

**O LEVEL**

**COMMERCE**

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We have taken every effort to try and get hold of the copyright holders of any information we have reproduced without acknowledgement. We will appreciate the help from anyone to enable us contact the copyright holders whose permission we have not yet obtained.

S. Madzingira

## **PREFACE**

The vision of the Study Pack project is to create a self-sufficient information base for the student. With this aim in mind this Study Pack provides all the necessary topical material in a simplified manner. This edition has been updated with a new component at the beginning of each chapter, being the chapter objectives. This component gives a learning guide to the student as much as it gives a teaching guide to the teacher. Therefore this edition is compliant with the learning-by- objective method.

Another new component has been added at intermittent stages in the chapters. These are the Activities which are meant to involve the student fully in the learning process on a stage-by-stage method of learning. At the end of every chapter, the study pack provides exam type questions in multiple choice and essay forms. In view of this arrangement, the Commerce Study Pack becomes one of the most useful resources at ‘O’ Level. It prepares the student adequately for the examinations. Use of local examples gives more credit to this edition and makes it user-friendly.

*Success is our goal*

# CHAPTER 1

By the end of this chapter you should be able to

- define Commerce.
- explain why small firms survive.
- describe production.
- state the advantages and disadvantages of specialization.
- describe the factors of production.
- outline the stages of production.
- describe the divisions of production.

## Introduction to Commerce

### Production

- Production is the provision of goods or services to satisfy human needs and wants. Goods are tangibles like motor vehicle, clothes groceries etc. On the other hand, services are things that cannot be touched like legal advice, entertainment and teaching.
- Needs are things which people can hardly live without, that, is they are critical in sustaining human life. These include food, shelter, clothing, water, oxygen etc.
- Wants are an extension of human needs which are critical in improving standards of living. People can live without them, for example, Television (TV), Digital versatile disks (DVD), home theatre systems etc.
- Producers provide goods and services for example fisherman, farmer, doctors, at a profit. Consumers make use of money to obtain these.

### **Direct Production**

This is a situation where human beings try to satisfy their needs and wants using their efforts. For example producing own food, farmer producing for own consumption, sewing own clothes and build own houses. In this economic set up, the standard of living is very low due to lack of specialization.

### **Indirect Production**

Is a set up, where individuals concentrate in producing what they know best. Production is mainly for sale not for own use for example commercial farmers, professional builders etc.

- People work in occupations they are proficient in and leave those occupations they are not skilled in to those with necessary expertise.

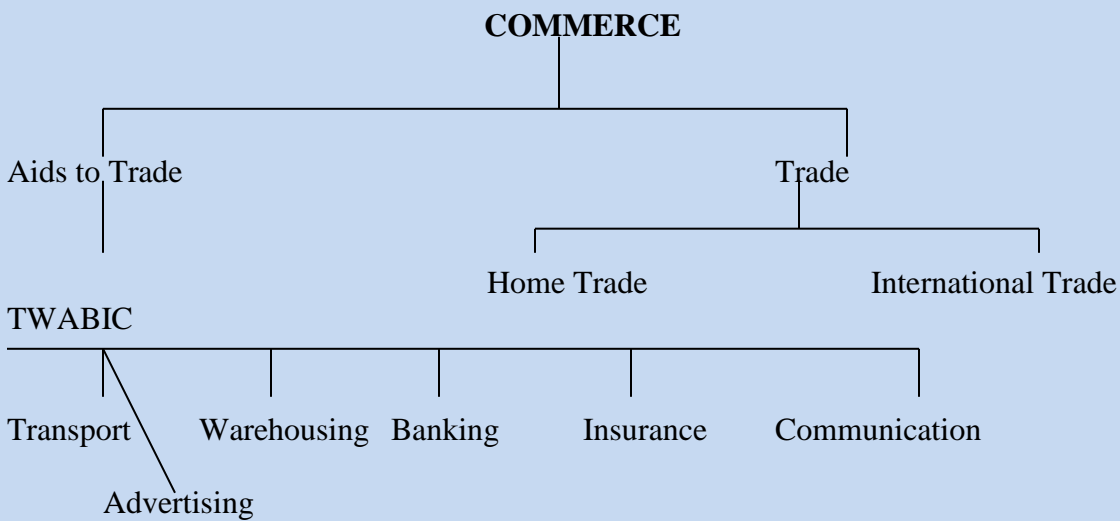


- Goods and services ultimately reach the consumer who needs the products to satisfy his needs.

### **Commerce**

- This is concerned with the buying and selling of goods, the exchange of commodities and their distribution.
- Commerce is made up of trade and aids to trade.
- Trade can either be home or international.
- For trade to roll aids to trade are necessary. These include banking, insurance, warehousing, advertising, transport and communication.
- TWABIC.  
T – Transport  
W – Warehousing  
A – Advertising  
B – Banking  
I – Insurance  
C – Communication

**The following diagram summarises what Commerce is:**



### **Direct Services**

- These are not concerned with the production of goods but the provision of personal services to the public. Examples of direct services are services provided by teachers, nurses, hairdressers etc.
- The services they provide satisfy needs and wants directly.

### **Chain of Production**

- This defines the various stages through which a product passes before it reaches the final user.
- At each stage, consumption occurs.

- When the final product is bought by the final consumer, it is called a consumer good, but if bought for further use for example milk to produce yoghurt it is a producer good.

### **Business growth**

- As the need to grow takes centre stage organizations may look at external growth. This could be through takeovers, merges or through integration.
- Integration can be horizontal, vertical or conglomerate.

### **Small Firms**

Despite the existence of large firms, small firms, continue to exist. Some of the reasons for their survival include the following:

- Small firms provide personal service.
- Some industries are easy to enter. As such, no firm can grow too big as others continue to enter. Many, thus, remain small.
- Markets may be limited and demand is satisfied by small entities. Opening a large business would lead to losses.
- Decisions are made quickly.
- Small firms are usually conveniently and strategically located.
- Some companies fear to grow because they fear loss of control as such they remain small.
- Some firms remain small because of lack of competent managers who can expand their business.
- Businesses grow from being small to being large and as such there are always new businesses coming up.

### **Activity 1a**

1. State the abbreviation that sums up what commerce is all about.
2. State any 10 direct services
3. Using a small firm of your choice, briefly explain why it has been able to survive for the past two years

### **Specialisation**

- This occurs when work is split into different tasks so that individuals concentrate on what they can do best.
- Specialization is seen at work in an assembly line.

### **Advantages**

- It enables specialists to be employed.
- Tasks can be learned more quickly and easily.

- Doing the same task over and over again makes the worker more perfect.
- As more efficiency is attained, costs may be lowered leading to low prices for consumers.
- It serves expenditure on capital goods.
- Allows the use of specialized machinery.

### **Disadvantages**

- Doing the same job over and over again leads to boredom.
- Leads to a decline in craftsmanship.
- Specialization tends to encourage use of machines in place of people which results in unemployment.
- As experts are trained, they are inflexible to move around jobs.
- Leads to massive dependence which may lead to hold ups when there is a breakdown in one of the links.
- Firms may also specialize in their activities for example concentration only in mining for example Hwange.

### **Activity 1b**

1. In your own words, what is production?
2. State any two differences between direct and indirect production.
3. Using a firm of your choice, explain how it has
  - a) Benefited
  - b) Suffered due to specialization

## **FACTORS OF PRODUCTION**

- These are resources that are needed to produce goods and services.
- They are land, labour, capital and entrepreneurship.
- These are paid a price for their contribution towards production, i.e. rewards to factors of production.

### **(a) Land**

- It involves all natural resources provided by Mother Nature. For example minerals, fish, agricultural produces etc.

### **(b) Capital**

It refers to money used to start a business. It can also be defined as any asset brought into the business or acquired for the production of goods and services for example machinery, equipments etc.

**(c) Labour**

Labour encompasses the physical and/ or mental effort of human beings directed towards production of goods or services. It maybe manual, where physical effort plays a pivotal role or non- manual based on skills and expertise in the areas of specialization.

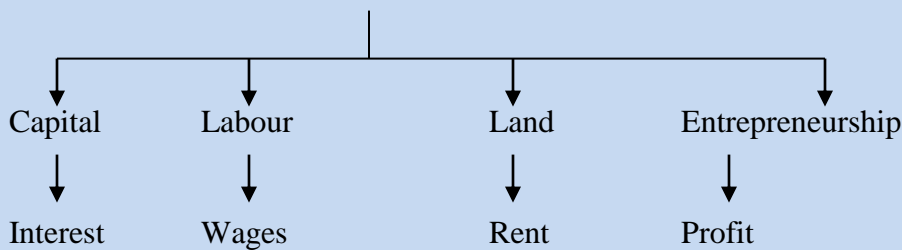
**(d) Entrepreneurship/ Enterprise/organization**

It comprises people who organize or mobilize other factors of production to ensure that goods are produced and services provided. They possess skills necessary for corporate objectives for example ensure profit maximization.

**Rewards for the factors of production are as follows:**

Land	–	Rent
Labour	–	Salaries/ Wages
Capital	–	Interest
Entrepreneurship	–	Profit/ Loss

**Factors of production and their rewards**



**STAGES OF PRODUCTION**

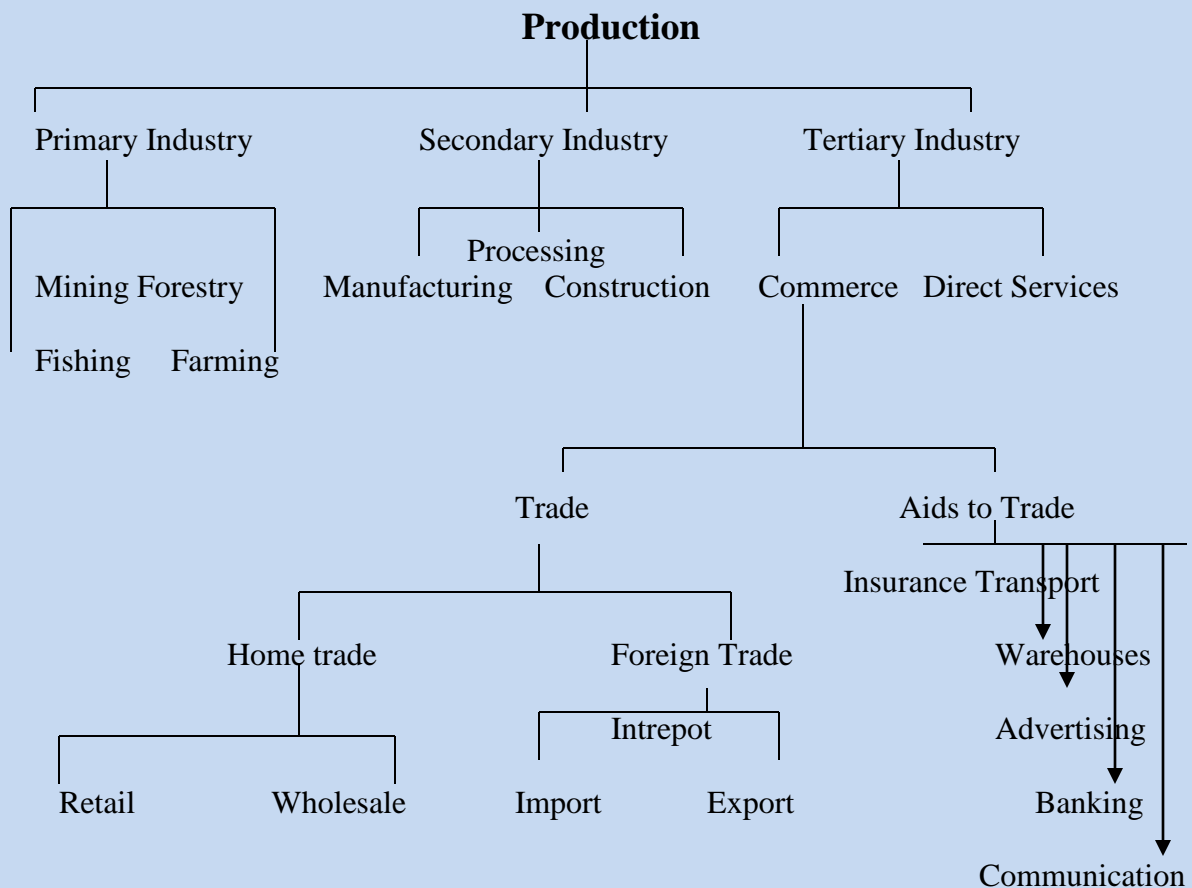
- (i) **Primary Production**  
It deals with the extraction of raw materials from the land or sea. It is the initial stage of production and thus termed primary.  
It involves mining, fishing, agriculture and forestry.
- (ii) **Secondary Production**  
It involves activities necessary for translating raw materials into finished or semi-finished goods. It is the second stage in industry and commerce which encompasses manufacturing, processing and construction.
- (iii) **Tertiary Production**  
It deals with the distribution of goods to the final consumer via chain members. It involves direct services and commerce.

### **Branches of Production**

- (a) Extractive it involves the extraction of raw materials from the land or sea. This includes fishing, mining, agriculture and forestry.
- (b) Manufacturing - converts the raw materials into semi or finished goods for example oil is processed to give diesel, petrol etc.
- (c) Constructive - uses production from manufacturing to build roads, bridges, houses etc. Also includes industries that assemble components to produce finished products.
- (d) Commerce – trade and aids to trade.
- (e) Direct services – services which are provided and consumed at the same time for example teaching, nursing etc.

### **Divisions of Production**

- Production can be divided into: Industry, Commerce and Direct Services.



## **Industry**

- An industry is a group of producers who provide a range of goods which are named after the principal production for example mining industry.
- Industries can be extractive, manufacturing or constructive.

### **Activity 1 (c)**

1. Show how a small firm has benefited from the four factors of production.
2. Outline the stages of production involved in a business dealing in bread.

## **Examination type questions**

### **Multiple Choice**

1. A capital good differs from a consumer good in that
  - A It cannot be stored
  - B It lasts for a longer period of time
  - C It is more expensive
  - D It is immovable
  
2. Human wants comprise
  - A Food
  - B Shelter
  - C Clothing
  - D Entertainment
  
3. Economic systems include the following except
  - A Communism
  - B Capitalism
  - C Socialism
  - D Specialization
  
4. Capital goods do not include
  - A Groceries
  - B Tractors
  - C Grinding mills
  - D Computers

## Essay Questions

1. Using examples, distinguish between:
  - (i) Human wants and needs. [6]
  - (ii) Direct and indirect production. [6]
  - (iii) Goods and services. [8]
2. There are four branches of production. With the aid of examples, explain each of the four branches of production. [20]
3.
  - (a) Explain the factors affecting the choice of a distribution channel. [10]
  - (b) Briefly outline the trends in distribution. [10]
4. Explain, in detail, why commercial services are an essential part of production. [20]

# CHAPTER 2

By the end of this chapter you should be able to

- define retail trade.
- identify the functions of retailers.
- state the issues to be considered before one establishes a retail outlet.
- describe the types of retailers.
- describe the trends in retailing.
- describe large scale retailing.
- describe consumer credit.

## RETAIL TRADE

- Retail means “to cut off a piece” thus retailers are traders who buy in bulk and sell to consumers in smaller pieces or quantities.
- A retailer may buy a carton of candles but would later on sell the candles in either single packets or even one candle at a time.
- Its important to note that retail prices are usually higher than wholesale price because of their markups to cover for more expenses they incur.
- Retailers are, however, located in convenient places and offer a variety of merchandise. Examples of retailers: supermarkets, General dealers, tuck shops, hawkers.

### Services offered by Retailers/Functions

Retailers are middlemen, linking the providers of goods, for example, wholesalers and manufacturers with the consumers of the goods. Thus their functions or services are to either of the two groups.

#### 1) **Breaking of bulks**

Retailers buy goods in large quantities but later on sell them to consumers in small convenient quantities, for example, O.K. stores would order 100 cartons of baked beans from Cairns Foods but later on sell one tin at a time.

#### 2) **Providing variety**

Manufacturers and wholesalers may specialize in a certain line of goods. However retailers would receive orders from different suppliers thus offering a wider choice to the consumers, for example, electrical goods, consumables, clothing etc.



**3) Convenient location**

Retailers are usually located where there is a lot of activity and close to the markets. Think of O.K in Lobengula Street in Bulawayo city, think of a general dealer located in **Makokoba** and a tuck-shop around the corner.

