liability
f) Cargo
h) **Nuclear Insurance**

TYPES OF RISK

There are different types of risk. The most important types of risk include:
(i) Pure Risk
(ii) Speculative Risk
(iii) Particular Risk
(iv) Fundamental Risk
(v) Static Risk
(vi) Dynamic Risk.

PURE RISK

Pure risk is a situation that holds out only the possibility of loss or no loss or no loss. For example, if you buy a new textbook, you face the prospect of the book being stolen or not being stolen. The possible outcomes are loss or no loss. Also, if you leave your house in the morning and ride to school on your motorcycle you cannot be sure whether or not you will be involved in an accident, that is, you are running a risk. There is the uncertainty of loss. Your motorcycle may be damaged or you may damage another person's property or injured another person. If you are involved in any one of these situations, you will suffer loss. But if you come back home safely without any incident, then you will suffer no loss. So in pure risk, there is only the prospect of loss or no loss. There is no prospect of gain or profit under pure risk. You derive no gain from the fact that your house is not burnt down. If there is no fire incident, the status quo would be maintained, no gain no loss, or a break-even situation. Therefore, it is only the pure risks that are insurable.

SPECULATIVE RISK

Speculative risk is a situation that holds out the prospects of loss, gain, or no loss no gain (break-even situation). Speculative risks are very common in business undertakings. For example, if you establish a new business, you

would make a profit if the business is successful and sustain loss if the business fails.
If you buy shares in a company you would make a gain if the price of the shares rises in the stock market, and you would sustain a loss if the price of the shares falls in the market. If the price of the shares remains unchanged, then, you would not make a profit or sustain a loss. You break-even. Gambling is a good example of speculative risk. Gambling involves deliberate creation of risk in the expectation of making a gain. There is also the possibility of sustaining a loss. A person betting $500 on the outcome of the next weekend English Premier League Match faces both the possibility of loss and of gain and of no loss, no gain. Most speculative risks one dynamic risk with the exception of gambling situations.
Other examples of speculative risk include taking parts in a football pool, exporting to a new market, betting on horse race or motor race.
Speculative risks are no subject of insurance, and then are therefore not normally insurable. They are voluntarily accepted because of their two-dimensional nature of gain or loss.

Liability Risks

Most people in the society face liability risk. The law imposes on us a duty of care to our neighbour and to ensure that we do not inflict bodily injury on them. If anyone breaches this duty of care, the law would punish him accordingly. For example, if you injure your neighbour or damage his property, the law would impose fines on you and you may have to pay heavy damages.
Unfortunately, one can be found liable for breach of duty of care in different ways and the best security seems to be the purchase of liability insurance cover.

Property Risks

Property owners face the risk of having their property stolen, damaged or destroyed by various causes. A property may suffer direct loss, indirect loss, losses arising from extra expenses of maintaining the property or losses brought about by natural disasters.

Natural disasters such as flood, earthquake, storm, fire etc can bring about enormous property losses as well as taking several human lives. The occurrence of any of these disasters can seriously undermine the financial security of the affected individual, particularly if such properties are not unsecured.

FUNDAMENTAL RISK

A fundamental risk is a risk which is non-discriminatory in its attack and effect. It is impersonal both in origin and consequence. It is essentially, a group risk caused by such phenomena like bad economy, inflation unemployment, war, political instability, changing customs, flood, draught, earthquake, weather (e.g. harmattan) typhoon, tidal waves etc. They affect large proportion of the population and in some cases they can affect the whole population e.g. weather (harmattan for example). The losses that flow from fundamental risks are usually not caused by a particular individual and the impact of their effects falls generally on a wide range of people or on everybody. Fundamental risk arise from the nature of the society we live in or from some natural occurrences which are beyond the control of man.

PARTICULARS RISKS

A particular risk is a risk that affects only an individual and not everybody in the community. The incidence of a particular risk falls on the particular individual affected. Particular risk has its origin in individual events and its impact is localized (felt locally). For example, if your textbook is stolen, the full impact of the loss of the book is felt by you alone and not by the entire members of the class. You bear the full incidence of the loss. The theft of the book therefore is a particular risk.

If your shoes are stolen, the incidence of the loss falls on you and not on any other person. Particular risks are the individual's own responsibility, and not that of that society or community as a whole. The best way to handle particular risk by the individual is the purchase of insurance cover.

STATIC RISK

Static risks are risks that involve losses brought about by irregular action of nature or by dishonest misdeeds and mistakes of man. Static losses are present in an economy that is not changing (static economy) and as such, static risks are associated with losses that would occur in an unchanging economy. For example, if all economic variables remain constant, some people with fraudulent tendencies would still go out steal, embezzle funds and abuse their positions. So some people would still suffer financial losses. These losses are brought about by causes other than changes in the economy. Such as perils of nature, and the dishonesty of other people. Static losses involve destruction of assets or change in their possession as a result of dishonesty. Static losses seem to appear periodically and as a result of these they are generally predictable. Because of their relative predictability, static risks are more easily taken care of, by insurance cover then are dynamic risks. Example of static risk include theft, arson assassination and bad weather. Static risks are pure risks.

DYNAMIC RISK

Dynamic risk is risks brought about by changes in the economy. Changes in price level, income, tastes of consumers, technology etc (which is examples of dynamic risk) can bring about financial losses to members of the economy. Generally dynamic risks are the result of adjustments to misallocation of resources. In the long run, dynamic risks are beneficial to the society. For example, technological change, which brings about a more efficient way of mass producing a higher quality of article at a cheaper price to consumers than was previously the case, has obviously benefited the society.

Dynamic risk normally affects a large number of individuals, but because they do not occur regularly, they are more difficult to predict than static risk.

Underwriting

Underwriting is the process of agreeing to bear the financial risk inherent in an insurance contract. The insurance underwriters assess the risk that is being insured, for instance, fire damage to a house. The underwriters receive the insurance premium from the homeowner and in return, the underwriters agree to provide compensation for damages that result from a fire.

Nigeria Reinsurance Corporation

Nigeria Reinsurance Corporation was established under the Nigeria Reinsurance Corporation Act No. 49 of 1977. It commenced operations on January 1st, 1978 as Nigeria's flag reinsurer, wholly owned by the Government of the Federal Republic of Nigeria.

The purpose for the establishment of the Corporation was to stem the outflow of funds in form of reinsurance premiums, by accepting legal cession of all local insurance policies and writing inward international reinsurance businesses.

From the N1, 500,000 take off capital granted the Corporation by the Federal Government of Nigeria, it has today an authorized share capital of N4,500,000,000 at 50k each with an issued and fully paid up capital of N2,258,605,000 at 50k.

In line with the privatization policy of the Federal Government of Nigeria, the Corporation's 51% equity was acquired in December 2002, by Reinsurance Acquisition Group – the Management buy out vehicle, while the Government retained 49% interest. The former stake was later taken over by Barr. (Dr) Jimoh Ibrahim (OFR) who has since become the core investor.

Exercises

1. List five (5) types of risks.
2. Explain six (6) types of insurance.
3. Differentiate between pure risks and speculative risks.
4. What does it mean to "undewrite" a risk?
5. Write a short note on the Nigeria Reinsurance Corporation.

Commerce, SS 2 Second Term

WEEK 7

Topic: Consumer Protection

Content:

1. Meaning
2. The need for Consumer Protection
3. Government legislation in: food and drug Act 1955, Weight and Measure Act of 1963, Price Control decree of 1979, Trade description Act of 1966 etc

Meaning of Consumer Protection

Consumer protection is a group of laws and organizations designed to ensure the rights of consumers, as well as fair trade, competition, and accurate information in the marketplace. The laws are designed to prevent the businesses that engage in fraud or specified unfair practices from gaining an advantage over competitors. They may also provide additional protection for those most vulnerable in society. Consumer protection laws are a form of government regulation that aim to protect the rights of consumers. For example, a government may require businesses to disclose detailed information about products—particularly in areas where safety or public health is an issue, such as food.

Reasons for Consumer Protection

- Unfair trading practices of businessman.
- Inability of consumers to asses claims of advertisers.
- Ignorance of consumers that products may endanger their health or life.
- Safeguarding the religious beliefs of consumers.
- Ignorance of customers of their rights.