**4) Providing local supplies**

Manufacturers are usually located in deterred cities or towns. They however reach their clients through retailers which are located all over. For example Blue Ribbons is located in the industrial area and thus cannot be reached by someone in the western suburbs. However a retail shop in the Western suburbs would help distribute Blue Ribbon's products.

**5) Dealing with complaints**

At times retailers sell goods that maybe defective. When a buyer returns the defective product, they replace it or refund and then take the goods back to the supplier. These returns will therefore help manufacturers to improve product quality or improve production systems.

**6) Credit**

This is a service not offered by many retailers. When it happens, it would be on an informal basis. It can be on daily purchases like groceries, or more formally, on goods like clothing and furniture, for example, at Edgars (clothing), and Nyorenyore (furniture) etc.

**7) Delivery**

Delivery is usually offered in and around town for consumer durables like furniture .This is usually for free but deliveries further field are charged for.

**8) Advice**

This is provided mainly by specialist retailers like chemists, hardware and outfitters Retailers may be involved in cutting metal sheets to client's order or advising on the right paint to use for decoration.

**9) Other services** that maybe provided include offering delivery services, obtaining a TV license for purchases of a TV set, after sales services like installation of a computer etc.

**Establishing a retail outlet**

Note that these are not factors to consider for the location of retail outlet. Although retailing may look lucrative, some issues must be considered before one establishes any. The following factors are relevant:

- 1) **Capital**  
One needs to consider the amounts available from a variety of sources like own resources, friends and what can be borrowed. It is critical that a business be well capitalised.
- 2) **Type of shop**  
This would be affected by the experience and interests of the venture. Demand conditions as well as competitors need to be considered thus market research needs to be carried out. It may help joining a voluntary chain like Lucky 7, Spar.
- 3) **Licenses**  
It may be difficult or expensive to get one especially for traders in Liquor. Licenses are necessary for businesses trading for the first time.
- 4) **Cash or credit**  
  
Decisions to buy or sale on credit will depend on the type of customers, the type of goods, availability of finance or the discounts on offer. For example, a retailer dealing in groceries with individual clients would obviously consider cash basis only.
- 5) **Supplies**  
The entrepreneur ought to consider the source of the goods to be stocked, where to stock them (warehousing) the delivery service available. Stock control is critical to reduce stock holding costs and costs of stock outs.
- 6) **Pricing**  
  
Prices should be competitive, they however must cover the costs of managing the business for it to remain viable.
- 7) **Site**  
This should be at a convenient place with a lot of human traffic. Taxing over an already established shop would help but the outgoing owner charge goodwill. These premises maybe leased, rented or owned.
- 8) **Staff**  
Staff costs may be considered high. Thus an operator should decide on the number of staff needed whether they be fulltime or part time as well as the method of remunerating them, for example, fixed salary or commission.
- 9) **Advertising and insurance**  
Consider the benefits of these, vis-à-vis the costs.

## Activity 2 (a)

### **TYPES OF RETAILERS**

We need to appreciate that certain retailers may not fall exactly in one group.

1. Using a nearby retailer, Outline the functions or services it is involved in
2. State the factors to consider when establishing a retail outlet

#### **(a) Multiple shops/chain stores**

- This is a retail establishment that has a number of shops all under one ownership name.
- A key feature of multiple shops /chain stores is centralization which leads to cost savings in purchasing and advertising.
- The branches usually stock similar stocks and have a uniform pricing policy. For example Power Sales.
- Branches use one common name and same colours for the buildings.

#### **Advantages**

- 1) Bulk buying and gains from quantity discounts.
- 2) Reduces overheads. Adverts benefit all branches and centralized accounts mean low costs per branch.
- 3) Low prices. The savings gained above are passed on to clients in form of lower prices.
- 4) Staff is easily transferred from one branch to the other.
- 5) Can sustain a loss making branch for some time.

#### **Disadvantages of Chain Stores**

- 1) Management become difficult as the group grows.
- 2) Since they buy in bulk ,they need to break the bulk and distribute to the various outlets thus incurring distribution expense
- 3) Large capital outlays are required
- 4) They must earn a lot of profit to sustain loss-making branches.
- 5) They become difficult to control if they become too many.

**(b) Department stores**

Examples include: Gretermans stores and Meikles in Harare etc.

- 1) These sell a variety of products all under one roof.
- 2) They are noted for their spacious layouts, quality ware and helpful salesperson
- 3) Each department is under a buyer .Departments could be clothing, furniture, electrical.

**Advantages of Department stores**

- 1) Savings are achieved on overheads. This is because one advert benefits all centralized accounting.
- 2) Better facilities .Savings achieved are invested in providing user friendly, luxurious, and surroundings.
- 3) They also benefit from bulk buying.
- 4) Because of different wares under one roof, this is convenient to shoppers

**Disadvantages of department stores**

1. Inventory management tends to be complex due to a variety of products offered.
2. Goods sold are expensive due to high overhead costs and locations of departmental stores.
3. Some products on sale require technical expertise and after sales service which creates an additional obligation on the store.
4. There is normally a problem of coordination as each product line is placed under one section head.

**(c) Variety chain stores**

- These are similar to the chain stores discussed earlier only that they stock a variety of goods for example O.k. Bazaars.
- They use self- service and self- selecting.
- In addition to the advantages noted on the multiple chain stores their ware is usually cheap. They thrive on volumes and higher stock turn over on low margins.

**(d) Supermarkets**

- (a) These are large –self-service shops dealing in food and house hold goods.
- (b) They are conveniently located and offer affordable prices.
- (c) Many supermarkets have operated as chains for example T.M
- (d) Those that have remained small are known as superettes.

(e) **Hypermarkets**

- (a) Very large supermarkets are called superstores and when they grow bigger they become hypermarkets or hyper stores.
- (b) They have a large customer base that has motor cars.
- (c) If efficiently managed their prices maybe considerably low. An example is the Bulawayo T.M, Hyper.
- (d) A typical hypermarket may have as many as 40 depots dealing in a variety of ware.
- (e) Located where land is cheap, where there are good roads and sizable population.
- (f) Their prices are lower than the supermarkets because of bulk buying and negligible transport costs.
- (g) Need big storage area, selling space and may house satellite shops, for example banks, boutiques, shoe repairs.

**Advantages of Hypermarkets**

- 1) Pass on savings to clients from bulk buying in form of low prices.
- 2) Customers have the freedom to look around and check to get what they exactly want.
- 3) Availability of multiple tills save consumer time
- 4) Because of the “SPAR” doctrine, (Small Price and Quick Returns) goods are usually fresh and prices are reasonable.
- 5) Freedom to look around may remind customers of some goods they might have forgotten.

**Disadvantages**

- 1) Only save time if the tills are many. Think of the queues at month ends.
- 2) No credit or delivery services
- 3) Shoplifting is rampant
- 4) No personal service
- 5) They tend to be expensive to shoppers as they promote impulse buying.

**Cooperative Retail Societies**

This is a group of individuals who come together to buy goods in bulk and benefit from wholesale prices. They pool their funds, purchase goods in bulky and open a shop where they would sell at normal retail price. A record is kept of each member’s purchase and a profit is shared at the end of the year in proportion to the funds contributed they have spent. The benefit then is that although members may have bought the goods at retail prices, they get a rebate or dividend at the end of the year (account period).

**Advantages**

- 1) Savings to member through rebates at the end of the year
- 2) Maybe more modern thus providing variety to customers.
- 3) Members manage their own society through voting.

### **Disadvantages**

- 1) Waiting for savings maybe longer-at the end of the year
- 2) Management is usually unskilled and thus may serve the society inefficiently.
- 3) As the day roll by,-members may get tired and stop working hard for the co-operative.

### **Single shops or Independent trades**

- ❖ This includes specialist shops for example Boutiques, florist and general dealer which stock a variety of goods.
- ❖ These are usually located outside the city centre although specialist shops are located in city centres.

### **Independent Store (Merits)**

- ❖ Despite facing a lot of competition which is threatening their survival, single shops are still surviving. This is because of convenient location.
- ❖ opening for long hours and at odd hours
- ❖ give personal services which patronizes clients
- ❖ Fewer overheads like small wage bills and rent
- ❖ May offer credit to their known clients
- ❖ Independent management .This helps as decisions are made more quickly.
- ❖ Delivery services may be offered for free.

### **They however suffer the following drawbacks**

- ❖ They cannot buy in bulk
- ❖ They are often expensive
- ❖ Their turnover is low, thus their products may not be fresh.
- ❖ Lack of continuity after death of the owner.
- ❖ Lack of managerial skills due to limited or less wages/ salaries.

### **Franchising**

- ❖ This is a process whereby owners of a well known retail store allow others to use their name in return for a certain payment.
- ❖ The payment could be as a royalty or a requirement that the user (franchisee)buy all the goods sold from the owner of the name (franchisor)
- ❖ **The advantage to the franchisor** is that he can attain capital from enterprising individuals and also receives some of the profits. The franchisor is able to cover wider areas and is guaranteed for royalty regardless performance.
- ❖ But it the franchisee develops a bad name, it would affect the franchisor.
- ❖ Advantage to the franchisee:- is able to benefit from the reputation of the franchisor as well as receiving cheap supplies from the franchisor.
- ❖ An example of a franchise is Wimpy restaurants countrywide.

- ❖ However the franchisee must pay royalty even if the business is not performing well.

### **Mail order**

- ❖ These are retailers who specialize in selling goods to customers in response to orders received by post. They advertise in newspapers and print colour catalogues of the goods that they have in stock.
- ❖ They send order with post or rail.

### **Advantages**

- 1) Goods are cheap because they are bought in bulk and middlemen are eliminated.
- 2) Convenient shopping in the comfort of homes
- 3) Often offer credit
- 4) Deals effectively with the problem of parking and traffic jams in town.

### **Disadvantages**

- ❖ Customers do not see the physical goods before ordering
- ❖ The use of some middlemen like local agents may make it more expensive.
- ❖ Printing of catalogues is expensive.
- ❖ The firm may be responsible for taking back goods from client's who are not satisfied

### **Trends in retailing**

- These are changes taking place in retailing.
- ❖ Prepackaging and branding has grown in popularity thus enhancing self-service.
- ❖ Packaging maybe done by the wholesaler, manufacturer or the retailer.
- ❖ Branding is an act of marking-out goods for identification. It is giving a distinctive trademark or brand name which a competitor is not able to use.
- ❖ This helps the owner of the brand in advertising and for identity purposes.
- ❖ Goods may have the manufacturer's brand or a retailer's brand.
- ❖ Examples of goods bearing manufacturer's brands-Coca-Cola
- ❖ Examples of goods bearing retailer's brand are: T.M Supersavers and O.K, Pot 'O' Gold.

### **The rise of shopping precinct**

These are shopping centres or shopping malls where different organisations are situated on the same shopping complex. For example, High Glen shopping centre and Westgate in Harare, Entumbane shopping complex and Nkulumane shopping mall in Bulawayo. Different firms will be offering different products or services for example banks, retail shops, butcheries etc.

### **Advantages of shopping precincts**

1. Shopping is concentrated on one area.
2. Lower prices offered as shopping centres are normally located on the outskirts of the city or town.
3. They decongest the central business districts.
4. They are closely located near the customers thereby making shopping convenient.
5. Clearly designed shopping malls can be centre of attraction to tourists for example Game City in Gaborone, Botswana.

### **Disadvantages of shopping precincts**

1. Most shopping malls lack the parking space necessary to accommodate the customers attracted.
2. Shops within the precinct may join hands thereby charging exorbitant prices.
3. The size and nature of most shopping centres cannot accommodate all goods or services to be offered to the customers for example fuel garage.

### **Other trends in retailing include:**

- The interests – traders can sell through the internet attracting a wide range of customers.
- Credit card sales – for example Visa Cards – allow customers to make a purchase using such cards.
- Point of sale buying – use of ATM Cards by customers which increases sales.
- Direct dealing which allows large scale retailers to buy from manufacturers and enjoy trade discount.

### **Activity 2b**

1. Discuss the merits and demerits of the various types of retailers. If given the necessary resources, which retail firm would you choose to establish.
2. The business environment is constantly changing. Describe the changes that have occurred in the retail industry

### **Advantages of branding**

- ❖ Customers are assured of constant quality.
- ❖ Customers can easily identify the goods they want.
- ❖ Advertising is cheaper
- ❖ A brand name can only be used by the owner and thus the owner knows that no one else can use his brands.
- ❖ Ordering is easier as just the brand can be quoted.



## **TRADING STAMPS**

- ❖ This is a scheme where a retailer may offer a free gift to clients who collected a certain number of stamps. This may operate like if you purchase goods worth \$1 000 000 you get a stamp. And if you have 200 stamps you can get a radio for free, this has costs to retailers in the forms of printing and administration.

## **LARGE SCALE RETAILING**

This may be through any of the retail types discussed earlier

### **The advantages of this are:**

- 1) **Economies of scale**  
The effect of economies of scale is to reduce, cost per unit. This occurs when output rises faster than costs. For retailers they come from bulk buying as well as self service thus saving on labour.
- 2) **Promotions**  
For example Vaseline winter winner competition, T.M. Bargain Bonanza. This is done to induce purchases; examples include the offering of free gifts and free sample. Trading stamps were once used. Low prices during promotional periods are identified.
- 3) **Growth of Private Transport**  
As more people own cars, large retailers are able to attract customers from a distance. This boost sale (leads to success of large net out)
- 4) **Specialisation**  
Large retails are able to employ specialists who decide on different business decisions. This improves efficiency, profits would increase and their businesses can expand.

NB: The student is advised to research further from other sources and add to this list of advantages and disadvantages.

### **Disadvantages**

- 1) **Decline in personal service**
  - As businesses grow, they lose personal touch which individual clients may value

## 2) Pilfering is high

- This result from shoppers as well as by staff. This can be controlled by employing more guards and hidden cameras.

## 3) Decision making is slow

Some decision may take time to be taken which may impact on the operations of the business. This is a problem with highly formalized structures.

## Survival of the small scale Retailers

Small scale retailers have to perform unique functions for them to survive competition from large scale retailers for example:

- Offering personnel attention to customers such as listening to customers' problems, needs and interests.
- Opening up to late hours to allow customers to buy goods as and when they need them.
- Tailor- making products according to customer specifications.
- Being quick to adopt to changes on the market, for example, changes in fashion.
- Offering credit to well – known customers.
- Joining retailers' co-operative societies.
- Responding to orders very quickly and making prompt deliveries to the customers' homes.

## Activity 2c

Most people aspire to own large scale retail firms. It is however argued that small retail firms are more preferable. Why would some prefer large scale while others choose small scale firms? Discuss.

## Consumer credit Hire purchase

- ❖ This is used for consumer durable goods like furniture and cars.
- ❖ The purchaser agrees to make a down payment, and make the balance with interest over an agreed period of 1, 2 or 3 years. The seller hands over the agreement to a finance house, which gives the seller the balance and then receives periodic payments from the buyer,
- ❖ Title only passes to the buyer on payment of all installments and during this period the goods belong to the finance house.

## Advantages

- 1) Customer needs not to save first but can obtain usage of the goods and pay later
- 2) Customers are able to buy goods they could otherwise not afford with their line purchase
- 3) Client enjoys usage of goods even before title passes.
- 4) It ties up less capital as payments are spread over a longer period.
- 5) The private buyer can enjoy a higher standard of living.

## Disadvantages

- ❖ It is very expensive. Interest rates are now very high over 300%. More paperwork is involved from the seller's point of view.
- ❖ Customers may end up buying more than what they can afford and fail to pay resulting in the seller reclaiming the goods.
- ❖ When goods are reclaimed, the seller may have problems in selling the second hand goods.
- ❖ If customers default payment, goods are reclaimed without any refund i.e. customers risk losing goods and installments made or paid.

## Credit Sales Agreements

- Is the sale of goods on credit or by installments. It is also known as deferred payments.

## Differences between Credit Sales and the Hire Purchase agreements

### Hire Purchase

1. Relates to goods of high resale value
2. The customer must pay a deposit
3. Goods are owned after the last payment
4. Goods are taken if the customer default Payment
5. The customer may terminate the contract
6. Buyer must not sell the item to the third Party unless after paying all installments

### Credit Agreements

- Is not restricted to buying expensive goods.
- The customer is not obliged to pay deposit
- Goods are owned soon after concluding credit agreement.
- The seller is sued for any amount
- The customer has no right to terminate the contract
- The buyer can sell the item as long he/ she will pay the amount owing

## Activity 2 (d)

Why would an entrepreneur choose to sell goods on credit agreements instead of hire purchase?

## **Examination type questions**

### **MULTIPLE CHOICE**

1. Under which type of sale will the buyer become the owner of the goods immediately?
  - A Cash sale
  - B Credit sale
  - C Hire purchase
  - D Lay- bye
  
2. Under a hire purchase system the buyer
  - A Acquires ownership of the goods immediately after he has signed the agreement.
  - B Pays for the goods whilst they are with the seller.
  - C Becomes the owner of the goods after he has paid the last installment of the total amount.
  - D Has to pay cash before collecting the goods.
  
3. A discount allowed to a retailer for buying in bulk is called a
  - A Seasonal discount
  - B Trade discount
  - C Cash discount
  - D Net discount
  
4. Which item is suitable for hire purchase trading?
  - A Motor car
  - B Clothing
  - C Groceries
  - D Flowers
  
5. Goods sold on hire purchase cannot be resold by the buyer who has not finished paying for them because
  - A These will be second – hand
  - B These will be expensive
  - C The seller still has the right of ownership
  - D No one owns these goods.

6. A trader who sells goods on hire purchase cannot repossess the goods without the consent of
- A Other traders
  - B The manufacturers of the goods
  - C Finance house
  - D A court
7. A discount allowed to a customer for paying within the time allowed is called a
- A Cash sale
  - B Cash discount
  - C Trade discount
  - D Seasonal discount

### **Essay Questions**

1. Discuss the advantages of a monetary transaction and the disadvantages of a barter transaction. [20]
2. Outline the main functions of the retailer. [20]
3. Explain, using brief notes the following terms used in Retail Trade.
- (i) Pre- delivery service [5]
  - (ii) Credit [5]
  - (iii) Delivery service [5]
  - (iv) After – sales service [5]
4. (a) List five types of retailers. [5]  
(b) Outline the advantages and disadvantages of independent retailers. [15]
5. (a) Briefly explain the trends in retailing. [10]  
(b) Explain the main factors to be considered when establishing a retail outlet. [10]
6. Discuss the advantages and disadvantages of large scale retailing. [20]
7. (a) Describe the organization of a voluntary chain. [10]  
(b) What advantages do such chains have to their members? [10]

# CHAPTER 3

By the end of this chapter you should be able to:

- define a Wholesaler
- describe the types of wholesalers
- identify the functions of wholesalers
- explain why wholesalers are eliminated
- describe the marketing boards

## WHOLESALE TRADE

- A wholesaler is a middleman who links the manufacturers with the retailer or final consumer.
- Business cycles are however, changing as many retailers are by passing wholesaler and deal directly with the manufacturer.
- The main reason is to cut cost of goods as at each point of distribution a mark-up is added.

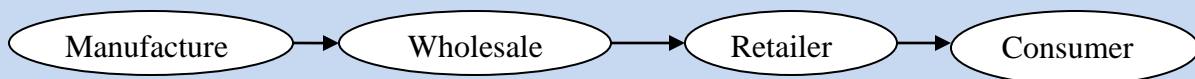
## THE WHOLESALE TRADE

### Channels of distribution.

These are ways which are followed as goods are transported from the producer to the final consumer.

People or organisations which are responsible for handling goods are called channel members.

### Channel 1



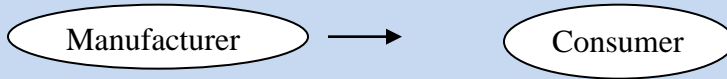
Goods are produced, sold via the wholesalers and retailers up to the final consumer. Products sold using this channel are normally durable with a long shelf life and are purchased in bulk.

### Channel 2



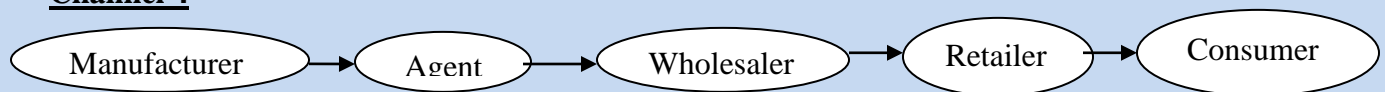
This is a set up where the wholesaler is eliminated from the normal chain of distribution. The reasons for this are cited later in the chapter.

### **Channel 3**



In this channel both retailers and wholesalers are eliminated from the chain of distribution. It mostly applies to goods that require technical back up services and after sales services. The manufacturer normally engages the service of specialists to provide these services.

### **Channel 4**



The channel is usually used when goods are sold in a foreign country without the company's branch. The lack of operating environment by the firm will result in it engaging an agent to sell the products.

### **Types of wholesalers**

#### **1. General Wholesalers**

- These stock a wide range of goods which enable customers to do shopping under one roof.
- These need a lot of capital for financing their stocks (variety) advertising and paying for salespeople they employ to sell their products.
- They can stock hardware, stationery, clothing etc.
- They also operate on a larger scale.
- Their warehouses are very large.

#### **Examples: Jagers Wholesalers**

- They provide delivery to large customers as well as credit facilities.

#### **2. Specialist Wholesalers**

- These deal in only one type of goods for example hardware.
- They also provide technical back up services.
- Specialisation enables the wholesaler to best satisfy the needs of customers through deep range of the product.

### 3. **Cash-and- carry Wholesalers**

- These deal on cash basis and usually don't offer transport services.
- Due to the need for transport, these wholesalers serve local markets and many sell to individuals.
- Goods sold are cheaper than other types due to low operating costs.
- They also provide variety of limited scope and this reduces storage costs.

### **Functions of Wholesalers**

#### 1. **Breaking Bulk**

- Manufacturers produce goods in large quantities and offload them to wholesalers. The wholesaler would sell to retailers in their desired quantities.
- However, as retailers grow for example OK, TM they are able to buy the goods in large quantities as much as the wholesaler can do.

#### 2. **Marketing**

- Wholesaler provides two-way communication between the manufacturer and the customers. He serves the manufacturer the agony of finding a market for his products.
- Wholesaler would have sales persons who visit retailer to establish markets and develop existing ones.

#### 3. **Storage**

- Wholesalers often have large storage warehouses. They store bulk goods from the manufacturer relieving them of storage costs and sell goods in correct quantities to the retailers who may not have large storage facilities.

#### 4. **Risk bearer**

- Since the wholesaler buys the goods in bulk from the manufacturer he provides a ready market for the manufacturer's goods. However the bulky goods stored may fall in price, maybe damaged or go out of fashion. These are some of the risks associated with being a wholesaler.
- Another source of risk is the financing arrangements. Wholesalers usually pay promptly to their suppliers. Their clients (retailers) cannot however pay promptly and are allowed extended credit periods. This means that a wholesaler needs huge sums of capital to continue in business.

#### 5. **Finance**

- Wholesalers pay the supplier promptly, cash at times or 30 days credit.



- He also provides extended credit to retailer of up to 120 days.

#### 6. **Delivery**

- Wholesalers often deliver locally saving the clients. They may also arrange for rail transport delivery for their distant clients at the client's expense.
- Often, they collect goods from the manufacturer

#### 7. **Provide variety**

- A wholesaler may receive supplies from a number of manufacturers, so he has stock variety. Dealing with manufacturers directly would entail dealing with many of them to provide a wider choice to retailers.

#### 8. **Steadying prices**

- The wholesaler purchases goods in large quantities and warehouse them. He releases them in small quantities as per demand thus fighting the problem of outstripping supply which leads to high prices.
- This is more important in seasonal products for example maize, fruits, which at one time are plentiful and at other times are scarce.
- It is during periods of scarcity that the wholesalers would release the goods into the markets thus ensuring steady supply to avoid wide price fluctuations.

#### **Elimination of the wholesaler**

- The more the channel member the more the consumer price. As such, cutting the wholesaler is one way to acquire product at low cost which may be passed on to customers.
- The following reasons have given rise to the elimination of wholesalers.

1. Development by producers of their own retail outlets for example Bata. Lobels etc.
2. Development of large retail outlets, chain stores etc that can also buy in bulk.
3. Decision by the producers to deal directly with retailers which push their product better than wholesalers.
4. The growth of goods specifically packed for example special brands like OK Pot O. Gold, TM Supa Savers and Spar Supersavers.
5. Sale of perishables.
6. Sale of goods requiring technical back up services.
7. Manufacturers may sell through mail order system.
8. Goods of low turnover rate.
9. Development of cooperative retail societies.

### Activity 3a

1. Give one example of a specialist wholesaler and one example of a general wholesaler. Justify your answer.
2. “Wholesalers are unnecessary.” To what extent is this assertion acceptable?

### Co-operative Wholesale Societies (CWS)

These are an association of small scale wholesalers formed to benefit from bulk purchases.

They are mainly formed not for profit maximization but to help the member companies.

#### Characteristics of CWS

1. Any member is free to join the society.
2. Members of the society get dividends which are proportionate to the value of goods bought.
3. Interest is allowed on capital contribution.
4. Decisions are made through voting.
5. The major function of the society is to provide services to members and the community at large.
6. Management of CWS is done by the board of managers or committee.
7. A professional manager Chief Executive Officer is engaged by the committee to ensure day to day operations.
8. Ownership of CWS is in the hands of shareholders who are members of the Retail co-operatives societies.

#### Functions of CWS

1. Store variety for members so that shopping can be done under one roof.
2. Buy goods in large quantities and sell to members in small lots.
3. Can manufacture some goods.
4. CWS may also be involved in the importation of some goods which are not available on the local market.
5. Selling goods to members in low prices due to large quantity discounts.
6. Branding of their own products.
7. Advertising goods on behalf of members.

#### Marketing boards or commodity boards.

- These are public corporations or parastatals set up by legislation to handle the marketing of agricultural or industrial output.

- Examples include Grain Marketing Board, Minerals Marketing Corporation of Zimbabwe etc.
- Marketing Boards are set up for the following reasons.

**1. Guaranteed market outlet**

- The presence of government in the establishment of these gives the assurance of continuity. Producers for example, farmers know that there is a ready market for their produce when it is ready for sale.

**2. Stable Price**

- Both producer and consumer prices are prevented from fluctuating by the marketing board.
- When the produce is in excess supply they buy and store and release only when the goods are in short supply. This evens out supply and demand as well as prices

**3. Provision of storage facilities**

- Marketing boards provide storage for the produce which is strategic. This serves to ensure that the produce will always be available.
- For example the GMB grain silos.

**4. Processing of the products**

- There is further processing of the produce for example GMB – Silo products.

**5. Collect output from producers**

- The GMB used to have lorries to collect agricultural output from farms. This is now very isolated.

**6. Maintain standard of quality of the products.**

- At GMB there are moisture contents that they prescribe.
- Grading of the maize forces farmers to take care of their produce to ensure that it meets the prescribed quality levels.

**7. Provide advice to farmers on seeds and equipment.**

- Changes in the different producer fields are first known by marketing boards who later on sell the ideas to producers, for example, introduction of new seed varieties.

- By selling to marketing boards, which will later on sell the produce makes it possible for the boards to negotiate on behalf of the producers. The producers would therefore get fair prices.

### **Functions of Grain Marketing Board (GMB)**

By selling to marketing boards, which will later on sale the produce makes it possible for the boards to negotiate on behalf of the producers. The producers would therefore get fair prices.

1. Supplies raw materials to millers for their roller meal and stock feeds.
2. Is the sole buyer of grains i.e. maize, wheat, sorghum, soybeans etc.
3. Selling of grains both to the local and international markets.
4. Provides warehouses for the grains, the GMB operate silos throughout the country.
5. Processing of grains, for example, Silo roller meal, Silo beans etc.
6. Maintain Standard Quality

### **Functions of Cold Storage Company**

1. Monitor the quality of meat in all abattoirs throughout the country to ensure healthy or hygienic standards.
2. Dispose meat to registered butcheries.
3. It is also responsible for buying slaughter cattle.
4. Export beef for foreign currency.
5. Sells meat to the local market by operating own retail outlets e.g Meat Pride as an outlet for Cold Storage Commission
6. Operate own cattle ranches and feedlots thereby promoting the cattle industry.
7. Provide credit to producers who are willing to rear cattle.

### **Functions of Minerals Marketing Corporation of Zimbabwe (MMCZ)**

1. Is the sole buyer of mineral products except gold and silver which is solely marketed by the Reserve Bank of Zimbabwe (RBZ).
2. Is the only seller of metals, ores, asbestos and gem stones to export and local markets.
3. Authorizes the sale of minerals between sellers and buyers.
4. Provides advice and expertise.
5. It remits the proceeds of sales less its commission to the producers
6. Identifies trends in the industry and advice producers accordingly.

### **Functions of the Cotton Company of Zimbabwe**

1. Provide cotton seed to farmers.
2. Operate ginneries where lint is separated from seed.
3. Sells lint to textile industry, locally and internationally.
4. Provide information to farmers on cotton diseases.

5. Supply oil processing industry with cotton seeds as its raw materials.

### **Functions of Dairyboard Zimbabwe Limited**

1. Buys milk from registered farmers.
2. Processes milk into milk products.
3. Distributes milk to home and foreign customers.
4. Provide transport to large scale farmers.
5. Support research on milk by providing funds for such programs.

### **Activity 3b**

1. State the reasons why marketing boards are important.
2. Describe the functions of any 5 marketing boards of your choice.

### **Examination type questions**

#### **MULTIPLE CHOICE**

1. Warehousing is when wholesalers provide
  - A Storage facilities for different types of goods from various producers for resale to retailers.
  - B Transport to their workers.
  - C Credit facilities to their customers
  - D Market information to suppliers on what customers want.
2. A wholesaler who sells for cash only and does not deliver the goods is called a
  - A Retailer
  - B Cash and carry wholesaler
  - C Broker
  - D Mail order wholesaler
3. Which function of the wholesaler stabilizes prices
  - A Bulk breaking
  - B Branding
  - C Packaging
  - D Warehousing
4. A product not ideally suited for direct sale from producer to consumer is

- A Clothes
- B Ice cream
- C Vegetables
- D Green maize

### Essay Questions

1. (a) What is a wholesaler? [5]  
 (b) Outline the main functions of a wholesale. [15]
  
2. One of the essential functions of the wholesaler is that of “breaking bulk”.
  - a) Explain the term “breaking bulk”. [5]
  - b) How is this function of a wholesaler slowly losing its importance? [7]
  - c) Explain how “breaking bulk benefits
    - i) The retailer [4]
    - ii) The wholesaler [4]
  
3. (a) What is a commodity market? [5]  
 (b) Explain the role of marketing boards giving examples. [15]
  
4. (a) In what respect are wholesaler’s functions being taken over by manufacturers? [10]  
 (b) In what respect are wholesaler’s functions’ being taken over by retailers? [10]
  
5. Describe the main services provided by a retailer. In what ways do these services differ from those provided by a wholesaler? [20]
  
6. (a) As a small retailer, what advantages would you expect to obtain by buying from a wholesaler instead of direct from manufacturers? [10]  
 (b) Despite these advantages why are some goods supplied direct to retailers, both large and small, from manufacturers? [10]
  
7. (a) List and explain the different types of warehouses. [10]  
 (b) Outline the main factors which have led to a decline in the number of wholesalers. [10]
  
8. (a) Discuss the significance of the wholesale trade in Zimbabwe. [10]  
 (b) What steps do wholesalers take in their efforts to survive? [10]
  
9. Describe each of the types of wholesalers stated below:
  - (i) Cash and carry wholesales. [4]
  - (ii) Producers’ co-operatives. [4]
  - (iii) Mail order wholesalers. [4]

- (iv) Agents [4]
  - (v) Brokers [4]
10. (a) Distinguish between a general merchandise wholesaler and co-operative wholesale society. [10]
- (b) (i) Merchant wholesalers take title to the goods they handle. Explain what this statement means, bearing in mind that goods are produced by manufacturers. [5]
- (ii) State five examples of occupations brokers and agents specialize in. [5]

# CHAPTER 4

By the end of this chapter you should be able to:

- define home trade.
- describe business documents.
- define terms of delivery.
- describe discounts.

## DOCUMENTS USED IN HOME TRADE

Home trade means trade done within the country that is exchange of goods and services in Zimbabwe only.

### Documents Used in Trading

- In the home trade, as much as the International Trade a firm employs a host of documentation.
- These documents serve the following functions.
  - **They are a basis for compiling national statistics on industry activity.**
  - They are also used for tax assessment purposes.
  - Accountants or bookkeepers use these as source documents to prepare books of accounts.
  - They are the writer agreements (contracts) between the seller and the buyer in case there are arguments.

### Business documents

#### 1. **Letter of Inquiry**

This is sent to suppliers by potential buyers asking for quotations which enable clients to compare terms.