Legislation

In order to check the unfair practices of producers and middlemen, various legislations or laws have been enacted by the government. Some of the laws to protect the consumers are:

1. Food and Drug Act 1955
2. Weight and Measure Act of 1963
3. Price Control decree of 1970
4. Trade description Act of 1968
5. Standard Organisation Decree 1971
6. Hire Purchase Act 1975
7. Sales of Goods Act 1893
8. Rent Edict

Food and Drug Act 1955

This law provides regulations for the regulation of the manufacture, sales and adverstisement of food, drugs, etc. The Act provides that:

a. goods that has poisonous or harmful substances is unfit for human consumption.

b. adulterated goods or drugs must not be sold.

c. all goods must be accurately labeled with the ingredients contained in the food.

d. the Act allows for environmental health officers to close down any premises which sell unfit food products.

e. the Act had been amended by various food hygiene laws which maintain how food products are prepared in restaurants and pubs, but the underlying legality of the Act remains.

Weight and Measure Act of 1963

a. Under the Weights and Measures Act, it is illegal for businesses and manufacturing firms to sell goods which are not to the specific weights or measure as described on their packaging.

b. Manufacturers can get away slightly with powdered goods as they can state that the goods may settle under transportation.

c. Standard weights and measure systems are used.

Price Control Decree 1970
The decree was introduced to control inflation by fixing the retail prices of some commodities. This is to provide stabilization of general price levels.
Trade Description Act 1968
This was introduced to prevent the deception of consumers by false advertising. It prohibits misleading description of goods and services.

Standard Organisation Decree 1971
The decree established the standard organisation of Nigeria (SON) to standardize methods and products in industries and to ensure compliance with government policy in standardization.

Hire Purchase Act 1975
The hire purchase act was passed with the objective of placing a break on the catalogues of injustices inherent in hire purchase transactions. It provides for the requirements relating to hire purchase and credit sale agreements.

Rent Edict
The rent edict was introduced to curb the excesses of landlords and agents. It serves to control rent charges by landlords, ensure compliance with the edict, ensures rights of the tenant and to also curtail the activities of caretakers and agents.

Sales of Goods Act 1893
Sales of goods act was introduced to regulate the respective rights and duties of the vendor and purchaser. The provisions are; the sellers has the right to sell in any contract of sales, the goods must correspond with description, the bulk must correspond with samples and also that the goods must fit the purpose for which they are required.

Exercises

1. Define Consumer Protection.
2. State five (5) reasons why a Nigerian consumer needs protection.
3. What are the major goals of the food and drug act of 1955?
4. What are the objectives of the of Standard Organsiation?
5. Write short notes on the following government legislations:

a) Sales of Goods Act

b) Rent Edit

c) Hire Purchase Act

Commerce, SS 2 Second Term

WEEK 8

Topic: Consumer Protection Control

Content:

1. Instrument of Protection, Organ or agencies of Consumer Protection
2. Consumer Association, Manufacturer Accosiation, Rent Tribunal, Price Control Board, etc

Agencies responsible for Consumer Protection

The following agencies are responsible for consumer protection

- **Price Control Board:** Price control board was established for the federation for the purpose of controlling inflation by fixing the retail prices of certain essential commodities. The price control board also ensures that the provision of the price control decree is practised.

Functions of the price control board

1. To fix prices for some essential goods
2. To protect low income earners
3. To prevent hoarding of goods by the sellers
4. To control inflation

- **Environmental Protection Agency**: The basis of environmental policy in Nigeria is contained in the 1999 Constitution of the Federal Republic of Nigeria. Section 20 of the Constitution empowers the state to protect and improve the environment; and safeguard the water, air and land, forest and wildlife of Nigeria.

Objectives of the Environmental Protection Agency

1. To maintain clean sewage system
2. To ensure disposal of refuse
3. To ensure the treatment of polluted water

4. To ensure that the companies who caused pollution compensated the people in the environment

- **Rent Tribunals**: Rent tribunals are also set up by the government to regulate any matter relating to rentage of shops, landed space, houses. They are established so as to curb the excesses of lands and agents by controlling rent charges.

Functions of Rent Tribunals

1. To curtail the excesses of the agents and landlords
2. To control rent charges by lanlords
3. To fix rent for certain categories of houses, considering the location
4. To ensure compliance with the rent edict by prosecuting offenders

- **Food and Drug Department of Ministry of Health:** The duty of this organization is handled by the National Agency for Food and Drug Administration and Control (NAFDAC) is charged with the administering the provision of the food and drug decree.

Functions of Food and Drug Department of Ministry of Health

1. It helps to control and monitors the sale of canned food
2. The department ensures that drugs to be sold are tested for safety purpose
3. It regulates and monitors advertisements in media
4. It ensures that the drugs to be sold are tested for safety purpose

- **Ministry of trade and Industry:** The ministry of trade and industry in collaboration with other organs administer government laws and regulations relating to trade and industry in a country.

Functions of the ministry of trade and industry

1. It monitors the setting up of business

2. It enforces laws on trade and industry
3. The ministry ensures compliance with various act.
4. The ministry ensures that most of goods imported or exported are regulated

- **Consumer Association:** Consumer association are formed by consumers to protect their rights and interests. They study the prices and the quality of goods sold in their locality and make recommendations to their members.

Objectives of forming consumer association

1. To promote and protect the interest of consumers
2. To act as a guide against deceptive and misleading advertisement
3. To act as a check against exploitation of consumers by the manufacturers
4. To educate the consumers about their rights
5. To pressurize the producers to produce high quality goods
6. To check arbitrary increases in prices of goods

- **Manufacturers Association:** Manufacturers association is an association of producers who come together to ensure that the quality of goods produced is high and that the members comply with their professional ethics. E.g Manufacturer Association of Nigeria (MAN)

Functions of the Manufacturers Association

1. They protect the interest of their members
2. They ensure high quality goods and services
3. They serve as a link between members and the Government
4. They ensure uniformity in prices of goods
5. They ensure members abide with their professional ethics

Test and Exercises

Write out different agencies involved in consumer protection and state their functions and objectives.

Commerce, SS 2 Second Term

WEEK 9

Topic: Transportation

Content:

1. Meaning and Importance of Transportation
2. Forms of Transport: land, water, air and pipeline.
3. Advantages and disadvantages of each choice of transportation

Meaning of Transportation

Transportation is the movement of people, animals and goods from one location to another. Modes of transport include air, rail, road, water, cable, pipeline and space. The field can be divided into infrastructure, vehicles and operations. Transport is important because it enables trade between people, which is essential for the development of civilizations.

Transport infrastructure consists of the fixed installations including roads, railways, airways, waterways, canals and pipelines and terminals such as airports, railway stations, bus stations, warehouses, trucking terminals, refueling depots (including fueling docks and fuel stations) and seaports. Terminals may be used both for interchange of passengers and cargo and for maintenance.

Forms of Transportation

Road Transport

This is the transport of passengers or goods on roads.

Advantages

- 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

- 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

Rail transport is a means of conveyance of passengers and goods on wheeled vehicles running on rails, also known as tracks.

Advantages

- 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

- Involves documentation.
- Need for loading and unloading cargo many times.
- Trains can not go any where.
- 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
A transportation system for moving passengers or goods by air.

Advantages

- Quick.
- Safe handling of cargo.
- Not effected by topography.
- 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

- Expensive.
- Effected by weather conditions.
- Has constraints as far as carrying of cargo is concerned.
- Limited space.

Sea Transportation
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

- 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

- Very slow.
- Very rigid.
- It is effected 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.

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:

- 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.

Disadvantages:

- Expensive to own, Capital cost increases.
- Dependence on skilled labor.

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

Exercises
1. Define transportation.
2. In what ways does transport aide trade?
3. State five (5) reasons why road transport would be preferred to rail transport.
4. What four (4) factors would determine the mode of transportation by a businessman?
5. What is a charter party?

Commerce, SS 2 Second Term

WEEK 10

Topic: Documents involved in Transportation

Content:

- Advice note, Bill of Lading, Freight note, etc.
- Terminologies associated with transportation

Documents involved in Transportation

Air waybill, bill of lading, carrier's certificate, etc., that serves as an evidence of acceptance and receipt of goods for carriage and may also serve as a document of ownership (title).

When items are transported either domestically or internationally the delivery must be accompanied by the relevant documentation. The amount of documentation varies depending if the shipment is within the Nigeria or to another country. As far as interstate transportation of goods in the Nigeria, there are three documents that are of greatest importance; the bill of lading, freight bill, and the Free On Board (FOB) terms of sale.

Bill of Lading

The bill of lading is the most important document that is used in transporting goods. The legal definition of a bill of lading is a contract for the carriage of goods and a document of title to them. It provides any and all information that the carrier will need to transport the items. It contains the shipment origin and the contract terms for the transportation and is required by a carrier before the shipment is taken.

Freight Bill

The freight bill is the carriers invoice to the shipper for all the charges that the carrier has incurred.

The carrier's freight bill will include the details of the shipment, the items being shipped, the consignee, the origin, and destination, as well as total weight and total charges.

Some carriers can ask for prepayment from the shipper if the value of the items being shipped is less than the total expected freight charges. If the charges are not prepaid then the carrier can present a freight bill on collect. This implies that the carrier will present the freight bill on the day of delivery.

FOB Terms of Sale

Free on Board (FOB) terms of sales documents which party will be liable for the transportation costs, which party is in control of the movement of the goods, and when the title passes to the buyer.

If the FOB terms of sale indicate that it is FOB Delivered then this implies that the shipper will be responsible for all of the carrier's costs. If the terms of sale show FOB Origin, then this means that the buyer will take the title for the goods when they are shipped and they will incur all the transportation costs.

CMR Document

The CMR transport document is an international consignment note used by drivers, operators and forwarders alike that govern the responsibilities and liabilities of the parties to a contract for the carriage of goods by road internationally.

The carrier usually completes the form, but the sender – in other words, the exporter – is responsible for the accuracy of the information and must sign the form when the goods are collected. The consignee will also sign the form on delivery, which is essential for the carrier to be able to confirm the delivery of the goods and to justify the payment for its services.

Air Waybill AWB

An Air Waybill AWB is a non-negotiable transport document covering transport of cargo from airport to airport.

The Air Waybill must name a consignee (who can be the buyer), and it should not be required to be issued "to order" and/or "to be endorsed" as it is not a title of property of the merchandise. Since it is not negotiable, and it does not evidence title to the goods, in order to maintain some control of goods not paid for by cash in advance, sellers often consign air shipments to their sales agents or freight forwarders' agents in the buyer's country.

Cargo Insurance Certificate

The Cargo Insurance Certificate is a document indicating the type and amount of insurance coverage in force on a particular shipment. It includes the name of the insurance company and conditions of coverage. The original copy of the Cargo Insurance Certificate is required in the filing of a claim. Copies of documents necessary to support an insurance claim include the insurance policy or certificate, bill of lading, invoice, packing list, and a survey report (usually prepared by a claims agent).

Some Terminologies associated with transportation

- **Accessorial Charge:** Amount billed for additional, supplemental or special services provided, usually a flat fee. Examples include: Tarps, dunnage, layovers, detention, etc.
- **All-in Line Haul:** FSC + Line Haul.
- **Backhaul (Head haul):** The return movement of a transportation vehicle from its delivery point back to its point of origin.
- **Bill of Lading (BOL):** Paper document between a shipper and carrier acknowledging the receipt of goods for transport. Describes the nature of the cargo, amount of cargo by weight, size and/or number of pieces, and the origin and destination of cargo.
- **Broker (freight):** Individual or company that serves as a liaison between another individual/company that needs shipping services and an authorized motor carrier. Determines the needs of a shipper and connects that shipper with a carrier capable of transporting the items at an acceptable price.
- **Carrier:** Utilizes trucks and/or trailers to move goods from point A to point B.
- **Coil Racks:** Prefabricated cradles made of wood or steel made to hold rolled coils to keep them from rolling on a trailer.
- **Compliance, Safety, and Accountability (CSA):** An FMCSA program designed to provide motor carriers and drivers with attention from FMCSA

and State Partners about their potential safety problems with the ultimate goal of achieving a greater reduction in large truck and bus crashes, injuries, and fatalities.

• **Commodity:** Any article of commerce, including raw material, manufactured or grown products.

• **Consignee:** The person or location to whom the shipment is to be delivered whether by land, sea or air.

• **Container (Shipping Container):** Standard-sized rectangular box used to transport freight by ship, rail or highway. International shipping containers are 20' or 40', conform to International Standards Organization (ISO) standards and are designed to fit in ships' holds. Domestic containers are up to 53' long, of lighter construction and are designed for rail and highway use only.

• **Distribution Center (DC):** A location where goods and materials are stored until they are ready to be moved to their end destination.

• **Dead-Heading:** Operating a truck without cargo.

• **Declared Value:** The value of a shipment imported for resale, as declared by the shipper or owner.

• **Dedicated Team:** A team of drivers who take turns driving a dedicated truck.

• **Dedicated Truck:** Refers to a driver pulling freight for one specific customer only, where only that load is on the truck. No partial loads can be added.

• **Detention/Demurrage:** Charge by the carrier for excess retention of their equipment. Typically caused by untimely loading or unloading.

• **Door-to-Door:** Synonymous with Thru Trailer Service (TTS) but can also mean simply handling the shipment from the shipper to the consignee.

• **Double Drop:** A flatbed with the lowest deck. Normally used for oversized or over-height loads.

• **Department of Transportation (DOT):** Oversees U.S. federal highway, air, railroad, maritime and other transportation administration functions.

• **D.O.T. Number:** License administered to for-hire carriers by the Department of Transportation. (Not the same as Motor Carrier #).

• **Dunnage:** Filler material placed in empty spaces to keep cargo from moving or falling. Typically lumber, foam padding or inflatable bags.

• **Duty Status:** Drivers must maintain a daily 24-hour logbook (Record of Duty Status) documenting all work and rest periods. It must be kept current to the last change of duty status. Records of the previous 7 days must be retained by the driver and presented to law enforcement officials on demand.

• **Escorts:** Vehicles assisting in the movement of large, over-dimensional shipments. Escorts make sure the truck has plenty of space to move and alerts drivers of a shipment coming towards them. Help stop traffic with beacon lights and/or flags.

• **Excess Value:** Amount of declared value of a shipment that is above the carrier's limit of liability.

• **Expedited:** The process of shipping at a faster rate than normal. Usually includes team drivers, overnight and/or air services.

• **Federal Motor Carrier Safety Administration (FMCSA):** Operates within the D.O.T. with a mission to prevent commercial motor-vehicle related fatalities and injuries by enforcing safety regulations and improving safety information systems.

• **Freight Class:** In LTL shipping, the category of freight as defined by the National Motor Freight Traffic Association. Identifies the size, value, and difficulty of transporting your freight. This determines the carrier's shipping charges.

• **Freight Forwarder:** Facilitates shipping of goods for a third party. Similar to a 'Freight Broker' but typically handles international goods, is defined as a carrier and can be held responsible for claims and loss of cargo.

• **Fuel Surcharge (FSC):** The price of fuel can substantially change the cost of moving freight. Therefore, the Energy Information Administration of the U.S. Department of Energy publishes a U.S. National Average Fuel Index every week. Transportation companies will often include a FSC to the cost of moving freight either based on cents per mile or percentage of the line haul amount.

Exercises

1. Explain the importance of transportation documents in commerce.
2. What are the most important documents used in transportation in Nigeria?
3. What is the meaning of Air Waybill?
4. How is Cargo Insurance Certificate used in transportation?
5. Write short notes terminologies associated with transportation:
a) Bill of lading
b) Compliance, Safety, and Accountability
c) Freight class

SS 2
THIRD TERM NOTES ON COMMERCE

TABLE OF CONTENT

THIRD TERM

WEEK 1:	: WAREHOUSING
WEEK 2:	: HISTORY OF NIGERIAN CAPITAL MARKET
WEEK 3:	: STOCK EXCHANGE
WEEK 4:	SECOND-TIER SECURITIES MARKET
WEEK 5:	: CAPITAL
WEEK 6:	: CAPITAL (CONT'D)
WEEK 7:	: PROFIT
WEEK 8:	: PROFIT (CONT'D)
WEEK 9:	: COMMUNICATION
WEEK 10:	: COMMUNICATION (CONT'D)

SS 2 Commerce First term

WEEK 1

Topic: Warehousing

Content –

- **Meaning of Warehousing**
- **Importance of Warehousing**
- **Functions of Warehousing**
- **Types of Warehousing**

Meaning

Warehousing is the means of storing manufactured goods or goods that are bought in a particular place until they are needed. However, warehouse is a place where goods are stored until they are demanded by the consumers.