These letters request information on;

- Prices.
- Delivery times.
- Credit facilities and terms of payments.
- Availability of goods.
- Lead time, that is, time between placing an order and receiving the goods.
- The quantity to be purchased for a firm to receive trade discounts.
- The firm should issue as many letters as is possible to obtain the best terms.



## 2. Quotations, price list and catalogue

These documents are used in response to the letter of inquiry.

**Quotation**- It shows answers to the information requested on a letter of inquiry. This encompasses the following:

- Availability of goods requested.
- Prices of the goods.
- Terms of payment.
- Delivery dates and times.
- Availability of trade discount and cash discount.
- Lead time.

**Price list** details prices of goods asked by your buyer which may accompany the quotation.

**A catalogue.** Is also be used as a response to the letter of inquiry. It is different from the quotation as it contains pictures of goods on sale. They are usually printed on quality paper showing VAT, terms of delivery, discounts etc.

## 3. **A proforma invoice**

is very much like an invoice. Used when goods are sent on approval to inform clients of the amount if he or she decides to keep the goods.

- After an order has been received but seller wants cash upfront.
- Shows terms and prices of goods.
- Shows details about goods that is description and quantities.
- Has names and addresses of the two parties.
- A quotation has been requested for.
- In international trade to inform the buyer of the price to be paid or given to customs offices as evidence of the value of imports for the calculation of duty.

## 4. **Order**

- This document is sent to the seller by the buyer.
- It states the quantity, quality, prices of goods needed, place of delivery; terms of delivery and terms of payment.
- Orders may also be placed over the phone but written confirmation is critical.
- If the seller is dealing with the buyer for the first time reference must be obtained from previous suppliers, the buyer's bank and credit reference agency. In Zimbabwe this facility is provided by Dun and Bradstreet (Pvt) Ltd.

## 5. **Advice note, delivery note and consignment note**

- **Advice note** is sent by the seller informing the buyer that goods have been sent. It contains also the mode of transport used, date, method and terms of dispatch.
- **Delivery note** is sent together with goods and signed by the buyer as confirmation that goods were received. It enables the buyer to check goods on arrival.
- **Consignment Note** is used when the seller hires another company to deliver the goods for example, NRZ, Swift, Clan etc.

#### **Contents of Consignment Note:**

- Name and address of consignor (supplier).
- Name and address of consignee (buyer).
- Address of delivery.
- Description of goods.
- It must be signed by customer as proof of the receipt of goods.

**NB: Prices are not shown on these dispatch documents.**

#### **6. Invoice**

- Sent from the seller to the buyer.
- Contains details pertaining to the order received. This includes the goods description, quantity, price of goods supplied, discounts, terms of payment and grade of goods supplied as well as VAT information.

#### **Errors & Omissions Excepted**

- Most invoices are written E & O.E. which means Errors and Omissions Excepted.
- It enables the supplier to correct mistakes on the prices and terms of goods supplied.
- It therefore safeguards the supplier against losses emanating from undercharges.

#### **7. Credit Note**

- This is printed in red and is sent to the buyer by the seller under the following circumstances:
- To correct an over charge.
- When goods are returned either damaged or for other reasons, for example, wrong size.
- When seller owes the buyer some money maybe due to over payment.
- When buyer returns containers
- When a buyer returns companies or gift vouchers.

## 8. **Debit Note**

- This is issued by the seller to correct an undercharge. The effect of such is to increase the amount due from the buyer.
- The following trigger the issuing of a debit note.
  - 1) Goods undercharged.
  - 2) Goods dispatched but not charged on the invoice.
  - 3) When more goods have been sent than shown on the invoice.

## 9. **Statement of Account**

- This is a summary of transactions between the supplier and the buyer for a certain period of time.
- It shows the transactions, what is owed, the payments due and reminds the buyer to pay the installment due.
- This document is important as it enables the 2 parties to verify the accuracy of transactions, highlights the amount owed and the cash discount of payments made within a certain period of time.
- It also shows debits for undercharges and amounts overdue.

## 10. **Receipt**

A receipt is issued when payment has been made either by cash or cheque. It contains the following information:

- Name of the firm.
- List of all the goods purchased.
- The unit price for all goods bought as well as the total amount paid.
- The amount of Value Added Tax.
- The date and time of the transaction.

## 11 **Till slip**

Is a document which is received in a supermarket after making payments? It acknowledges that money has been received by the seller.

Its contains are as follows;

- Name of the business e.g T.M Supermarket.
- List of the goods bought
- The amount of VAT payable to the government
- The date of the transaction
- Time

#### Activity 4 (a)

State the business documents needed in the following situations:

- (i) Where payment is made for cash or cheque.
- (ii) The seller has to correct an undercharge.
- (iii) To summarise transactions that have taken place between seller and purchaser over a given period.
- (iii) To show details on the order received.
- (iv) Providing a list of details of goods asked for by the buyer.
- (v) Where the client wants to ask for quotations for comparison purpose.

#### Terms of Delivery

1. **Carriage forward** implies that transport costs should be paid for by the customer.
2. **Free on rail** – supplier pays for transport costs up to the rail station and the customer from that railway terminal to the point of delivery.
3. **Carriage paid** – costs of delivery to the customer is paid by the supplier.
4. **Ex- warehouse** (ex-factory) – after existing, the factory or warehouse, the customer pays for all transport costs.

#### Activity 4(b)

Illustrate situations in which the following terms of delivery apply:

- (i) Free on rail
- (ii) Carriage forward
- (iii) Carriage paid
- (iv) Ex-ship
- (v) CIF
- (vi) Fas
- (vii) Fob

#### DISCOUNTS

##### 1. Trade Discount

- This is a reduction in price given to buyers, in the same line of business with the seller.
- A text book manufacturer like Prestige Publishers would offer trade discount to a retailer of textbooks, for example, Kingstons but not to individuals.

Advantages

- Trade Discount is a margin of profit to buyers.
- Encourages bulk buying and repeated purchases.

2. **Cash Discount**

- This is reduction of purchase price allowed for prompt payment or payment within a certain period of time, for example, cash within 7 days.

Advantages

- Encourages early payment which reduces bad debts.
- It also increases rate of turnover and reduces clerical work associated with credit transactions.
- It enhances liquidity position of the company and operating efficiency through reinvestment.

**b) Calculation of Cash Discount**

The trader bought goods worth \$1 000 000 from the producer and received 25% trade discount and 10% cash discount, calculate

- (i) Trade discount
- (ii) Amount to be paid

**(i) Trade Discount**

$$\frac{25}{100} \times \$1\,000\,000 = \$250\,000$$

$$\begin{aligned} \text{Amount after trade discount} &= \$1\,000\,000 - \$250\,000 \\ &= \mathbf{\$750\,000.00} \end{aligned}$$

**ii) Cash Discount**

$$\frac{10}{100} \times \$750\,000 = \$750\,000$$

$$= \$75\,000.00$$

$$\begin{aligned} \text{Amount to be paid} &= \$750\,000 - \$75\,000 \\ &= \mathbf{\$675\,000} \end{aligned}$$

***NB: Trade discount is not to be shown in the books and cash discount is calculated after all trade discounts are deducted.***

**Activity 4(c)**

- (i) Why is it necessary to write E & OE on the invoice?
- (ii) Alex Nhongo purchased Commerce Study Packs from Turn Up College at US\$30 000. He received 20% trade discount and 20% cash discount.

**Calculate:**

- a) Trade discount
- b) Cash discount
- c) The total amount paid by Alex Nhongo

**Examination type questions**

**MULTIPLE CHOICE**

1. A debit note is a document sent to a customer -
  - A When goods are overcharged.
  - B When goods have been returned by the customer.
  - C When packing cases have been returned and the deposit charged must be cancelled.
  - D When goods have been undercharged on the invoice.
  
2. A document sent to a customer by a wholesaler requesting payment to be made before goods are delivered is;
  - A Credit note
  - B Advice note
  - C Statement of account
  - D Pro-forma invoice
  
3. A cash discount is a discount given to a customer for:
  - A Buying goods in large quantities
  - B Returning damaged goods
  - C Paying promptly for goods bought on credit.
  - D An overcharge on the invoice.

### Essay Questions

1.
  - a) Sketch an invoice and fill in the necessary details. [10]
  - b) Outline the importance of an invoice to the
    - (i) Supplier [5]
    - (ii) Customer [5]
  
2.
  - (a) Distinguish between a delivery note and a consignment note. [10]
  - (b) What is an advice note? When is an advice note used and why is it important? [10]
  
3. State the contents of the following documents;
  - (i) Quotation [5]
  - (ii) Order note [5]
  - (iii) Statement of Account [5]
  
4.
  - (a) Distinguish between a debit note and a credit note. [10]
  - (b) Outline the main reasons for issuing a credit note. [10]

# CHAPTER 5

By the end of this chapter you should be able to:

- justify consumer protection
- describe the rights of consumers
- describe how consumers are protected.

## CONSUMER PROTECTION

- Consumers need protection from traders. They may protect themselves or be protected through legislation and a number of voluntary organizations which stand for the rights of consumers.

### **The need for protection:**

- Overcharging by traders.
- Mislead in advertisements.
- Lack of adherence to standard weights and measures.
- Exploitation due to lack of knowledge at their disposal.
- Sale of poor quality goods.
- Protection against dumping and other social costs.

## CONSUMER RIGHTS

### **5. Right to basic needs**

This covers things like food, clothing, shelter, education etc.

### **2. Right to safety**

This includes safety from harmful goods and services as well as a right to a safe environment. Ensures products are not contaminated.

### **3. Right to be informed**

- Consumers should be provided with adequate information so that they are able to make informed decisions.
- Consumers also need protection from misleading information which maybe contained in adverts, labels or packages.



4. **Right to Choose**

- Customers should have access to a variety of goods and services at fair prices.
- In the case of monopolies there should be a guarantee of satisfactory services at a reasonable price.

5. **Right to be heard**

- Should raise concerns and receive the attention necessary
- Should be represented in government and policy making bodies as well as in the development of products before being produced.

6. **Right to redress**

- In cases of misrepresentations, purchase of shoddy goods, unsatisfactory service, customers should be justly compensated.

7. **Right to consumer education**

- The right to acquire knowledge and skills to be an informed customer.
- This also includes the right to knowledge and skills needed to influence factors which affect consumer decision.

8. **Right to a healthy environment**

- Consumers should be protected from physical conditions beyond their control.
- The physical environment should be improved for both present and future generations.

**Activity 6 (a)**

- |  |
|--|
| <ol style="list-style-type: none"><li>1. State 6 reasons why consumer protection is necessary</li><li>2. State 8 rights which consumers have against sellers of goods and services</li></ol> |
|--|

**Protection for consumers themselves**

When transacting consumers need to:

- Compare prices from different suppliers
- Buy what they can afford to buy.
- Recall and understand credit agreements.
- Listen and read adverts carefully and understand them.
- Sign agreements they understand.
- Draw up monthly budgets and avoid impulse buying.
- Buy goods you know how to use.

- Check on expiry dates of products before buying.

## **Legislation**

The following Acts or backed statutory instruments were enacted to protect consumers.

### **1. Price Control Act**

This seeks to control the prices of basic commodities for example sugar, bread, mealie meal etc.

Prevents suppliers from hoarding goods and ensures clear displaying of policies of commodities and unit prices thereof.

### **2. The Food Standard Act**

**This classifies the following as offences:**

- Sell of contaminated food.
- False description of goods.
- Misleading consumers on quality of goods on sale.

### **3. The Trade Measurement Act**

- Firms should use standard measures when weighing their goods, for example, all two kilograms should be the same.
- Label the contents for any packaged goods for example, volume and weight.

### **4. Sale of Goods Act**

- Goods sold should be as described. A red pen should not turn out to be a black pen.
- Goods sold must be for the purpose. A drug to cure head ache should serve that.
- Goods must be of merchantable quality and must work properly.

### **5. Merchandise Marks Act**

- This prohibits the sale of goods wrongly described, the importation of certain goods and the sale of certain goods unless their origin of manufacture is indicated.

### **6. Dangerous Drugs Act**

**This classify the following as offences**

- Wrong description of drugs on sale.
- Selling of unfit drugs

- Misleading consumers about the curative power of the drug.

### **Consumer Association – Consumer Council Zimbabwe (CCZ)**

- Acts as a consumer watchdog against unfair trading practices
- Investigates consumer complains.
- Initiates and participate in consumer education programmes
- Promotes public support for good quality wares.
- Makes recommendations on existing and proposed legislation which affect the interests of the consumer.
- Promotes ethical advertising and proper labelling of all products to ensure accurate description.
- Promotes code of ethics governing the relationship between supplier and consumer.
- Publishes consumer news.
- Encourages membership of the CCZ.
- Represents consumer interests locally and internationally.

### **Voluntary Organisations – Standard Association of Zimbabwe (SAZ)**

- This is an association whose membership includes industrial firms, commercial firms, local authorities and professionals.

It protects the consumer in the following ways:

- Promotes standards of quality of consumer goods.
- Tests goods produced for quality.
- Gives authority to firms for their product to carry certain standard marks.
- Issues copies of standard certification to manufacture. They act as guide to manufacturers to see if they meet quality requirements.
- Adopts and modifies international and standards of quality, safety and performance.
- Encourages uniformity and standardization of products.

### **Statutory Bodies**

- These are established to safeguard public interest.
- They aim to provide essential services and goods which may in most cases be unprofitable to undertake.
- They stabilize prices of basic goods and services making sure that prices do not vary widely beyond the reach of many. Think of N.R.Z. fares

## **Local Authorities**

- Includes rural councils, district councils and municipal bodies.
- They ensure conformity to standards of hygiene as set by SAZ.
- They also issue trading licenses and stamps of authorization.

## **Activity 6 (b)**

1. Describe any 6 pieces of legislation put in place to protect consumers against unscrupulous sellers of goods and services
2. Name the associations involved in protecting consumers
3. To what extent has consumer protection been successful in the past 3 years in Zimbabwe?

## **Examination type questions**

### **MULTIPLE CHOICE**

1. Consumers need protection because
  - A Advertisers may mislead them.
  - B Retailers prepare standards of products
  - C Consumers buy what they cannot afford.
  - D Retailers may sell franchises
  
2. Consumers should:
  - A Compare prices with other products and shops.
  - B Report unfair treatment to the SAZ
  - C Ignore advertising
  - D Do all the above.
  
3. Which statement is untrue? The standards Association of Zimbabwe will:
  - A Test products if requested by the government
  - B Do follow – up checks on approved products
  - C Charge for testing, in addition to their membership subscriptions.
  - D Ban the Sale of harmful goods.

### **Essay Questions**

1. Outline the reasons why consumers need protection. [20]
  
2. (a) Explain how the consumer can exercise self- protection. [8]  
(b) Discuss the main ways in which legislation protects consumers. [12]

# CHAPTER 6

By the end of this chapter you should be able to:

- describe the forms of business organizations.
- distinguish between the public and the private sector
- identify the benefits of the public sector

## BUSINESS ORGANISATIONS

- Business organizations exist in a variety of forms and size. Each is to suit its own requirements.
- Business can conveniently be grouped into 2 categories.
  - Private Sector
  - Public Sector
- The business in the private sector is owned by identifiable individuals. They vary from one person to several owners as in the case of listed companies like Kingdom Fin Holdings. These are motivated by profits.
- The public sector businesses are owned by the communities although the government runs them. They aim at providing basic necessities.  
Thus the two sectors differ in their ownership and their aim.

### Small scale and Large scale traders

Small scale traders are unregistered businesses that are normally managed by sole proprietors and are operating on micro basis. Examples of small scale traders are street market traders, market stall holders and hawkers. They usually suffer from lack of financial resources and managerial skills which account for their remaining small. Large scale traders are individuals or companies that are involved in buying and selling on macro basis. They are characterised by bulk purchases and availability of large capital investments. These firms are able to attract professionals due to good remuneration packages.

### The private sector

#### 1. Sole trader

- This is a one man business which is very common in the retail business.
- Usually employs a few general employees.
- The owner takes the profits as the rewards and should put on capital to kick-start the business.

## **Advantages of Sole Trader**

Sole traders are common for the following reasons;

- They are easy to start as no formalities are required.
- Less capital is needed
- Decisions are made quickly and decisions are independent.
- Personal contacts exist between the owner, staff and customers.

**However the sole trader suffers the following draw backs.**

- They don't have limited liability, that is if the business fails to pay its credits, personal assets of owner are taken to pay.
- They suffer from lack of continuity in case the owner dies.
- Capital is not so easy to raise since banks are not willing to lend to sole traders.
- Decisions made may not benefit the business much as there is only one person to make the decisions.
- Technology is often beyond the reach of many which leave them lagging behind.