Importance of Warehousing

1. It provides employment opportunities such as clerks, managers, store keeper etc
2. It ensures constant supply of goods by the producer or retailer
3. It ensures production of goods ahead of demand
4. It provides security for goods
5. It facilitates repackaging and branding of goods.
6. It ensures constant supply of goods
7. It helps to eliminate seasonal problem
8. It brings about stability of price
9. Warehouse makes a producer or wholesaler reliable.
10. It attracts customers.

Functions of Warehouse

i. Storage of goods

The basic function of warehouses is to store large stock of goods. These goods are stored from the time of their production or purchase till their consumption or use.

ii. Protection of goods

A warehouse provides protection of goods from loss or damage due to heat, dust, wind and moisture, etc. It makes special arrangements for different products according to their nature. It cuts down losses due to spoilage and wastage during storage.

iii. Risk bearing

Warehouses take over the risks incidental to storage of goods. Once goods are handed over to the warehouse-keeper for storage, the responsibility of these goods passes on to the warehouse-keeper. Thus, the risk of loss or damage to goods in storage is borne by the warehouse keeper. Since it is bound to return the goods in good condition, the warehouse becomes responsible for any loss, theft or damage, etc. Thus, it takes all precautions to prevent any mishap.

iv. Financing

When goods are deposited in any warehouse, the depositor gets a receipt, which acts as a proof about the deposit of goods. The warehouses can also issue a document in favour of the owner of the goods, which is called warehouse-keeper's warrant. This warrant is a document of title and can be transferred by simple endorsement and delivery. So while the goods are in custody of the warehouse-keeper, the businessmen can obtain loans from banks and other financial institutions keeping this warrant as security. In some cases, warehouses also give advances of money to the depositors for a short period keeping their goods as security.

v. Processing

Certain commodities are not consumed in the form they are produced. Processing is required to make them consumable. For example, paddy is polished, timber is seasoned, and fruits are ripened, etc. Sometimes warehouses also undertake these activities on behalf of the owners.

vi. Grading and branding

On request warehouses also perform the functions of grading and branding of goods on behalf of the manufacturer, wholesaler or the importer of goods. It also provides facilities for mixing, blending and packaging of goods for the convenience of handling and sale.

vii. Transportation

In some cases warehouses provide transport arrangement to the bulk depositors. It collects goods from the place of production and also sends goods to the place of delivery on request of the depositors.

Types of Warehouse

1. Bonded warehouse: bonded warehouse is usually located at the port, for storing goods whose duties have not been paid.
2. Manufacturer warehouse: This is warehouse owned by the producer of goods to store their goods until they are demanded.
3. State warehouse: It is a warehouse where smuggled goods are kept until they are been sold. It is owned and controlled by the Government of a country.
4. Public warehouse: Public warehouse is usually owned by private individual who let it out to anybody for safekeeping of their goods. The person who hires a public warehouse pay rents to the owner.
5. Wholesale warehouse: wholesale warehouse are located near distribution or sales centers. It is owned by the wholesaler to store all the goods bought.

Test and Assessment

1. A place where goods are stored before they are needed is called (a)Bed room (b)office (c)rest room (d)warehouse. Ans (d)
2. A warehouse for storing goods whose duties have not been paid is called (a)wholesale warehouse (b)public warehouse (c)bonded warehouse (d)state warehouse. Ans (c)
3. All of these are types of warehouse except (a)Boss warehouse (b)public warehouse (c)state warehouse (d)bonded warehouse. ans(a)
4. A person who hires public warehouse must pay what is called (a)premium (b)interest (c)rent (d)dividend. ans (c)
5. All of these are importance of warehousing except (a)storage facilities (b)stability of price (c)employment opportunities (d)increase exchange rate. ans (d)

Commerce, SS 2 Third Term

<u>WEEK 2</u>

Topic: History of Nigerian Capital Market

Content:

1. History of Nigerian Capital Market: 1946 (Development Stock), 1960 (Lagos State Exchange Act), 1962 (Capital Issue Commission), 1979 (SEC Commission Decree 71)

The origins of the Nigerian Capital Market date back to colonial times when the British Government ruling Nigeria at the time sought funds for running the local administration. Most these funds derived from agriculture, produce marketing and solid mineral mining. Discovering that these sources were inadequate to meet its growing financial obligations, the colonial administration decided to expand its revenue base by reforming the system of revenue mobilization, taxation and other payments. It also saw the need to raise funds from public sector to cover temporary shortfalls in funds availability. Hence, it found it necessary to establish a financial system by setting up the basic infrastructure for its take off pending the development of an organized private sector.

According to Odife (2000:6), the first step in this direction was to secure the necessary finance for the development of this infrastructure and long-term capital project. This it did in 1946 when it promulgated the 1946 10-year plan Local Loan Ordinance for the floatation of the first N300,000, 3% Government stock 1956/61 with its management vested on the Accountant-General.

In 1957, the government and Other Securities (Local Trustees Powers) Acts was enacted. This law specified the types of securities in which trust funds may be invested. It also clearly defined the powers and responsibilities of trustees. In addition, the colonial government set up the Professor Barback committee to examine the ways and means of fostering a share market in Nigeria. Part of the terms of reference of this committee included the possibility of establishing a capital market in Nigeria. The committee recommended, among others, the creation of facilities for dealing in shares , the establishment of rules regulating share transfer and

measures for encouraging savings and issues of securities of government and other organizations.
By the end of the year (1957), the colonial administration had promulgated the General Loan and Stock Act and the Local Loan (Registered Stock and Securities) Act on the recommendations of the Barback Committee.
In 1958, the Central Bank of Nigerian was established through the Central Bank of Nigeria Act of 1958. The purpose of these various legislations was to establish the legal and infrastructural frame work for the take off of a viable securities/capital market in Nigeria. As a follow up to these laws, the colonial administration issued the first N2 million Federation of Nigeria Development Loan Stock in May 1959.
In 1959, it also enacted the Statutory Corporations (Guarantee of Loans) Act. In April 1960, the Central Bank of Nigeria issued the first Nigerian Treasury Bills which were meant to provide an avenue for the investment of short-term liquid funds in Nigeria and assist in providing government with funds pending receipt of its own revenues.
On September 15, 1960, the Lagos Stock Exchange was incorporated as a private limited liability company, limited by guarantee under the provisions of the Lagos Stock Exchange Act 1960. The Lagos Stock Exchange Act 1960 conferred monopoly powers on it members to deal in securities granted quotation on the Exchange. It also allowed the Central Bank to Deal directly in securities. On June 5, 1961, the Lagos Stock Exchange opened for business with 19 listed securities made up of 3 equities, 6 Federal Government Bonds and 10 industrial loans.
In 1961, “the National Provident Fund was established as a compulsory contributory savings scheme aimed at providing some protection to contributors at old age, invalidity or temporary loss of employment”. The enabling Act required the Fund to invest its surplus funds only in securities in Nigeria authorized by the Trustee Investment Acts of 1957 and 1962 and restricted to securities created or issued by or on behalf of the government of the federation (SEC, 1999:49). By 1962, the Exchange Control Act and Trustees Investment Act were enacted. The Capital Issues Committee was also constituted to examine and recommend the establishment of an apex monitoring institution for the growing Nigerian

Capital Market. In 1966, the Borrowings by public Bodies Act was enacted. This was followed in 1968 by the Companies Decree and the Banking Decree in 1969. In 1972, the Nigerian Enterprises Promotion Decree was promulgated which was followed in 1963 by the Capital Issues Commission Decree. The Capital Issue Committee thus became the apex regulatory body for the Nigeria Capital Market. By this decree, it was empowered to determine the price and timing of new issues of securities through offer for sale or for subscription.

In 1977, the name of the Lagos Stock Exchange was changed to the Nigerian Stock Exchange by the Indigenization Decree of 1977 followed the recommendations of the Industrial Enterprises Panel (Adeosun Panel) of 1975 that branch exchanges should be established. As a result, six new trading floors of the Nigerian Stock Exchange were created in Kaduna (1978), Port Harcourt (1980), Kano (1989), Onitsha (1990) and Yola (2002). On April 1, 1978, the Securities and Exchange Decree was promulgated to replace the Capital Issues Commission and expand the scope of its activities following the recommendations of the Financial System Review Committee (Okigbo Committee) of 1976. The Committee also recommended the establishment of multiple exchanges and the approval of share allotments by the Securities and Exchange Commission. In 1978, the first state government revenue bond was floated by the defunct Bendel State of Nigeria. The N20 million 7% first Bendel State Loan was floated to finance the state's housing development programme. On April 5, 1985, the Second-tier Securities Market (SSM) of the Nigerian Stock Exchange was established to cater for the requirements of small and medium scale enterprise.

It essentially diluted the listing requirements of this category of companies to encourage them to seek quotation and thereby further broaden and deepen the market. In 1987, the Nigerian Enterprises Promotion Decree 34 (Issue of non-voting equity shares) was promulgated permitting public companies quoted on the Nigerian Stock Exchange to issue through the Exchange, non-voting paid-up shares for the subscription of persons whether citizens of Nigeria or not and whether resident in Nigeria.

In 1988, the functions of the Securities and Exchange Commission were further expanded by Decree 29 of 1988 to include the review and approval of all mergers, acquisition and combinations between or among companies. In 1988 also, the Privatization and Commercialization Decree 25 was promulgated. This Decree provided for the privatization of some enterprises in which the Federal Government of Nigeria has equity interest and the commercialization of some Federal Government wholly-owned enterprises. The exercise that ensued from this Decree brought more companies to the Nigerian Stock Exchange whose shares were thus listed.

Test and Exercises

1. Briefly trace the evolution of the Nigerian Capital Market from 1946 to the present time.
2. What are the factors militating against the Nigerian Capital Market?
3. State the achievements of the Financial System Review Committee (Okigbo Committee) 1976.

Commerce, SS 2 Third Term

WEEK 3

Topic: Stock Exchange

Content:

1. Meaning of Stock Exchange
2. Importance of Stock Exchange
3. Functions of Stock Exchange
4. Organizational Set-Up
5. Meaning of securities
6. Types of securities
7. Factors affecting prices of securities
8. Speculators at the stock exchange.

Stock Exchange: This is a specialized market for the buying and selling of securities, these securities are shares, stock, bonds, debentures, etc; which represent ownership interest in business.

It is an organized market where investors can buy and sell existing securities. It is an essential part of the capital market. The market deals in old existing shares only, it serves as a source of raising capital as well as a venue for financial investment.

The Nigeria stock exchange market is in Lagos and has branches in Abuja, Portharcourt; it was established in 1960 through the act of parliament. Some of the companies quoted in the market are: Nigeria Breweries, First Bank PLC, Union Bank PLC, Nestle Food Nigeria PLC. etc.

The need for stock exchange arises from two main factor, firstly, many people desire to save their excess money after meeting their financial basic needs, instead of spending this money extravagantly, they can decide to invest the money in company shares or government bond where the money will yield more income. The second factor is from the desire of companies and even the government to raise money for business expansion and development of project.

Importance of stock exchange

1. Stock exchange serves as an avenue for employment; it provides job opportunities for the brokers, jobbers, clerks etc
2. It's an avenue for raising capital; individuals, companies and government can raise money through the stock exchange.
3. It is a market for investment; it creates avenue for people to invest in any sector of the economy.
4. It leads to increases in the standard of living; Investment opportunities will lead to more income which will affect consumption and automatically increase the standard of living.
5. It facilitates transfer of investment: An investor can withdraw his investment from one company if he wishes and transfer into another one.
6. It provides yardstick for measuring the performance of companies.
7. It provides information to the investors.

Functions of the stock exchange

1. **Sales of securities**: The stock exchange market is the venue for buying and selling of old securities.
2. **Fund mobilization**: The stock exchange market is a capital market so capital can be raised and mobilized by companies and investors.
3. **Valuation of price of securities**: The market can fix prices for securities through the forces of demand and supply.
4. **They provide professional advice**: The stock exchange provide professional advice to the investors on sales and management of securities.
5. It encourages companies to be efficient
6. They make provision for rules and regulation.

Organizational Set- Up

Transactions at the stock exchange market are conducted by members only. Thus members of the public are not allowed or prevented from transacting business directly on the market.

Members are mainly classifies as brokers, jobbers, authorized clerks and the unauthorized clerks.

BROKERS: These are agents who deal with the members of the public who are interested in the purchase of sale of shares and any other securities. They are the connecting link between the buyers and the sellers of securities. They receive a commission called BROKERAGE for the service rendered. Brokers do not specialized in any particular type of shares and can therefore obtain any particular type of shares for their clients.

JOBBERS: Jobbers deal on their own behalf instead of acting as agent. They specialized in a particular type of share and they transact business with brokers instead of the members of the public. They buy and sell to brokers quoting two prices, one at which they will buy and the other at which they will sell. A jobber derives his profit from the difference between the buying price and the selling price which is known as JOBBERS TURN.

AUTHORIZED CLERK: They are employed either by the brokers or the jobbers and automatically become member of the stock exchange which make them have access to the floor of the house to do business on behalf of their employer.

UNAUTHORIZED CLERK: They are also employed by the brokers and jobbers, they are also known as the setting rooms clerk and are responsible for routine and clerical work in the office with no access to the stock exchange floor.

Meaning of Securities

Securities are the investments that are traded at the stock exchange market to yield revenue.

Types of Securities

1. **Shares**: These are capital of companies which have been issued a number of fixed portions which cannot be subdivided, shares are issued to members of the public in various denominations like 250 naira, 50 naira etc. It is an individual portion of the company's capital owned by shareholders; It is the interest which a person has in a company.
2. **Debentures**: These are long term loan from members of the public to a public company. Holders of debentures are never part of the owners of the company like the shareholders but are creditors to the company. They are paid interest on the money they lend to public companies.
3. **Bond**: A bond is a security issued by the government or its agency or private institutions as a means of raising funds. They are usually due to be redeemed at some future date and they carry a fixed rate of interest
4. **Stock**: It can be defined as the bundle of share or mass of capital which can be transferred in fractional amount. They are always fully paid.
5. **Gilt Edged**: This is a security issued by the government with a fixed rate of interest, it is the safest security as government cannot fail to pay its debt.
6. **Blue Chips**: These are securities that are nationally known, they are also regarded as safe investment.

Factors affecting prices of securities

1. Political situation of the country
2. Rate of interest on securities

- **Instability in prices of shares**

1. The activities of the speculators
2. The forces of demand and supply

Speculators at the stock exchange market.

Speculators are those who buy shares at low price when the demand for them is low and sell them at higher prices when the demand for them is high.

There are three speculators in the stock exchange market namely:

1. **BULL**: These are speculators who buy securities with the intention of selling them at higher price before the payment of the security is due. He buys with an anticipation of a rise in price.
2. **BEAR**: This is a speculator who sells stock in anticipation of a fall in prices of securities, he expect prices of securities to fall before delivery date and then sell out to make good profit.
3. **STAG**: A stag is a speculator who applies for new issues of shares and sock in large quantities with the feeling or anticipation that prices will rise above the offer prices. The stag hope to make profit after selling.

Test and Exercise

1. The specialized market for the buying and selling of old securities like shares, debentures, bonds etc is called (a) market (b)stock market (c) exchange market (d) stock exchange market.
2. The commission a broker receive for the service rendered is called (a)brokers turn (b)brokerage (c)jobbers turn (d)interest.
3. All of these members of the stock exchange have access to the stock exchange floor except (a) unauthorized clerk (b) jobbers (c) authorized (d) brokers.
4. The stock exchange market was established in the year———–(a) 1973 (b)1960 (c)1889 (d)2007.
5. All of these are importance of stock exchange market except (a) It's an avenue for raising capital (b)it provides employment opportunities (c)it discourages foreign investors (d)It is a market for investment
6. ——– are the investment that are traded at the stock exchange market (a)securities (b)public shares (c)speculators (d)none of the above.

7. Types of securities are all of these except (a)shares (b)stock (c)bonds (d)brokers.
8. The safest security to invest in is (a)stock (b)debentures (c)gilt edge (d)shares.
9. The speculator who buys securities with an anticipation of a rise in price is (a)stag (b)bear (c)bull (d)jobber.
10. All of these can affect the prices of securities except (a)forces of demand and supply (b)activities of speculators (c)location of the stock exchange market (d)political situation of the country.

Commerce, SS2 Third Term

WEEK 4

TOPIC: Second-tier Securities Market

CONTENT –

- Meaning, Listing of companies for the market
- Advantages of companies and to the investing public

Meaning of Second-tier Securities Market

A second market established by The Stock Exchange in Lagos in 1985 to list the securities of smaller companies which are unable to meet the requirements for listing on the more stringent segment (main market) of the Exchange.