## **2. Partnership**

- They are formed for partners' joint benefits which are mainly for profit maximisation.
- This is an establishment by two or more people, however must not exceed 20. This does not apply to professionals like accountants, lawyers etc.

### **Advantages**

- 1) More capital can be raised from more partners than sole trader business.
- 2) Partners may rotate running the business thus creating time for each other.
- 3) They enjoy confidentiality as their business affairs are not public.
- 4) More partners mean more skills.
- 5) Quality decisions may be made due to consultation.

### **However**

- 1) The greatest disadvantages are lack of limited liability.
- 2) When one partner dies the partnership has to be dissolved and thus may not continue.
- 3) Decision making takes longer because major decisions ought to be discussed.
- 4) Unwise decisions by one partner binds and penalize all.
- 5) Disputes may rise among partners.

## **Partnership agreement (Deed of partnership)**

Partners ought to have an agreement which is reduced to writing. It must contain the following:

1. Capital to be contributed by each partner.
2. Interest to be allowed on capital.
3. Amount to be withdrawn by each partner (drawings).
4. Interest to be charged on drawings. Interest is charged to discourage partners from taking money from the business.
5. Salary to be paid to partners.
6. Profit / loss sharing ratios.

## **Partnership Act of 1907**

In the absence of the partnership agreement there are disputes among the partners. The Partnership Act applies with the following provisions:

1. No interest is allowed on capitals.
2. No interest to be charged on drawings.
3. No partner is entitled to a salary.
4. Profits or losses must be shared equally among partners.
5. Any loan to the partnership by a partner attracts an interest of 5% per annum.

The Partnership Act of 1907 was enacted to take into account limited partnership.

## **LIMITED COMPANIES**

- 1) These can be divided into public and private limited companies.
- 2) They do have their own legal existence separate from that of the owners which makes continuity certain.
- 3) Liability of shareholders is limited to the nominal value of the shares held. When the shares are fully paid, there is no more liability.
- 4) Those kinds of Companies should be registered with the Registrar of Companies.
- 5) Limited companies capital comes from shares or borrowing than debentures.
- 6) Shares may either be preference shares or ordinary shares.

## **Types of Share Capital**

### **1. Authorised share capital**

This is the maximum amount of share capital that a business is allowed by its Memorandum of Association to issue. A company cannot issue shares which are more than those prescribed by the Memorandum of Association unless after a general meeting with special resolutions.

## **2. Called up share capital**

This is the amount of share capital which the company has requested its shareholders to pay (call monies).

## **3. Issued share capital**

This is the share capital that has been issued to shareholders and was paid for. Issued share capital is sometimes known as paid up share capital.

### **(a) Private ltd company**

The features include:

- That their names should end with the Private Limited.
- Should not have more than 50 shareholders and can not offer their shares to the public.
- An appointment of directors is not formally made.
- It may or may not appoint an auditor.
- It can start business immediately after registration.

### **Advantages**

- 1) The legal persona of a private company and limited liability status gives it continuity.
- 2) Limited Liability status makes it possible to attract capital from a diverse pool of investors who are protected from the company's debts.
- 3) For the founders they can retain overall control by having a controlling stake in the company.
- 4) Their affairs are private.
- 5) Ability to raise more money through selling of shares to friends and relatives.
- 6) A company is not obliged to appoint an auditor.

### **Disadvantages**

- 1) Transfer of shares is not public thus making it difficult to find a buyer in a private company. In any case, the new shareholder must be accepted by the existing shareholders.
- 2) Raising additional capital is a problem as the shares cannot be traded publicly on the Stock Storage.
- 3) Certain facilities like filing company returns with the Registrar of Company must be complied with.
- 4) Inability to attract professionals due to low remuneration.
- 5) Lack of managerial expertise.



**(b) Public limited company**

- The name of the company must state that it's a public company and its name must end with word Ltd.
- Because of the size of the company, the shareholders elect directors to run the company for them.
- The Companies Act provides protection to the shareholders as whatever goes on within the company must comply with the Act's requirements. Examples – Econet, Delta etc.
- Shares can be traded on the Stock Exchange.
- It must appoint an auditor.
- Must publish their financial statement that is the Balance Sheet, Profit and Loss Account and cashflow statements.
- Membership is at least 7 to no limit.

**Advantages**

- 1) Shareholders have limited liability.
- 2) The company has separate legal existence and thus continuity is certain.
- 3) Capital can easily be raised by appealing to the general public.
- 4) Shares are freely transferable on the Stock Exchange.
- 5) The company is helped to market itself due to stock exchange dealings
- 6) Information on corporate administration can be facilitated by stock exchange authorities.

**Disadvantages**

- 1) Founder of the business may lose control of the business.
- 2) There is no privacy as accounts must be published.
- 3) Companies become difficult to manage as they grow too big
- 4) Costs of issuing shares may be high and also the formality for formation may be too involving.
- 5) Public Limited companies should comply with a host of rules, regulations and guidelines.
- 6) There is risk of takeover by large firms.
- 7) There is a lot of legal formalities required when registering the public limited company.

**Activity 7 (a)**

- |   |
|---|
| <ol style="list-style-type: none"><li>1. Compare and contrast between a sole trading and a partnership business.</li><li>2. Why would one prefer forming a private limited company to a public limited company?</li></ol> |
|---|

There are 2 documents that are required by the law (Companies Act) when registering a company these are:

### 1) **Memorandum of Association**

Is a documents that governs the company and its extended stakeholders.

#### **Contents of a Memorandum of Association**

- The company's name.
- The address of the company.
- Purpose or mission of the company.
- Shows the names and addresses of the first directors or company secretary.
- Indicate the number of shares each founder member will buy in the company.
- Shows the authorized share capital.
- Describe the types of shares to be issued.
- Has a statement of the liability of the members.

### 2) **Articles of Association**

- This document governs the internal relationship of the company with its shareholders.
- It contains an outline of protocols on the following:
  - Shareholder's voting powers in the Annual General Meeting (AGM).
  - The distribution of profits.
  - Appointment of Directors.
  - Conduct of Director's board meetings.
  - Record keeping for example of financial statements.
  - Transfer of shares.

### 3) **Certificate of Incorporation**

- The memorandum and articles of association are lodged with the Registrar of Companies for approval.
- This document establishes the firm as a separate legal entity and is issued by the Registrar of Companies.
- It enables a public limited company to raise capital through issuing a prospectus. This prospectus states the number of shares on issue, their price and previous corporate performance. If enough money is raised the company is issued with a certificate of trading.
- It shows the company's incorporation date and its name.
- It gives the address of the company's registered office.

State the contents of the following documents in the formation of limited companies.

- (i) Memorandum of association
- (ii) Articles of association
- (iii) Certificate of incorporation

## Sources of Finance for Small Firms

1. Personal resources which may come from savings.
2. Borrowings from the family members and friends.
3. Overdrafts from the banks.
4. Short term to medium term loans from financial institutions.
5. Hire purchase which is used to acquire capital items. Ownership passes after paying the last installment.
6. Leasing-where firms use particular assets for a given period of time. Ownership does not pass to the hirer and repairs are done by the owner of the asset.

## Sources of Finance to Large Firms

### 1) Debentures

A debenture is evidence of a loan to a company. A debenture holder is entitled to a certain percentage of interest paid whether or not profits are made. This is a long term loan.

### 2) Issue of Shares

Two types of shares can be issued, that is the ordinary shares and preference shares. Shares are entitled to a dividend which is a share of profit paid at the end of financial period (final dividend) or during the financial year (interim dividend).

#### (a) Ordinary Shares (Ordinary Equity)

- These entitle the holder to be part owner of the company and thus participate in the running and profits of the company.
- They are referred to as risk capital of the company as they may fail to get dividend if the business is not performing well.
- The holders of ordinary shares will only be paid after all the other creditors have been paid in the case of liquidation.
- Holders have voting rights.
- These are permanent shares which are not redeemable.

#### (b) Preference Shares

- These do have a preferential advantage in cases of liquidation. They however do not give holders the right to participate in the running of the company.
- Preference shares may be non- cumulative or cumulative with the former once a dividend is missed, it can not be paid later. With the later, dividend is not paid is accumulated and paid when profits are good.
- The attraction of preference shares is the 'guaranteed' return on them.
- Preference share holders only vote when their dividend is not paid.

3) **Retained profits**

Any undistributed profits in companies are kept in the business for future prospects or re-investment. This is the major source of finance for viable companies.

4) **Factoring**

This is the form of finance where debtors are sold at a discount to a factoring firm. Cash is therefore released for other projects or investments.

5) **Overdrafts** are also a source of finance for large firms. An overdraft is an amount withdrawn from the bank which is over and above the amount deposited.

6) **Grants**- A grant is an allocation from the government for a particular purpose. It is allocated from the national budget.

7) **Donations**- These are funds or otherwise provided free of charge by the government or well wishers.

b) **Multinational Corporations**

- Are also known as transnational companies or super National Corporation.
- These are corporate with several branches in many countries for example Uni-Lever, Delta Corporation, Olivine Industries etc.

**Advantages of Multinational companies**

- 1) Employment creation
- 2) Bring in much needed foreign currency.
- 3) Bring in technology to the host country.
- 4) Its broad network system can be used by the host country to boost its exports.
- 5) Leads to economic growth.
- 6) Give rise to the Gross Domestic Product (GDP).

**Disadvantages**

1. Foreign exchange reserves are drained through remission of profits, dividends and interest.
2. Create unfair competition due to capacity utilization.
3. May bring in expatriates to dominate the key function or responsibilities.
4. May be involved in politics by sponsoring opposition parties, thereby disturbing peace and tranquility.
5. They may grow into monopolies thereby charging exorbitant prices.
6. They may stifle local investment by taking over local firms instead of developing their operations to be competitive.

## **PUBLIC SECTOR: – Public Corporations (parastatals or national corporations)**

### **It involves the following:**

1. Government trading department which encompasses parastatals that produces and sell at profit for example, Zimre.
  2. Local government enterprises i.e city councils, for example, Bulawayo City Council.
  3. Public utilities which provide essential services for example electricity.
- This is characterised by government involvement in the carrying out of various activities.
  - This is mainly dominated by government owned parastatals which provide basic services or goods to the public.
  - Some organizations provide their services and charge directly like ZESA, with some charging indirectly as ZBH-through licences.
  - Public corporations are set up by an Act of Parliament (Law) and have legal existence separate from the government.
  - Institutions in the public sector are owned by the government on behalf of the community or people.
  - Recent developments have seen Public Authorities being answerable to parliament and requirements to publish their financial accounts.
  - Government appoints a board of governor (management) to run the public corporation or may appoint a commission of enquiry if something needs to be investigated.
  - Public corporations raise capital, through selling governments bonds for example Zesa Bills, Municipal Bonds to raise capital. They also retain some profits. The government has been giving some money in the fiscal budget to these corporations.
  - The aim of a public corporation is not to make profit but to provide an essential service. It is however necessary for public corporation to break in the long- run for survival.

### **Benefits of Public Sector**

Essential services are provided even in areas which are unprofitable to the private sector. The ploughing back of profits degenerate into lower charge for the community and also lowers tax payer's burden.

They assist in carrying out government policy, for example, employment creations, assistance of critical areas of economy.

Social benefits arise, for example, railway transport reduces congestion on the roads.

### **Activity 7(c)**

1. State the advantages and disadvantages of Multinational Corporations
2. What are the features of the public sector?

## **Examination type questions**

### **MULTIPLE CHOICE**

1. The following are the main features of a private limited company except.
  - A It must acquire a Certificate of Incorporation before it can start trading.
  - B All shareholders have limited liability.
  - C It exists as a separate legal entity from its owners.
  - D Requires a trading certificate to commence business.
  
2. The following document governs the company's relationship with its outside world:
  - A Articles of Association
  - B Memorandum of Association
  - C Prospectus
  - D Trading certificate
  
3. State which of the following is the "odd one out".
  - A Transnational company
  - B Town council
  - C Municipal authority
  - D District council
  
4. Unlimited liability is when
  - A Profits and losses are shared equal.
  - B Traders lose both business and private property to creditors when the business folds up.
  - C A trader knows his customers personally
  - D Partners sign a Deed of Partnership.
  
5. The advantages of bringing a partnership into a business owned by a sole trader is that
  - A He will pay the partner a salary.
  - B He will hand over the business to the partner.
  - C The partner will bring more capital into the business for expansion.
  - D He will share only the losses with the partner.

### **Essay Questions**

1. (a) Distinguish between a sole trader and a partnership. [10]  
(b) Discuss the advantages and disadvantages of operating a business as a sole trader. [10]
2. (a) Briefly explain the contents of a Partnership Deed. [10]  
(b) What are the advantages and disadvantages of partnership? [10]
3. Distinguish between private limited company and partnership under the following;  
(i) Ownership  
(ii) Control  
(iii) Distribution of profits  
(iv) Ways of raising capital [20]
4. (a) Explain the procedures in forming a public limited company (include all the necessary document required in the formation of a company. [20]
5. Write brief notes on the following terms;  
(i) Unlimited liability  
(ii) Separate legal entity.  
(iii) Divorce between ownership and control.  
(iv) Going public [20]
6. State the contents of the following documents;  
(i) Memorandum of Association  
(ii) Articles of Association  
(iii) Certificate of Incorporation  
(iv) Prospectus [20]

# CHAPTER 7

By the end of this chapter you should be able to:

- define money.
- state the advantages and disadvantages of barter trade.
- identify the characteristics of money.
- state the functions of money.
- describe banks and their functions.
- describe cheques.
- describe the methods of payment.

## MONEY AND BANKING

### Money

- This is anything accepted for the settlement of a debt. This takes several forms as beads, cattle, sea shells etc.
- Today the majority of this is in the form of notes and coins.
- Legal tender is money which must be accepted in settling debts. Notes and coins are legal tender but are not cheques.
- Money solved the problems presented by barter trade.

### Barter trade

Is the exchange of goods without involving money for example a cow for 6 goats.

### Problems of Barter Trade

1. **Double coincidence of wants**
  - If you have a surplus, you have to find someone who has what you want and also wants what you have.
2. **Problem of valuing goods**
  - The absence of a price system made it difficult for traders to fix rate of exchange for goods traded for example how many chickens for a cow?
3. **Indivisibility of goods**
  - Some goods cannot be divided into smaller pieces and still be exchanged as such. For example if I need the liver of a cow, I can't get it without having to kill the cow.
  - Exchange is thus made inconvenient.



4. **Problems of storage**

-Some goods are perishable and thus may not be stored for long periods awaiting exchange.

-Refrigerators may have to be used.

5. **Distance to be travelled**

-In order for one to get someone to exchange with, one must travel a long distance, and goods may sometimes be too heavy to carry.

**Characteristics of Money**

1. Portability:-money is easily carried around.
2. Divisibility:- money is divisible into smaller units of 1c, 50c
3. Durability :-good money must last long.
4. Uniformity :- all coins and notes of similar denominations should be alike.
5. Acceptability :- members of the public should readily accept it as legal tender.
6. Scarcity:- to maintain value, money must not be plentiful otherwise it fuels inflation and loses value.
7. Recognisable.
8. Stability.

**Functions of Money**

1. Measure of value – this drives the price mechanism.
2. Store of value – money can be saved and wealth of individuals measured in terms of money.
3. Unit of account – budgets, incomes and profits can be conveniently be expressed in monetary terms.
4. Medium of exchange- allows the buying and selling of goods and services.
5. Standard for deferred payments – transactions can be entered on credit and the amounts owed measured in monetary terms.

**Activity 9 (a)**

1. Define money
2. State the problems of barter trade
3. State the 8 characteristics of money
4. What are the 5 functions of money?

**FINANCE AND BANKING**

A bank is a financial institution that accepts deposits and makes out loans. It offers savings facilities and loan facilities.

## **FINANCE AND BANKING.**

- Banks, savings and loan association.
- Strictly speaking, banks are guided by the Banking Act and covers commercial, merchant and finance houses and discount houses.
- Building societies and the POSB are governed by- their own acts.
- The financial market is made up of banks and other players for example insurance companies, asset management companies, mobilize resources with excess funds given to those with the need for the funding.
- The financial sector has got the money market which trades in short term paper for example Treasury Bills, NCD, and the capital market which is for long term paper for example bonds, shares.
- All these are under the umbrella of the Reserve Bank.

### **Banking**

Other financial institutions:

#### **1. RBZ - functions**

- Issuer of notes and coins (bearer cheques)
- Controls money supply in the economy
- Is the banker of the government.
- Controls gold and foreign currency reserves.
- Lender of last resort to the bankers.
- Applies the government's monetary policy.
- It is the banker of banks.
- Responsible for the setting up of system for cheque clearing.

Commercial banks for example Kingdom Bank, Barclays, Stanbic Bank, Standard Chartered, Zimbank.

#### **2. Features of commercial banks:**

- They cater for the retail end of the market.
- Thrive on extensive branch networking to reach many deposits.
- In many instances, they are involved in the business of providing loans and advances to clients.
- The banker – customer relationship tends to be impersonal.
- They are labour intensive with generalized staff when appropriate banking for example clerks and tellers.
- Overdrafts form a large chunk of the commercial bank's lending business.

### 3. **Functions of Commercial Banks: The Banking Act (24.20)**

1. Accepts deposits which may be withdrawn without notice.
2. Extending credit for financing commercial transactions.
3. Buying and selling instruments for own account or for the account of the customer for example Treasury Bills.
4. Providing money transmission services.
5. Issuing and administering means of payment, including cards, traveler's cheques and banker's drafts.
6. Safekeeping and administration of valuables including securities.
7. Provide credit reference services.
8. Buy and sell foreign currency subject to the Exchange Control Act (22.05).
9. Offer savings account for small savers.
10. Offer a current account which allows the use of cheques.

### 4. **Cheques**

- A cheque is an order which is signed and dated by the drawer to the drawee, to pay the payee a certain amount of money.
- The drawer is the one who writes out a cheque, the drawee is the banker of the drawer and the payee is the one to receive payment of the cheque.

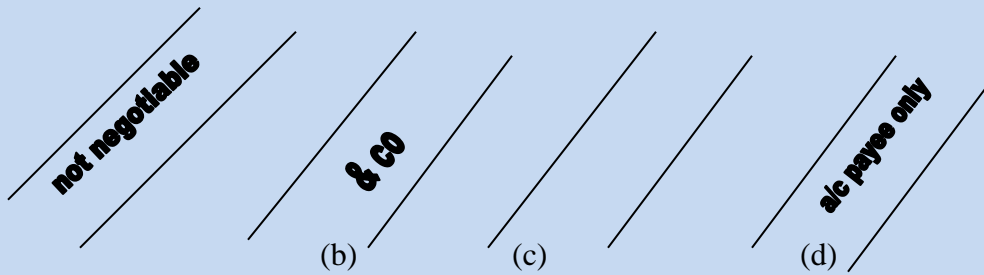
### 5. **Open and Crossed Cheques**

- With an open cheque, anyone can obtain cash by endorsing the open check at the back.
- Since anyone can cash them, this makes open cheques unsafe.
- Crossed cheques can only be paid into a bank account and can not be cashed.
- Has two diagonal parallel lines across the face.
- A general crossing or a special crossing can be made.
- In a special crossing the drawer names the bank and branch between the crossings, for example,.

**Kingdom, First Street**

- This cheque is only deposited into a Kingdom Bank account housed at First Street.
- With a general crossing, the check can be deposited into any bank but still into a bank account.

- The following are general crossing.



- (a) You can transfer the check by endorsing at the back with the first 3 crossings.
- However, with the 4<sup>th</sup>, only the payee can deposit the cheque into his account.

## 6. Endorsements

- By endorsing, the drawer is giving an order to the drawee to pay a third party.
- A check can be endorsed in 3 ways as explained below.

### (i) **Endorsement in Blank**

- Payee simply signs at the back and anyone getting the cheque may pass it on without further endorsement.

### (ii) **Special endorsement**

- Name of new payee is stated. The new payee can further endorse and pass it on.

### (iii) **Restrictive endorsement**

- The owner of the cheques specifies the payee and it goes like Pay B Mug only.
- The drawee will only pay B Mug and no one else.

Note, however, that the RBZ has discouraged endorsed cheques into personal accounts due to high incidences of stolen company cheques.

## **Advantages of Cheques**

- Convenient and quicker to write than counting notes and coins.
- Cheques can be made safe by crossing them.
- Cheques are safe to carry than lots of cash.
- Cheques can be stopped before the cheque is paid by the bank.
- Cheque stubs provide a record of payment.

## Dishonoured Cheques


- A cheque may be dishonored for the following reasons.
  - When the cheque is defective or dirty.
  - When payment is stopped by the drawer.
  - When the drawer is bankrupt.
  - When the cheque is not signed or dated.
  - Insufficient funds in the account.
  - When amounts in words differ from the figures.
  - When alterations are not signed for by the drawer.

### Activity 9 (b)

1. State the functions of the following institutions
  - (i) The Reserve Bank of Zimbabwe (RBZ)
  - (ii) Commercial banks
  - (iii) Building societies
2. What are the differences between an open and a crossed cheque
3. Describe the 3 ways of endorsing a cheque

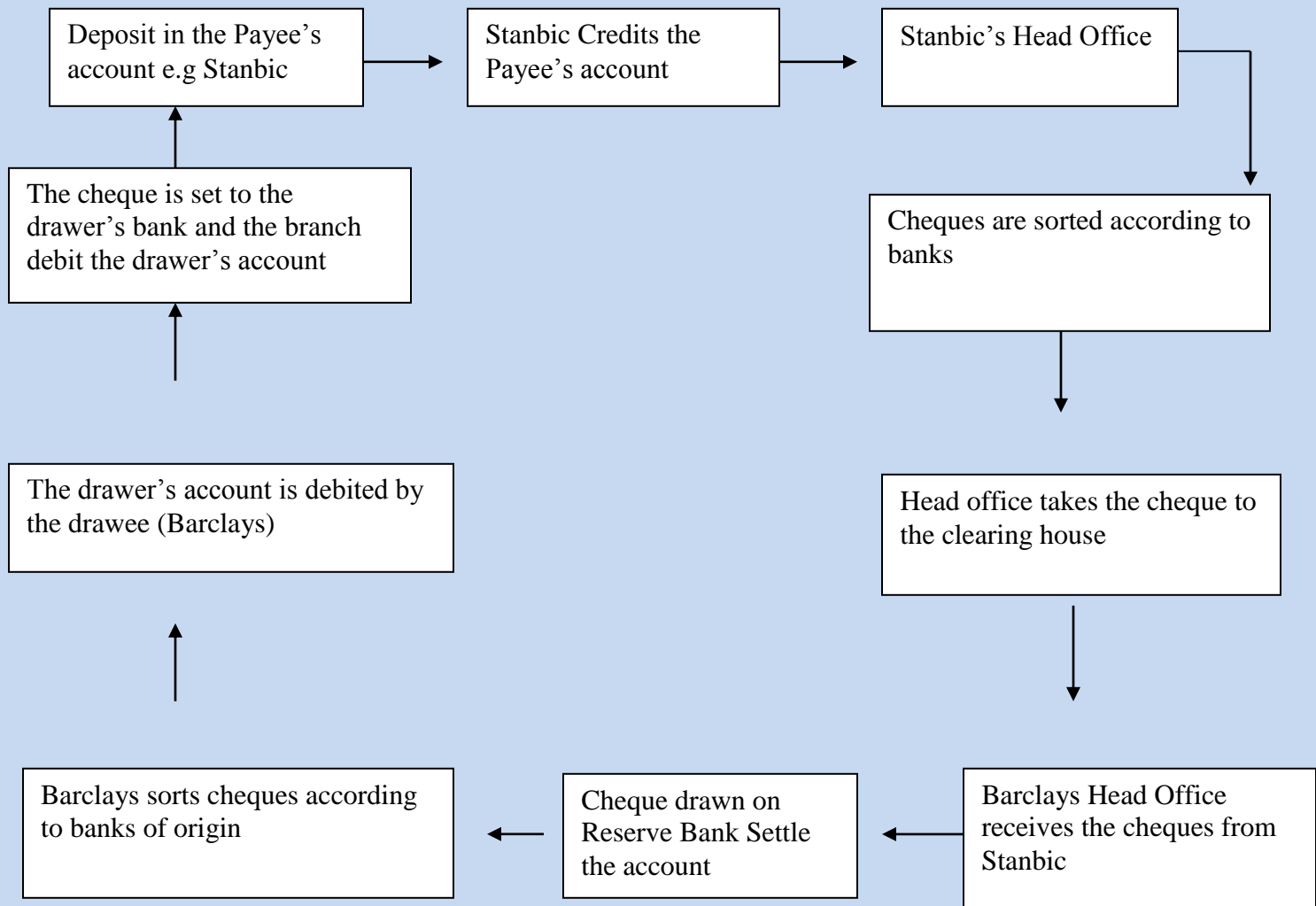
### Sketch of a crossed cheque

If for example a cheque of \$1 million is to be paid to Prestige College from Mambo Bookshop on the 11 January 2007, the crossed cheque should be as follows:

Main Branch	3941
Stanbic Registered Commercial Bank	Date 11 January 2007
<i>Barclays</i> <i>Fife Street Branch Bulawayo</i>	
Pay Prestige College .....	or order
The Sum of one million dollars only	\$1 000 000.00
Mambo Bookshop	
314641 3941 066694114	195

How money is transferred from drawer's account to the payee's account.

1. A cheque is deposited into the payee's account for example Stanbic.
2. Stanbic credits the payee's account with the cheque amount.
3. The cheque is sent to the Head Office of Stanbic.
4. Cheques are then sorted according to banks.
5. Head Office takes the cheque to the clearing house for inter bank indebtedness.
6. Barclays Head Office receives the cheques from Stanbic.
7. Cheque drawn on Reserve Bank to settle the account.
8. Barclays sorts cheques according to banks of origin.
9. The drawer's account is debited by the drawee (Barclays).
10. The cheque is sent to the drawer's bank and the branch debits the drawer's account.



### Activity 9 (c)

1. State the reasons for crossing a cheque
2. State 7 situations that result in a cheque being dishonoured.
3. State and describe the 3 parties to a cheque

## Methods of making payments

### 1. **Stop Order**

- It is also known as standing order which is used to pay fixed amounts at fixed intervals for example \$20 000.00 every 25<sup>th</sup> of a month for 12 months. They are mostly used to pay rent, insurance premiums or fixed installments.
- Pay is usually initiated by the debtor.

### 2. **Direct debit**

- Is similar to a stop order except that it is used to pay varying amounts at irregular intervals. Normally used to pay water and electricity bills.
- Request for payment is initiated by the creditor.

### 3. **Credit Transfer (Bank Giro)**

- Is occasionally used where one cheque must be written to pay many people or organizations for example one cheque written by employer to pay several employees. It must be used with a list of payees

### 4. **Notes and Coins**

These are accepted as a legal tender.

### 5. **Cheques**

6. **Banker's draft** -this is a reliable or safe document that is drawn by the bank on itself on behalf of a customer intending to pay a creditor. Drawn when the amounts involved are huge, debtors, unknown to creditor and also when payments are made in foreign exchange currency.

7. **Cable transfers**- encompasses the use of telegraphic transfers.

## Requirements for granting Bank Loan

1. Personal details of the borrower.
2. Other credits of the borrower.
3. Purpose of the loan and amount.
4. The repayment period.
5. Other sources of finance of the applicant.
6. Trade references.
7. Collateral security - what can be taken if the borrower fails to pay, for example, a house.
8. Current business cycles or variations.

9. Policy of the governments on lending.
10. Bank's liquidity position i.e. the availability of money/ cash.
11. Risks involved and their insurance.

**Differences between bank loans and bank overdraft**

<b>Bank loan</b>	<b>Bank overdraft</b>
<ol style="list-style-type: none"> <li>1. Collateral security is required.</li> <li>2. The applicant does not need to be an account holder of the bank.</li> <li>3. Low interest charges.</li> <li>4. Interest is charged per annum e.g 25% per year.</li> <li>5. Capital amount (principal) is repaid after an agreed period.</li> <li>6. In the event of default in payment the pledged asset is attached and the funds already paid are forfeited.</li> </ol>	<ol style="list-style-type: none"> <li>1 No security is required.</li> <li>2. The applicant must be an account holder of the bank.</li> <li>3. High interest charges.</li> <li>4. Interest is charged on daily basis depending on the amount of overdraft.</li> <li>5. Amount is repaid as and when funds are available.</li> <li>6. Any default in payment culminates in the individual or company being sued.</li> </ol>

**Activity 9d**

1. Briefly outline the procedure of clearing a cheque
2. State the 7 methods of making payment
3. What are the requirements for granting a bank loan?

**Activity 9e**

1. State the differences between a current account and a Deposit account
2. Describe the feature and functions of discount houses?

**Account operated**

**1. Fixed deposit account**

With this account money is deposited for a specific period e.g deposit \$1000 every month for 4 years. It is only withdrawn after the expiration of the agreed period or on revocation following the agreement. This account has high increases and low/no bank charges.

**2. Current account**

Account operated by big firms or individuals where large sums of money are involved. It makes use of the cheque book to effect payments and the holder is legible for overdraft facilities.



### 3. Savings account

The holder is not allowed to make withdrawals over and above the minimum stipulated amount. There are no overdraft facilities and the bank charges are lower than the current account.

### Differences between Current Account and Deposit Account

Current Account	Deposit Account
1. Cheque is used when making payments	1. Cash is used
2. Money not necessarily deposited for a long time.	2. Money must be deposited for a long time.
3. Give overdraft facilities	3. No overdraft facilities
4. Uses a cheque book	4. Uses pass books
5. Bank charges.	5. No bank charges
6. Only offered by commercial banks	6. All financial institutions
7. Notice is not required for withdrawals	7. Notice of withdrawal required

### Merchant Banks/ Accepting Houses

Examples include / Interfin, ABC

#### Features

- Serve the wholesale market, that is companies and not individuals
- Rely on a narrow branch network
- Close and personal bank customer relations
- Employs small but highly specialized staff.
- Bulk of business is consultation in nature on issues like mergers.
- Acceptance credit constitutes the major parties of the bank's leading.

#### Functions

- (i) Deposit taking from the public, can be called or term deposits.
- (ii) **Offer acceptance credit** - this is due to provide finance in trade, usually international. The bank on which the bill is drawn accepts it and it can be discounted by any bank for cash.
- (iii) **Indemnify** - this is the undertaking by the bank to take up all shares not taken up by the public.
- (iv) **Advisory services** - these include market advisors, merger advisors.
- (v) **Provide accommodation bringing finance** - this is finance to cover for the time between sending goods to a client and the receipt of the cash due.
- (vi) Handle letters of credit companies.
- (vii) **Raising capital**. Merchant Bank assist companies raise capital by selling shares or debentures to the public.

- (viii) **Manage client's funds** - these could be trust funds which they will invest in lucrative investments to easy good returns.

### **Discount Houses**

Examples: National Discount House (NDH), DCZ

### **Functions**

1. Lend money by discounting bills of exchange.
2. Provide government with money by buying Treasury Bills and other government securities.
3. Provide short term investments to worthy individuals and companies for example NCDs.

### **Finance Houses**

Examples of Finance Houses are Premier Finance House, Scotfin etc.

### **Functions**

1. **Hire purchase**
  - This is the biggest business of Finance houses.
  - They provide the funds to sellers and take over the subsequent installments from the buyer.
2. **Leasing**
  - Buy costly assets like vehicles, flats and lease them out to companies.
  - Lessees may not have the option to buy.
3. **Advances**
  - These are loans given to individuals and firms with maturity periods ranging from a year and beyond.

### **Building Societies**

- Strictly speaking, building societies are not banks although they perform some functions performed by banks.
- They are governed by the Building Societies Act.
- Examples are: CBZ, CABS and FBC B/S.

### **Functions of Building Societies**

1. Accept deposits from private sector through savings accounts.
2. Make out cheque on request on behalf of the savings account holder.

3. Provide long term loans for buying houses, buildings etc.
4. Maintain share accounts for their customers.

### **Development Banks**

For example, Zimbabwe Development Bank (ZDB).

The infrastructure bank (ZDB)

- This mobilizes long term finance for the funding of long term projects like roads, dams etc.

### **POSB – People’s Own Savings Bank**

- Accepts deposits from individuals and companies.
- Invest in Treasury Bills, commercial banks and discount houses.
- Operates savings and deposit accounts whose interest is tax free.
- Lends to parastatals and other large organs.
- It governed by POSB Act (24.22)

### **Activity 9 (f)**

1. State the function of finance houses
2. Describe the features and functions of development banks and the POSB

### **MULTIPLE CHOICE**

1. Cheques drawn on the banks that issue them are called
  - A Credit transfer
  - B Standing orders
  - C Stop orders
  - D Banker’s drafts
  
2. Building Societies main area of business is
  - A Providing cheque facilities
  - B Being financial adviser to the government
  - C Approving mortgage bonds to house buyers.
  - D Clearing cheques.
  