Listing of companies for the market

A Company applying for Admissibility to Listing on a STM or is applying for the
Admissibility of its Debt Securities must:

1. appoint the services of a Sponsor (see Listing Rule 10.20);
2. be legally established under the laws of its country;
3. have published Accounts that conform with Generally Accepted Accounting
Principles and Practice or equivalent standards;
4. ensure that the Securities listed are freely transferable;
5. adopt, by board resolution, that the Issuer abides by the continuing obligations Listing Rules.
6. In the case the Company has been generating revenue for less than two (2) years, the
Directors and all employees must agree not to sell any interests they may have in the
Company's Securities for at least one (1) year from the date of being authorised as
Admissible to Listing on a STM.

7. The Applicant must pay the fees as set by the Listing Authority from time to time.

Advantages of listing to the general public

1. It provides liquidity to investments. Security holders can convert their securities into cash by selling them as and when they require.
2. Shares are traded in an open auction market where buyers and sellers meet. It enables an investor to get the best possible price for his securities.
3. Ease of entering into either buy or sell transactions.
4. Transactions are conducted in an open and transparent manner subject to a well defined code of conduct. Therefore, investors are assured of fair dealings.
5. Listing safeguards investors interests. It is because listed companies have to provide clear and timely information to the stock exchanges regarding dividends, bonus shares, new issues of capital, plans for mergers, acquisitions, expansion or diversification of business. This enables investors to take informed decisions.
6. Listed securities enable investors to apply for loans by providing them as collateral security.
7. Investors are able to know the price changes through the price quotations provided by the stock exchanges in case of listed securities.
8. Listing of shares in stock exchanges provides investors facilities for transfer, registration of rights, fair and equitable allotment.
9. Shareholders are provided due notice with regard to book closure dates, and they can take investment decisions accordingly.

Advantages of listing to companies

1. Listed securities are preferred by the investors as they have better liquidity.
2. Listing provides wide publicity to the companies since their name is mentioned in stock market reports, analysis in newspapers, magazines, TV news channels. This increases the market for the securities. As Hasting has observed, “A listed security will receive more attention from investment advisory services than an unlisted one.”
3. Listing provides a company better visibility and improves its image and reputation.

4. It makes future financing easier and cheaper in case of expansion or diversification of the business.
5. Growth and stability in the market through broadening and diversification of its shareholding.
6. Listing attracts interest of institutional investors of the country as well as foreign institutional investors.
7. Listing enables a company to know its market value and this information is useful in case of mergers and acquisitions, to arrive at the purchase consideration, exchange ratios etc.
8. By complying with the listing requirements, the operations of the company become more transparent and investor friendly. It further enhances the reputation of the company.

Test and Exercises

1. What is the meaning of Second-tier Securities Market
2. What is the main difference between What is the meaning of Second-tier Securities Market and normal stock exchange?
3. What are the requirements needed to register a company in the Second-tier Securities Market?
4. State five (5) ways the public benefit from the Second-tier Securities Market.
5. What are the advantages of listing on the Second-tier Securities Market for a medium level company?

Commerce, SS2 Third Term

WEEK 5

Topic: Capital

Contents:

1. **Meaning of Capital**
2. **Accountant points of view**
3. **Economics points of view**
4. **Laymen's understanding**
5. **Types of Capital of capital e.g. Authorized, issued called up, paid up, capital employed, capital owned, working capital/circulating capital etc**

Definition of Capital

Capital refers to financial assets or the financial value of assets, such as cash and funds held in deposit accounts, as well as the tangible machinery and production equipment used in environments such as factories and other manufacturing facilities.

Accountant's view; Accountant's defined capital as the net worth of a business; capital is seen as the original fund with which a person starts a business. He considers capital as synonymous to money; it is the excess of assets over liabilities

The Economist view of the definition of capital; To the Economist, Capital is known to be one of the factors of production.

The layman's view of the definition of capital; To an ordinary man, capital is defined as the total amount of money available for running a business.

Types of Capital

1. Authorized, Registered or nominal capital: This is the total amount of money which a company or an organization is allowed to issued out to

public. It is the amount stated in the memorandum of association and approved by the registrars of companies which a company can issue out for subscription.

2. Issued capital: This is part of the nominal capital that the company is willing to issue out to the public for subscription at a particular point in time.
3. Called up capital: This is part of the issued capital that the people have been asked to make payment for.
4. Paid up capital: This is part of the called up capital which the shareholders have paid for.
5. Uncalled capital: This is part of the issued capital which that is yet to be called up for payment.
6. Loan capital: This is the total amount of money borrowed from external sources to run a business.
7. Capital owned: This is the excess of value of asset of a business over its liability. It is the net worth of a business.
8. Capital employed: This is the total asset of a business both fixed and current asset. It is the total value of the resources used in running a business.
9. Liquid capital: This is the asset that can easily be converted to cash
10. Fixed capital: This is the durable capital of a business; it is used continuously for further production. They are not for immediate consumption but for production of other goods.
11. Working or circulating capital: This is the ready and available funds for business daily transaction i.e cash at hand. It is the money available for payment of wages and salaries, buying of raw materials, money available for transportation and every day to day expense. Working capital can be calculated as Current Assets – Current Liabilities.

Test and Exercises

1. Give the meaning of capital market?
2. Define the capital market from a layman's point of view.
3. Differentiate between how an accountant and a economist see the capital market.

4. State and explain eight (8) types of capital market.

Commerce, SS 2 Second Term

<u>WEEK 6</u>

Topic: **Capital (cont'd)**

Content:

1. Importance of working capital
2. Calculation of working capital
3. Meaning of profit- Account points of view of profit
   - Economics points of view of profit
   - Laymen's understanding of profit

Importance of Working Capital.

- It helps to determine the funds that will be available for running a business.
- It helps to know if the business is solvent or not i.e to know if the business have the ability to settle debt without selling fixed asset
- It serves as a check against holding down too much money for current asset.
- It is a sign to show the healthiness of a business, working capital help an investor to know if to invest in a business or not.
- Working capital helps to determine the funds that will be available for the running of the business on a daily basis.
- The life span of any business depends on its working capital
- It helps bankers in determining either to grant loan or overdraft to customers.

Calculation of Working Capital

Let's look at Paula's Retail store as an example. Paula owns and operates a women's clothing and apparel store that has the following current assets and liabilities:

- Cash: $10,000
- Accounts Receivable: $5,000
- Inventory: $15,000

- Accounts Payable: $7,500
- Accrued Expenses: $2,500
- Other Trade Debt: $5,000

Paula would can use a net working capital calculator to compute the measurement like this:

Net Working Capital		
$15,000	=	$30,000 - $15,000

Since Paula's current assets exceed her current liabilities her WC is positive. This means that Paula can pay all of her current liabilities using only current assets. In other words, her store is very liquid and financially sound in the short-term. She can use this extra liquidity to grow the business or branch out into additional apparel niches.

If Paula's liabilities exceeded her assets, her WC would be negative indicating that her short-term liquidity isn't as high as it could be.

Example 2:

Below is an example balance sheet used to calculate working capital, where "CA" is Current Assets, "CL" is Current Liabilities, and "WC" is Working Capital.

Current Assets:		
Cash	$20,000.00	CA
Accounts Receivable	15,000.00	
Inventories	45,000.00	
	80,000.00	-
Current Liabilities:		
Accounts Payable	$25,000.00	CL
Short-term borrowings	5,000.00	
Accrued liabilities	10,000.00	=
	40,000.00	
Working Capital	$40,000.00	WC

Working Capital
It is the money used by the business to finance routine expenses.
Working Capital= Current Assets- Current Liabilities
Working Capital Ratio
Ratio show the extent of business financial stability
Working Capital Ratio = Current Assets / Current Liabilities
Working Capital should ideally between 1 and 2.

Meaning Of profit
To the layman, profit can be defined as the financial gain or benefit which a firm realizes from his business or transaction dealings. Profit also relates to the gain resulting from investing one's capital in a business. The purpose or motive of any business is to make profit.

To the economist profit is the reward an entrepreneur gets for risk taking in starting a business or a company while **the accountant** sees profit as the excess of income over expenditure. He views profit from two perspective: Gross profit and net profit.

Exercises
1. Give six (6) reasons working capital is important to a businessman.
2. Explain the concept of working capital.
3. Draw a diagram to show the 'working capital cycle' and explain its components.
4. Define profit.
5. How does an accountant see profit?

Commerce, SS 2 Third Term

WEEK 7

Topic: Profit

Contents:

1. Types of profit
2. Items in the Trading Profit and Loss Account
3. Uses of Trading profit and loss Accounts
4. Factors affecting profits
5. Calculation of Gross profit and Net profit

Types of Profit

1. Gross profit: Gross profit is the differences between the total sales for goods and cost of goods sold.
2. Net profit: It is the excess of gross profit over the selling, distribution and administration expenses.

Items found in Trading Profit and Loss Account

1. **Purchase**: This can be defined as the cost of the goods bought for resale, It Is The Total Of Cash And Credit Purchase It Does Not Include Fixed Asset And Most Be Debited In The Trading Account.
2. **Sales**: Is The Total Amount Of Cash And Credit Sales During The Trading Period, Sales Is Credited To The Trading Account And It Does Not Include Sales Of Fixed Asset.
3. **Opening Stock**: Is The Stock Of Goods Available For Sales At The Beginning Of The Trading Year Before Purchase Are Made.
4. **Closing Stock** :Is The Stock Of Goods Available At The End Of The Trading Year.
5. **Return Outward**: This Are Part Of The Goods Purchased That Are Return Back To The Suppliers ,It Is Deducted From The Purchased.

6. **Return Inward**: This Is Part Of The Goods Sold That Are Return Back By The Customer ,It Is Deducted From Total Sales To Arrived At The Net Sales.
7. **Carriage Inward:** Is The Cost Of Transporting Goods Purchase To The Point Of Sales, It Is Added To The Cost Of Purchase.
8. **Cost Of Goods Available For Sales:** Is The Total Value Of Goods To Be Sold After Adding Goods Purchase With The Opening Stock.
9. **Cost Of Goods Sold**: Is The Cost Of Goods Actual Sold ,Is Arrived By Deducting The Closing Stock From The Cost Of Goods Available For Sales.

Uses of Trading profit and loss Accounts

1. Profit and loss account is the base of analyzing the performance of company.
2. We can find net profit or net loss from profit and loss account. This will be useful for taking the decision of payment of dividend.
3. Employees may demand reward on the basis good performance in profit and loss account.
4. Bank can take decision for providing more loan to company, if bank sees good net profit in profit and loss account.
5. Company can fix the accountability, if company suffers net loss in profit and loss account.
6. Company can take the decision for increasing the prices of product if expenses are showing more what we are expecting in profit and loss account.
7. Company can calculate different profitability ratio on the basis of items of profit and loss account.
8. Current year profit and loss account is the base of comparing its figure with past year profit and loss account.
9. Current year profit and loss account is the base of comparing its figure with other competitor's profit and loss account.
10. After making profit and loss account, company can create its relationship with company's balance sheet for deep insight. Company can

calculate return on investment, return on total assets and inventory turnover ratio.

Factors affecting profits

Sales Changes

Changes in sales is the most visible item that influences a company's gross profit. Both external and internal factors influence changes in sales. External factors include economic health, market stability, and natural factors, such as weather-related disasters. Internal factors include the marketing effort behind the company's product line, pricing, and payment options available to the customer.

Materials Price Changes

Raw materials are a major component of cost of goods sold. External factors are generally considered to be a substantial driver of raw materials price changes. Political unrest, weather and geological disasters, and global supply issues are the common factors that affect cost of goods sold. A change in materials price is a surefire way of affecting gross profit.

Labor Price Changes

In addition to materials, labor costs are another major part of cost of goods sold. Changes in labor costs can include a range of labor-related costs, including labor cost changes, insurance changes and changes in other fringe benefits. Poor human resource management is a key reason for labor cost increases in a company. Additionally, regulation regarding minimum wage is an external source of labor costs increases.

Inventory Method Changes

The inventory method that is implemented in a company has an impact on a company's gross profit. The FIFO (first in, first out) inventory method uses inventory that is purchased first earliest in the production process, causing cheaper materials to be used in the current period. Inventories that are purchased at earlier dates are typically considered to be purchased at a lower price due to inflation. LIFO (last in, last out) uses the most recently purchased materials first, resulting in higher material prices, decreasing gross profit.

Calculation of Gross profit and Net profit

Gross Profit

Overall profit on trading

Gross Profit = Net Sales- Cost of Goods Sold

Net Profit

Final profit of the business after deducting all the expenses.

Net profit = Gross profit – Operating expenses

Test and exercises

1. State and explain the types of profits.
2. List and describe the items that can be found on the trading profit and loss account.
3. Give six (6) why a companies need a trading profit and loss account.
4. What factors affect profits?
5. Calculate the gross profit when net sale is N400 and cost of goods sold is N250.

Commerce, SS 2 Third Term

WEEK 8

Topic: Profit (cont'd)

Content:

1. Turnover; meaning, factors that affect turnover
2. Relation of capital to turnover, calculation of capital to turnover.
3. Rate of turnover
4. Percentage of gross or net profit to turnover
5. Explanation of variation in turnover in different types of business

Meaning of Turnover

This is the value of total sales of an organization during an accounting period. The turnover of a business is another name for sale.

Rate of turnover: This is the number of times the value of average stock of a business is sold during the year. The rate of turnover varies from one product to another. Expensive goods have slow turnover rate while perishable goods have rapid rate.

Factors that can affect turnover

1. The goodwill and reputation of the seller
2. The types of goods
3. Advertisement and sales promotion
4. Nearness of the business to consumer
5. Reduction in prices
6. Increase in the quantity of goods sold
7. Constant availability of goods.

Working Capital Turnover

Working capital turnover is a measurement comparing the depletion of working capital used to fund operations and purchase inventory, which is then converted into sales revenue for the company. The working capital turnover ratio is used to analyze the relationship between the money that funds operations and the sales generated from these operations. For example, a company with current assets of $10 million and current liabilities of $9 million has $1 million in working capital, which may be used in fundamental analysis.

Working Capital Turnover Ratio

$$= \frac{\text{Revenue}}{\text{Average Working Capital}}$$

Working Capital = Current Assets − Current Liabilities

Average Working Capital

$$= \frac{\text{Opening Working Capital + Closing Working Capital}}{2}$$

Example

Calculate and analyze the working capital turnover ratios of General Electric (NYSE: GE), United Technologies Corporation (NYSE: UTX) and Amazon Inc. (NYSE: AMZN) for financial year 2012. Relevant extracts from their financial statements are given below. All amounts are in USD in million.

	GE	**UTX**	**AMZN**
Revenue	147,359	57,708	70133
Current Assets	428,729	29,610	21296
Current Liabilities	221,403	23,786	19002

Rate of turnover

This is the number of times the value of average stock of a business is sold during the year. The rate of turnover varies from one product to another. Expensive goods have slow turnover rate while perishable goods have rapid rate.

Percentage of gross or net profit to turnover

Gross Profit as a percentage of sales

Sales revenue does not tell the total picture of performance. The sales revenue of a business may significantly increase with only marginal increase in actual gross profit. Gross profit as a percentage of sales

provides information on the profitability of sales; that is the gross profit per $100 of sales.
The formula is:

$$\frac{\text{Gross Profit}}{\text{Sales}} \times \frac{100}{1} = \text{Gross profit as a percentage of sales}$$

Net profit as a percentage of sales
Net profit as a percentage of sales provides information on the profitability of sales; that is the net profit per $100 of sales.
The formula is:

$$\frac{\text{Net Profit}}{\text{Sales}} \times \frac{100}{1} = \text{Net profit as a percentage of sales}$$

Explanation of variation in turnover in different types of business
Mega grocery stores, discount stores, and warehouse clubs often have small profit margins but have high turnover ratios. The small profit margins as a percent of sales exist because of intense competition. The inventory turnover ratios are high because the stores feature the fast selling brands at low prices. Their strategy is that huge sales volumes with small profit margins will still result in adequate net income dollars.
In contrast to the stores with low profit margins and high turnover ratios, is a heavy equipment manufacturer with a high demand product that takes six months to manufacture. If this manufacturer has few or no competitors, a great product, and an excellent reputation for service, its profit margin can be very large. Unlike the discount stores, its inventory turnover will be very very low.
There can also be differences within the same industry. For example, one computer company might assemble and ship computers within hours of receiving the order via its website. Its inventory turnover will be off the charts, perhaps 90 times per year. If most of its customers pay with credit cards at the time the computer is shipped, the company will have very little in accounts receivable and will enjoy great cash flow. Another computer

company might sell only through retailers. This company will have to assemble the computers in advance, store them, and then extend 60 days credit to the retailers. Obviously its turnover ratios will be less impressive than the ratios of the first company.