3. Payments by cheque is a service provided by the bank to
  - A Fixed account holders
  - B Current account holders
  - C Savings account holders
  - D Debenture holders

4. The Reserve Bank of Zimbabwe is a
- A Statutory body
  - B Private Limited Company
  - C Building Society
  - D Public limited Company

### **Essay Questions**

1. Describe the four main functions of money. [20]
2. Outline the nature and characteristics of money. [20]
3. Explain the following terms
- (i) Subsistence economy [3]
  - (ii) Barter economy [3]
  - (iii) Money economy [3]
- (b) Discuss the problems of barter trade. [11]
4. State three functions of each of the following financial institutions;
- (i) Building Societies.
  - (ii) Commercial Banks.
  - (iii) Finance houses.
  - (iv) Merchant banks.
  - (v) Discount Houses. [20]
5. Briefly explain the main features of a Commercial Bank. [10]
- (b) Explain the advantages and disadvantages of a current account to a customer. [10]
6. (a) Sketch and label fully a cheque. [15]
- (b) Distinguish between an open and a crossed cheque. [10]

# CHAPTER 8

By the end of this chapter you should be able to:

- define insurance ..
- distinguish between insurable and non- insurable risks.
- describe the principles of insurance.
- outline the procedure for making a claim.
- describe parties in the insurance market.
- distinguish between insurance and assurance.
- identify the non- life policies.
- describe the importance of statistics in insurance.
- describe the Export Credit Guarantee Department (ECGD).

## INSURANCE

- ❖ This is a system of protection against risks which is based on the principle of pooling risks. This is where individuals or companies put their resources together for future risks.
- ❖ To be insured one needs to fill in a proposal form giving all the necessary details. The information has to be truthful.
- ❖ The insurance company is the insurer and the person seeking insurance is the insured.
- ❖ When the two agree, an insurance contract is signed, which is called a policy. The insured agrees to pay premiums in return for the cover provided. These are paid monthly.

### Insurable Risks and non- insurable

- Business risks can be divided into either insurable or non-insurable.
- Insurance companies are prepared to offer protection for insurable risks.

<b>Insurable risks</b>	<b>Non-Insurable risks</b>
1. Insurable risks have statistics of the occurrence.	1. The insurance company is not able to calculate the like hood of occurrence and hence no statistics.
2. There is a large number of similar risks to promote the concept of pooling of risks.	2. The risks involved are non-current and non repetitive, such that pooling of risks is impossible.
3. The risk insured should be beyond the control of the insured.	3 The risk insured can be controlled by the insured.
4. The insurer is able to set the premium	

5 An example is the risk of a house being gutted down by fire.	4. The premium cannot be determined.  5. A non-insurable risk could be the possibility of O.K stores not able to sale the stock of cooking oil they have.
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## PRINCIPLES OF INSURANCE

These are critical because if they are isolated the insured may fail to successfully claim for damage from the insurer.

### 1. Utmost good faith

Known as **uberrima fides** in Latin.

- ❖ When filling in the proposal form, all relevant information must be provided: truthfully.
- ❖ This would provide for the insurance companies to make an accurate assessment of the risks involved and calculate the premium to be paid.
- ❖ If relevant facts are omitted the contract would be invalid for example if you falsify your age, your children and history, that you are a non-smoker when you are a chain smoker.
- ❖ The insurer also has to explain to the client all the terms of the insurance and the cover provided.

### 2) **Insurable interest**

- ❖ This means that, the insured should stand to loss in the event of the risk happening for example loss of your car, death of your spouse, business partner.
- ❖ This is necessary as without this the insured may trigger the risk. For example if I insure my neighbor's house against fire may burn it and claim compensation and in the event losing nothing.
- ❖ Insurance may also become a gamble. The insured may look around for something likely to happen and insure it.

### 3) **Indemnity**

- ❖ The objective of insurance is to restore the insured to the position he/she was before the risk. The insured should not make a profit out of a loss. To prevent profiting from losses, the principle of **subrogation** needs to be observed. This transfers all the rights of the insured to the insurer in the event of a loss. For example, if my car is damaged and the insurance companies replace it, I can not sell the damaged car but the insurance company will take it away. Also the principle of **contribution** prevents the insured from benefiting from insuring the same risk by more than one insurer.
- ❖ In the event of the risk happening, the insurance companies should contribute to restore the insured.

- ❖ The insured may also undermine a risk. In this case an **average clause** would be set by the policy. For example, if a house is worth \$15 billion but is insured for \$10 billion only and is damaged to the extent of \$12 billion how much will the insured get? Not \$10 billion but  $\frac{10\text{billion} \times 12\text{billion}}{15\text{billion}} = 8\text{bn}$

### **Reasons for a contract of indemnity**

- People are forced to safeguard their property because there is no profit to be gained.
- Indemnity reduces insurance premiums due to absence of deliberate losses.

### **Proximate Cause**

This is the immediate cause of the event insured and must be covered for a claim to be successful. If you insure yourself against death by accident but while driving you die from heart attack you cannot be compensated.

Indemnity doctrines involve the average clause, subrogation, contribution and proximate cause.

### **Activity 10 (a)**

1. In your own words, what is insurance?
2. Distinguish between insurable and non-insurable risks
3. State and describe the common principles of insurance

### **Insurance procedure (Obtain an Insurance Cover)**

When you need insurance cover, approach an insurance broker or insurance company.

#### **1) Filling in proposal form**

- ❖ This form should be filled by the applicant him/herself. This contains questions about the propose as well as the risk to be covered.
- ❖ A question that always feature is whether the propose had ever been refused cover by any insurer. If so, the insurance company will probe that.
- ❖ Questions should be answered in uberrima fide.

2) After filling the proposal form, it is examined by the insurance company or actuary. When accepted, the insured start paying premium but must obtain a cover note for temporary protection.

#### **3) Policy**

- ❖ This serves as the legal contract between the insurer and the insured if the proposal form had been approved by the insurer.
- ❖ Insurance companies usually use standard contracts which they endorse to meet the specific needs of individual clients.
- ❖ It gives terms and conditions of the contract, sum insured, risk covered and premium.

#### 4) **Claims**

- ❖ When the covered event happens, the insured should fill in claiming forms.
- ❖ This is presented to the insurer who investigates to determine that the rate was within the scope of the insurance cover provided.

#### 5) **Renewal policies**

- ❖ Policies cover a defined period for example a year after which a renewal notice is send to the insured.
- ❖ The notice regards the payment of next period's premium to keep the policy in force.
- ❖ If renewal period is not met, the policy will lapse.

### **Making a Claim Procedure**

1. A claim form in filled in and submitted to the insurance company.
2. The insurer goes through the claim form to see if the occurred loss is the insured risk. If it is not, then the claim is invalidated.
3. The insurance company also considers any breach of the contract or policy and if yes the claim becomes invalid.
4. If the above conditions are met, the compensation is paid out by the insurance company.

### **Activity 10 (b)**

- |  |
|--|
| <ol style="list-style-type: none"><li>1. Briefly outline the step involved for one to obtain insurance cover.</li><li>2. State the steps taken in making a claim</li></ol> |
|--|

These are issued by insurance companies highlighting that certain assets are covered. They are also known as cover notes

### **Parties or players in the insurance market**

#### 1) **Brokers**

- ❖ These are agents of various insurance companies. They have detailed knowledge about the insurance market.
- ❖ When they are approached by individuals needing insurance cover, they are able to obtain the best cover that suits the client's needs.
- ❖ They work on commission basis and they are paid by the insurance company and not by the client.
- ❖ The major advantage of obtaining cover through a broker is that the client saves the time and trouble to search the insurance market and company with best offers.



- ❖ Also when making claims, the exposed of brokers may quicken the compensation process.
- ❖ Prepare cover note where necessary.

## 2) Underwriters

- ❖ These are insurers who assess and cover risks.
- ❖ They fix and collect premiums.
- ❖ They pay commission to brokers, pay compensation and reinsure to spread risk.
- ❖ Underwriters agree to share in the risk that is covered by signing their names under a policy.
- ❖ The concept is largely linked to Lloyd's of London although the Zimbabwe market of insurance offloads some of their risks through re-insurance.
- ❖ For large risks, underwriters operate groups known as syndicates.

## 3) Zimbabwe Reinsurance Corporation (Zimre)

- ❖ This is a company which re-insures various insurance companies.
- ❖ This re-insurance provides cover to the insurance companies as well as extra cover to the insured.

### Differences between Insurance and Assurance

<b>Insurance</b>	<b>Assurance</b>
1. Events may occur	1. Events must occur
2. For example fire, accident	2. For example death
3. Can be indemnified for loss	3. Can not be indemnified
4. For property	4. For life

### **Insurance Policies**

These are divided into –life assurance  
-short term insurance

#### 1) Life assurance

- Note that insurance is for a risk that may or may not happen, but assurance is for an event that has 100% certainty for example death.
- Life assurance policies can either be whole life or endowment policies.

#### (a) Whole life policy

In a whole life, the insured pays premiums up to his death. The insured will benefit from the policy as well as his/her beneficiaries.

(b) **Endowment Policy**

With this policy premiums are only paid up to a certain age for example 60 years. After this agreed period, the insured will benefit from the policy which operates like a retirement policy.

NB A viate of assurance policy is a term policy where benefit would be given if death happens during a specific period. This is ideal for one who takes out a mortgage and is required to pay back by the building society.

2) **Non-life policies**

- i) **Marine**  
This covers compensation for losses and injury to 3<sup>rd</sup> parties caused by problems of the sea such as damage caused by bad weather, sinking, sea rates etc.
- ii) **Liability Insurance**  
This covers for claims from 3<sup>rd</sup> parties sustaining injuries because of the insured. An example is the public liability, employer's liability.
- iii) **Personal accident insurance** – insurance not covered by marine, fire or life assurance.
- iv) **Fidelity guarantees insurance.**
  - It covers theft by the insured's staff that is cash embezzlement by the employees.
  - These employees are in the positions of trust like cashiers, clerks, accountants etc.
- v) **Employer's liability**
  - It covers employees injured while at work.
  - Workers may lose earnings, some body parts, or contract diseases during the courses of employment and therefore need to be compensated.
- vi) **Public Liability**
  - Compensate members of the public for the loss sustained, for example food poisoning, electrical shock of faulty appliance.
- vii) **Consequential Loss**
  - Is the loss caused by another loss for example fire which destroys inventory, which results in the loss of profit during non operating period.
- viii) **Burglary**
- ix) **Motor Vehicle Insurance**
  - (i) Third party motor insurance.
    - Compulsory to all owners of road motor vehicles.
    - Provides cover for legal liability to third parties – i.e. anyone who may suffer injury as a result caused by the vehicle.
  - (ii) Full third- party fire & theft insurance covers loss to one's vehicle, damage to the vehicle due to attempted theft.
  - (iii) Comprehensive policy – covers a wider range of risks for example injury to the driver etc.

## **Importance of Statistics in Insurance**

1. Helps in determining viable premiums which ensure profitability and service delivery.
2. It helps in calculating the profitability of the risk occurring.
3. Statistics information is used to determine insurable and non- insurable risks.

## **Export Credit Guarantee Department (ECGD)**

- This is the British institution which is under the Department of Trade.

## **Functions of ECGD**

1. Covers risks or non payment by importers.
2. Collects overdue debts or bad debts.
3. Give expert advice to exporters.
4. Policy acts as collateral security.
5. Investigates credit worthiness of importers.
6. Give specific policies.
7. Helps arrange loans for exporters.

## **Activity 10 c**

1. Describe the parties in the insurance market
2. State the difference between Insurance and Assurance
3. Describe the non-life policies
4. What are the functions of the Export Credit Guarantee Department (ECGD)

## **Examination type questions**

### **MULTIPLE CHOICE**

1. The risk that an employee can steal an employer's money is covered by
  - A Marine insurance policy
  - B Insurable interest
  - C Accident liability insurance policy
  - D Fidelity guarantee insurance policy
2. When a person has no right to insure a friend's house, it means he had no
  - A Policy

- B Premium
  - C Insurable interest
  - D Proposal form
3. A person taking an insurance policy is called
- A The insurer
  - B The insured
  - C The third party
  - D The underwriter
4. One of the following does not belong to the household risks.
- Which one?
- A Embezzlement
  - B Theft of furniture
  - C Damage to furniture caused by rain
  - D Accidental breakage of mirrors

### **Essay Questions**

1. (a) Distinguish between insurable and non- insurable risks. [10]  
(b) Explain the factors considered when calculating premiums. [10]
2. Write brief notes on the following terms:
- (i) Cover note
  - (ii) Prospectus
  - (iii) Utmost good faith
  - (iv) Proposal form
3. Explain the importance of insurance as an aid to trade. [20]
4. (a) Explain what is meant by the term indemnity. [5]  
(b) Why is the idea of subrogation important to the process of indemnity. [15]

# CHAPTER 9

By the end of this chapter you should be able to:

- define communication.
- state the importance of communication.
- describe telecommunication services.

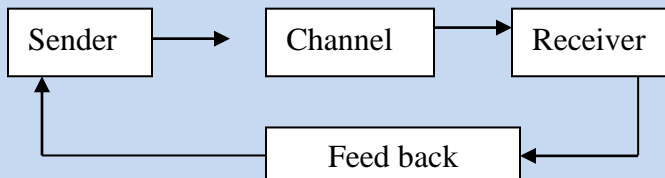
## COMMUNICATIONS

- Communication is the process of passing information from one person (sender) to another (receiver) through a given media.
- It is one way if message is only sent without expecting any feedback.
- Where feedback is expected communication is said to be two way.

- **One way communication**



- **Two way communication**



### **Importance of Communication**

- To settle queries on sales and purchases.
- Debts and credits are settled quickly.
- Access to world markets are made possible thus widening market scope.
- Business documents for example bills can be made quickly and transmitted.
- Buyer and seller are brought together through letters, phone, computers etc.
- Placing and receiving orders.
- Send and receive information.

### **Postal Services**

- The postal services used to be conducted under Post and Tele Communication (PTC) but was unbundled to give birth to the Zimpost and Tel-One. Zimpost

concentrates on the postal services while Telone concentrates on the fixed line phone.

### Services offered by Post office e.g Zimpost

- Sending letters and postcards.
- **Parcel print** - This is also done through **carrier connect**.
- **Registered post** - Done for sending valuables like certificates, money and has proof of receipt and compensation if lost.
- **Poste restantee** - this is available for travelers with no fixed abroad. Post restantee means, will be called for letters are kept at the nearest Post Office and positive identity is required when collecting them.
- **Free post** - postage is paid on all replies received with the customer not paying postage, mostly used for competitions to promote entry.
- **Franking machine** - the machine stamp a number of envelopes to certify that postage has been paid. No stamps are used, user rents machine from Post Office.
- Private boxes and bags where the hirer picks letters from the Post Office.
- **Express mail services** - this is for delivery of urgent letters or parcels.
- EMS enables quick sorting and delivery of mail.
- This service is provided at an extra fee.
- Mails are personally delivered to the destination.
- It is fast, safe and reliable.
- Saves time on sticking and canceling stamps.
- The rented machine records amounts spent on postage.
- Very useful for large volumes of mail.
- Machine has a meter and security seal.

### Activity 11(a)

1. Define communication
2. State the functions of communication.
3. Describe the services offered by ZIMPOST

### Telecommunication Service

#### (a) Telephone

- Issues directories with addresses and phone numbers of different individuals and companies.

Advantages	Disadvantages
1. There is instant feedback	1. It does not provide written record
2. It is available for clarity	2. Is not available for future references
3. Is quick means of communication	3. Non- verbal communication is difficult to use

- (b) **Radio phone services** which allows people to communicate from vehicles for example driver with the head office.
- (c) **Telex** – this combines telephone and printer information.
  - Message can be printed on the printer of the receiver.

### **Advantages of Telex**

- Message can still be received even if the office is empty.
- Provides a written record.
- It is quick i.e. immediate reply.
- Messages can be sent without operator's assistance thus saves time.

The major disadvantage is that there is no verbal contact.

- (d) **Computers**
  - The technology edge has replaced the use of typewrites with computers. It has also given birth to the internet and e-mail.
  - Internet is used for research, electronic data interchange, provision of e-mail services and marketing purposes.
  - Electric mail (e-mail) involves transfer of message through the computer system.