A company's management is another variable that explains differences in the profit margin and turnover ratios. Some managements are more focused, aggressive and disciplined in processing orders, controlling inventory. and improving processes. Companies with less proficient managers could end up having less impressive turnover ratios and profits.

Test and Exercises

1. Define turnover in business.
2. What are the factors that affect turnover?
3. Explain Rate of turnover.
4. Attempt an explanation of variation in turnover in different types of business.
5. Explain gross profit as a percentage of sales.

SS 2 Commerce Third Term

WEEK 9

Topic: Communication

Content – Meaning of communication

The development and the means of communication in Nigeria

Traditional/Early media of communication of communication in Nigeria

Importance of communication

Barriers to effective communication

Communication can be defined as the transmission of information from one person to another.

It is the process of exchanging meaningful information, opinion, ideas and feelings from one person to another. It's a two-way process which involves sending and receiving messages.

Communication involves the sender and the receiver. It is a vital aspect of commerce because it is a means whereby the buyer and the seller are able to transact businesses.

The Development And The Means of Communication in Nigeria.

The earliest and perhaps the simplest means of communication is the human voice. Communication at that time was based on the existing level of development of other devices that were developed by man over the years to transmit information beyond the range of human voice. Some of the development includes wooden drums, metal gongs, talking drums, message carriers or town criers, smoke signal, bells, gun blast etc. The British introduced the post and telegraph which eventually developed into the present day communication system in Nigeria.

Traditional / Early Media Of Communication

1. Town criers: This is the means where a person passes or transmits information from one place to another on foot or horseback. They use different instrument to get people's attention.

2. Wooden/Talking drums: Talking drum is made up of hewn pieces of wood with a curved out groove in the middle. It is knocked with two wooden sticks to produce different sounds for different messages.
3. Gun blast: Gun shots are used to signify traditional festivals and burials in some African communities. Hunters also use it for hunting expedition
4. Smoke signals: This is the means whereby bushes are set on fire. The smoke can then be use to pass an information, whoever sees the smoke will know that something is happening.
5. Metal gong: metal gong is a hollow metal beaten with another metal to pass information to the community members, on hearing the sound the community member will gather at the village square to hear the latest information in the community. Other ones are
6. Flutes
7. Bells
8. Trumpets
9. Palm frond

Importance of Communication

1. Communication helps in creating awareness for goods and services in other to encourage buyers to buy.
2. communication helps to reduce the cost and risk involved in travelling

Communication enhances international trade, through modern means various markets are linked together.

1. It provides and facilitates good and efficient means of maintaining good relationship with customers
2. The post office means of remitting money like money order has facilitated the movement of money from one country to another.
3. Messages could be communicated easily within and outside the country through the use of phones or internet.
4. Communication provides good and fast mean of spreading information
5. It ensures quick and fast delivery of goods or document

6. It helps to promote commercial activities thereby making world a global village
7. It also enhances the settlement of local and international debt.

Barriers to effective communication

- Cost.
- Speed.
- Accuracy of information.
- Availability.
- Nature of information.
- Secrecy of information.
- Distance.

Test and Exercise

1. the two forms of communication are (a)normal and abnormal (b)oral and written (c)sender and receiver (d)physical and non physical. Ans (b)
2. All of these are examples of traditional means of communication except (a)gun-shot (b)town criers (c)metal gong (d)telephones. ans (d)
3. The process of transmitting meaningful information, opinions, ideas or feelings from one person to another is (a)information (b)communication (c)institution (d)Association. ans(b)
4. The person passing the information is———- and the person it is sent to is———-(a)receiver, sender (b)winner, looser (c)buyers, sellers (d)sender, receiver
5. All of these are importance of communication except (a)It ensures quick and fast delivery of goods (b)It ensures quick and fast delivery of information (c)It facilitates delivery of money and goods that is not demanded for (d)It facilitate movement of money from one country to another. ans (c)

SS 2 Commerce Second Term

WEEK 10

Topic: Communication (Cont'd)

Content- Nigeria Postal Service (NIPOST)
Nigeria Telecommunication Limited (NITEL)
Satellite
Courier services

Nigeria postal service (NIPOST)

The first post office in Nigeria was established in 1856 in Lagos. NIPOST was originally and jointly constituted as the department of postal and telecommunication (p and T). But in 1984 the telecommunication division of postal and telecommunication was merged with the Nigeria external telecommunication (NET) limited to form the Nigeria telecommunication limited.

The other postal division was reconstituted into an extra ministerial department known presently as the Nigeria postal service (NIPOST).It was charged with the responsibility of ensuring proper handling of mails.

Functions of NIPOST

1. Parcel post: This ensures that parcels are handed to the post office for transmission from one person to another. Parcel post are involves heavy document. The weight determines the charges.
2. Ordinary letters: The post office helps to distribute ordinary letters mailed to its customers. Before a letter can be delivered stamps must be affixed on it

- Registered letters: This is the means whereby the post office ensures that letters are registered after making payment to safeguard them. Registered letters have lines drawn at the back horizontally and vertically.

1. Recorded delivery: This service is rendered to the person sending mails to have a proof of delivery. It is good for important documents as certificate of posting will be sent to the sender while charges are paid.
2. Post Restante: The post office renders this service to travelers or tourists that are visiting another town. Other functions involve
3. Licensing of franking machine

- Business reply service
- Proper handling of all postal items without any breach of trust

1. Payment services through money order, cash on delivery services, sales of stamps, settlement of debt.

Nigeria Telecommunication Limited (NITEL)
NITEL was incorporated as limited liability Company to provide telecommunication services to the public and to oversee the transmission of messages from one place to another.

Functions of NITEL

1. Telephone services: It is the fastest means of transmitting verbal messages. Subscribers are given opportunity to pass message or information to one another after being linked by the operator. NITEL provides local and international call services.
2. Telex services: This are messages received from NITEL through printed forms instead of oral messages. NITEL sends printed urgent messages by telex facilities, each subscriber is assigned a telex number and the system is operated by direct dial, the number must be dialed before typing can be done.
3. Telegram: NITEL sends telegram messages from one person to another. A telegram is a bridge message sent at express speed to reach its destination faster than the air-mails letter. Charges are made based on the number of words.
4. Maritime mobile service: This is useful especially in time of emergency in sea transport.

5. It renders data transmission or data services/fax/internet.

Satellite

A satellite is communication equipment which is deployed and stationed in the space to send signal to different countries of the world

Functions of Satellite

1. It ensures international or global transmission of messages
2. It ensures that live events are covered and watched all over the World
3. It provides telephone and television links among nation of the world.
4. Video conferencing meetings are made possible.

Courier Services

courier services are rendered by private owned courier companies to provide reliable and efficient means of conveying urgent documents within and outside the cities and towns. Companies providing this services in Nigeria are UPS, Fedex,DHL, etc.

Functions of Courier Service

1. They provide door to door services
2. Banking services
3. Provision of efficient means of mail delivery
4. Ensure cordial relationship
5. Shipment of goods
6. Render services in all location
7. Transportation of loads
8. They provide long hours of service
9. They provide business reply service to customers
10. They ensure safe delivery of document.

Test and Exercise

1. NIPOST is majorly charged with the responsibility of ——–(a)ensuring proper handling of mails (b)ensuring improper handling of mails

(c)encouraging transportation of goods and services (d)manufacturing of mails. ans (a)

2. ——-is the communication equipment which is deployed and stationed in the space to send signals to different places in the world (a)NIPOST (b)NITEL (c)satellite (d)courier. ans (c)
3. All of these are functions of NIPOST except (a) Express letters (b)parcel post (c)register letters (d)disregards letters. Ans (d)
4. maritime mobile service is useful during emergencies in (a)air transport (b)sea transport (c)road transport (d)rail transport. ans (b)
5. ———— is charge with the duty of providing telecommunication service to the public and oversee the transmission of messages and information from one place to another (a)NIPOST (b)courier (c)satellite (d)NITEL. ans (d)