- (e) **Facsimile Service (Fax)**

- Make use of the telephone network to transmit messages around the world through the fax machines.
- It combines photocopier and a telephone network.
- Documents of up to A4 can be transmitted instantly.
- Fax machines operators should be licenced by the Post Office.
- Provide a written record.
- Can receive documents even if unattended.

- (f) **Video Conference (Confravision)**

- It enables people from different locations to hold meetings face to face for example Harare and London or Bulawayo.
- This is facilitated by the use of satellite transmission services and computers or visual display units.
- This cut traveling costs and hotel bills.

- (g) **Radio paging**

- It is mainly used for internal communication in large establishment for example manufacturing companies and large supermarkets (TM Hyper).
- It is hired from Post Office i.e. from Telone.

(h) **E-mail**

E-mail stands for electronic mail which is a system of sending and receiving letters through electronic means. Two or more computers/ laptops/cell phones which are connected to the internet can transfer/receive information from/to each other.

**Advantages of e-mail**

1. It is fast that is information is received instantly and the feedback is quick.
2. Low cost of sending messages.
3. You can down load, serve or print materials from the internet/e-mail.
4. Orders can be placed using internet/e-mail.

**Disadvantages of e-mail;**

1. High set up costs-The initial costs of buying computers and have them connected to the internet are very high.
2. It is affected by power outage that is only available if electricity is available.
3. Technical faults of the equipment may affect the access to internet and hence e-mail.

(i) **Datel**

- It is similar to the e-mail in that information is transmitted through the computer and telephone networks. However, it offers an additional advantage of storage of information sent and to conserve privacy.

(j) **Mobile Phone**

Is the transfer of information using cell phones. Cellular phone services are provided by Econet, Net one and Telecel in Zimbabwe. This system provides instant feedback at low cost and is availability as long as network is there. However, it might not be available in remote rural areas without network connections.

**Electronic Funds Transfer (EFT)**

- It allows money to be transferred from one account to the other for example, from the buyer's bank to the seller's bank in retails like OK.
- It is now used by a lot of employers to transfer employee's salaries.

**Activity 11 (b)**

Describe telecommunication services.



## **MULTIPLE CHOICE**

1. This postal service provides proof of posting as well as delivery
  - A Letter post
  - B Express service
  - C Registered post
  - D Tele-message
  
2. Radio phone is a telecommunication service which
  - A Stamp large quantities of envelopes.
  - B Is available for urgent delivery of letters.
  - C Allows salespeople to communicate with head office from a vehicle.
  - D Combines a telephone and a type writer.
  
3. ----- allows messages to be sent without the assistance of an operator.
  - A Telephone
  - B Telex
  - C Radio phone
  - D Franking machine

## **Essay Questions**

1. (a) Distinguish between postal orders and money orders. [10]  
(b) Describe the main postal services. [10]
  
2. (a) Explain the services provided by the People's Bank . [10]  
(b) Briefly describe the main telecommunication services. [10]
  
3. Explain the following terms;
  - (i) Ordinary mail service
  - (ii) Registered letters
  - (iii) Private boxes
  - (iv) Postal orders [20]

# CHAPTER 10

By the end of this chapter you should be able to:

- identify the factors to consider when choosing the means of transport to use.
- describe road transport.
- describe rail transport.
- describe containerization.
- describe sea transport.
- describe air transport.
- describe pipelines.
- identify the documents used in transporting goods.

## TRANSPORT

- Transport is an indirect service. This transport is critical to move the produce to the consumer.
- An efficient transport system is critical for both business and individuals.

### **Factors affecting the choice of transport**

1. The different nature of goods: some bulky, some fragile, some valuable makes it mandatory that the transport system be adapted to the efficient delivery of these at the right time in the right condition. For example, bulk goods like coal should be transported from Hwange to Bulawayo using the rail transport.
2. The cost of the mode of transport, for example, rail transport is cheaper than either road or air transport.
3. Time factor- If you want to reach Harare from Bulawayo within one hour then only air transport is relevant.
4. Availability of the mode i.e one cannot use rail services when there is not railway line or sea transport in a land locked country.

### 1. **Road transport**

- This includes long haulage trucks, buses, small cars, bicycles and scooters.

### **Advantages of Road**

#### 1) **Flexibility and adaptability**

- There is flexibility in delivery as it can be done door to door
- Time - tables can be changed to suit the client's need. Think of the train timetable to contrast.

- Road transport delivery can be done in vehicles of various sizes for example a long haulage truck for bulk goods and a bicycle for town deliveries.
- Road transport can reach even the remotest of all areas unlike rail.

## 2) Availability of many players

- Recently, the transport sector has seen a number of players coming in, both for passenger transport and haulage services.
- This has the advantage of increasing efficiency and reducing the costs of transport.

## 3) Development of containers – (containerization)

- The development of containers means that loading is made easier.
- Loading and off loading the Lorries is faster as it is done by cranes.
- Containers can be refrigerated to accommodate perishable goods and are sealed to provide extra protection to the goods.
- Besides containers which can be refrigerated, some vehicles are also refrigerated to meet specific needs.

- 4) Companies can choose to purchase their own fleet of vehicles so as to control the cost of transport. Can you own a train?
- 5) Road is cheap over short distances.
- 6) It is fast over short distances.

## Disadvantages

- 1) The bulkiness of the goods at times limits road transport. This is against the idea that some bulk goods can be transported over long distances by a train in a single trip. This becomes much cheaper.
- 2) Delays are likely especially when fuel is a problem.
- 3) Congestion on the roads and at boarder posts is another factor.
- 4) It has also been argued that social cost from road transport for example, noise, pollution, road maintenance, are higher than with other forms of transport.
- 5) Slower than air transport.
- 6) Expensive over long distances.
- 7) High insurances costs.

## Activity 12 (a)

1. Briefly explain why transport is important in business
2. State the advantages and disadvantages of road transport.

## 2. Rail transport

- In Zimbabwe this is provided by National Railways of Zimbabwe (N.R.Z.) which is very important as it moves a lot of primary products which are bulky.
- Although generally slow, the rail network is faster over medium to long distances.
- The rail has two trains running i.e. the goods train as well as the passenger train.

### **Advantages**

1. Faster over long distances for example express trains.
2. Ideal for bulky and heavy loads like coal.
3. Not susceptible to bad weather as is air and road transport.
4. Economic in the use of labour as few workers are employed. This is debatable.
5. Containerisation has also helped in limiting handling of goods while reducing in theft and breakages.
6. Low insurance costs
7. Low social costs
8. Insurance costs are also low.

### **Disadvantages**

1. Rail transport has to be supplemented by road for those customers who do not have their own sidings.
2. Delay may also arise due to time tables which may not be altered or some trips cancelled for some reasons.
3. Overheads are higher for there is need for regular maintenance of the rail network even when not in use. Many trains may be idle for most of the time but still the overhead is inwards.
4. Over short distances, money and time are wasted.
5. Lack of flexibility.
6. High initial; or set up costs.

### **Activity 12b**

1. Explain why rail transport is so popular with other users while some would not prefer it.
2. What are the disadvantages of containerization?

### 3. Sea transport

- This is for those countries that are bordered by the sea and not landlocked like our own.
- In a bid to reduce costs, bigger ships are being built known as supertankers.
- This is generally preferable for bulk long distance journey where speed is not an issue.

#### Type of ships

##### (a) **Liners/ Conference Ships**

- These run on fixed routes and on fixed time tables.
- Owner holds conferences on which they fix their charges hence their name. They consider value, volume, mass which ever gives the higher price.
- They carry both passengers and cargo but the general preference is for cargo.
- They have to run even if they are not full, for this reason they charge higher fares than other ships.
- They are faster than the other and are also reliable.

##### (b) **Tramps**

- These do not run on specific routes nor specific time tables. They go where ever there is business.
- The owners of tramps and clients often meet at the Baltic Stock Exchange.
- A tramp owner and a client sign a charter party which may be based on the carriage of goods from one port to the other (**voyage charter**) or living for a specific time period (**Time charter**).
- They carry cargo like grain, coal, etc.
- They are relatively cheap to hire,

##### (c) **Coasters**

- These are like tramps only that they are smaller and are used along coasts or over short distances.
- They ferry goods and passengers over short distances.
- They are also used to carry heavy loads like plant and machinery.

(d) **Bulk Carriers**

- These are specialized carriers for bulky goods.
- At times known as OBO ships for they carry oil, bulky cargo, and ore. (Oil bulk ore OBO).
- They can be refrigerated or have controlled temperatures to meet special needs.
- They are specially designed to reduce risks such as explosions.
- Have no fixed time tables and follow no fixed routes.
- Are designed to realize economies of scale.
- Use of mechanical load handling facilities which enables quick turn around.

(e) **Container ships**

- These are designed to carry containers, many at a time, may carry more than 2000 containers a single journey.

(f) **Ro Ro Ships (Roll –on / Roll-off)**

- Trucks are arranged in the order in which they will be off loaded at different ports.
- These are ships that have got doors or other facility that opens and drops to the ride of the ship so that the cargo can be driven on or off – the roll on or roll off.
- Are flexible that can take or carry varying cargo.
- They usually have their own loading and off loading equipment to speed up the process and guard against unavailability of port equipment.
- They operate often for mobile cargo.
- Use fixed timetables and fixed routes.

**Advantages of Sea Transport**

1. Suitable for very large quantities over long distances.
2. There is a wider choice as there are many types of ships to choose from.
3. Usually cheaper than air.
4. Suitable for both huge and small loads i.e. Adaptable.
5. Low overheads due to the use of cranes.

**Disadvantages**

1. Susceptible to sea perils and bad weather.
2. Slow and is not suitable for perishables without controlled temperatures.
3. Not available to all – some of us are land locked so will have to supplement with road transport.

4. High set up costs especially building ships.
5. Trans shipment problems.

### **Containerization**

- A container is a large box whose make is standardized to be handled by special cranes as well as fitting in different mode of transport-air, road or rail.
- They are made in various sizes and are designed to meet individual requirements, like the need for air circulation, insulation, need for hangers etc.
- The containers are too big to steal, and difficult to break into. These factors thus lower the cost of insurance as risk of loss is low.
- When goods are transported between any two ports in containers, one customer may not fill the container. The forwarding agent will then pack other smaller consignments so as to fill the container. The destination has to be the same. This is known as group -age.

### **Advantages of Containers**

- 1) Sealing of containers reduces risks of loss, theft, damage thus lowering cost of insurance.
- 2) Special containers are available to cater for special cargo.
- 3) Group-age enables less than container load to be combined which lowers transport costs.
- 4) Mechanised handling saves on labour and is faster.
- 5) Offer communize in storage.
- 6) These are available both on own and to hire.
- 7) Formalities are also reduced at ports.
- 8) Reduced warehousing costs.

### **However**

- 1) They require huge capital outlays where they are owned.
- 2) They need special handling equipment.
- 3) They may at times be carried empty.
- 4) The use of containers result in less people being employed.

### **(4) Air transport**

- 1) This in Zimbabwe is under Air Zimbabwe although private operators are available.
- 2) This has become more important for business people who value time more than the expense of using air transport.
- 3) It is available for both goods and people and may service local destinations for example, Harare and Bulawayo.

## **Advantages**

1. Speed. Time is money and thus valuable.
2. Suitable for a variety of cargo for example, perishables, high value low volume products.
3. Low risks of loss of cargo which lowers insurance.
4. Less packaging is required.
5. Less documentation
6. Low social costs.

## **Disadvantages**

- 1) High maintenance costs.
- 2) Not suitable to carry bulk goods.
- 3) Inaccessible due to limited airports.
- 4) If disaster strikes chances of survival are slim.
- 5) Time tables can not be delayed to accommodate late comers.

## **5. Pipelines**

### **Advantages of Pipelines**

- 1) This is used for transporting liquid, fluids and gas over from a port to inland destination for example Beira to Mutare.
- 2) They are used widely for the distribution of water.

### **Disadvantages**

- 1) They require huge capital outlay in the initial stages.
- 2) Are subject to sabotage when there are political disturbances.
- 3) Range of commodities is limited that is only liquids or gasses.

## **Documents used in Transporting Goods**

### **1. Consignment Note**

- This is used when the sender of the goods (consignor) uses someone's transport to transport goods to the customer.
- It acts as an instruction to the transporter to accept the goods specified and deliver them to the customer.
- When it has been signed by both parties, it becomes a contract (between consignor and transporter) it contains the addresses of consignor and consignee and point of delivery.
- It also includes description of goods.



## 2. **Air Way Bill**

- This is similar to a bill of lading only that it is used when goods are sent by air.  
Made out in triplicate:
  - one for consignor
  - one for transporter (airline)
  - one goods with the goods for consignee
- It is not a document of title and thus is not quasi- negotiable.

### **Contents of Airway Bill**

1. Details of goods
2. Name of aircraft and its number.
3. Physical addresses and names of exporter and importer.
4. It must also show the party responsible for the payment of freight charges.

## 3. **Bill of Lading**

- Contract of carriage between ship owner and shipper.
- It is a document of title which renders the right of ownership to the goods.
- It confirms receipts of goods by the shipper.
- It is a negotiable instrument which allows title to be passed on.

## 4. **Charter Party**

- It is a contract between hirer and the owners of the ship to use the latter's vessel.
- In return the hirer pays the chartered freight.
- It is called voyage charters if the contract is for a particular journey (voyage).
- It is known as time charters if the agreement covers a certain period.

### **Activity 12 (c)**

1. Describe sea transport.
2. What are the advantages and disadvantages of pipelines?
3. Describe: i) a consignment note ii) an air way bill  
iii) a bill of lading (iv) a charter party.

## **Examination type questions**

### **MULTIPLE CHOICE**

1. A disadvantage of rail transport includes
  - A Cheap
  - B Suitable for bulky goods
  - C Suitable for perishable goods.
  - D Slow over long distances.
  
2. Containers are often used in the following mode of transport except
  - A Sea
  - B Pipelines
  - C Rail
  - D Air
  
3. Air transport
  - A Is slow
  - B Is suited for carrying high value low bulk goods.
  - C Is not affected by bad weather.
  - D Is cheaper to maintain

### **Essay Questions**

1. Discuss the need for transport as an aid to trade. [20]
  
2. Explain the factors governing the choice of a method of transport. [20]
  
3. (a) Discuss the advantages of road transport over rail transport. [10]  
(b) Briefly describe the recent rail freight service improvements. [10]
  
4. Explain the suitability of air transport in transporting.
  - (i) Jewellery [5]
  - (ii) Flowers [5]
  - (iii) Coal [5]
  - (iv) Fruits [5]

[20]
  
5. Discuss the advantages and disadvantages of pipelines as a method of transport. [20]

# CHAPTER 11

By the end of this chapter you should be able to:

- state the importance of warehousing.
- describe factors to consider when establishing a warehouse.
- describe the types and functions of warehouses.
- state the importance of documents in trading.

## WAREHOUSING

- Warehouses are established in wholesalers, producers, retailers and consumers for the storage of goods.

### Importance of warehousing

1. They ensure that goods are available as and when needed.
2. Storage of raw materials awaiting production and finished goods pending sale to whole sales and other buyers.
3. Storage of finished goods thus creating space for further production in the factory.
4. Storage of goods with seasonal demand and evening out of supply and stabilities or smoothens out prices.
5. Service to retailers is enhanced as they can buy a variety of goods all under one roof.
6. Will also bond goods until duty is paid on them.

### Factors to be considered when establishing a warehouse

#### 1. Infrastructure

- Consider road network or rail as well as telecommunications links.
- Warehouses should be reachable by road – and located in areas where parking is not a problem and with little traffic congestion.

#### 2. Costs

- Compare costs of buying, building or renting
- The choice will depend on the volume of goods handled and the flow of business.
- If volumes are small and business is less frequent, better rent.

#### 3. Nearness to Clients

- They must be easy to access and thus faster delivery.
- This may be done through central location or establishment of warehouses in strategic areas like towns, provinces etc. This should be done by comparing the costs of doing so against the benefits.

#### 4. **Nearness to Supplier**

- This will ensure faster delivery of goods by suppliers.
- Transport costs would also be low which can be transferred to customers by charging lower prices.

#### 5. **Land**

- Where a warehouse is located, parking space, loading and unloading space must be simple.
- Consider also the cost of the land which is very high in towns. Consider renting warehouses when land is very expensive.

#### 6. **Regulating Bodies**

- Local authorities designate certain areas for different uses.
- As such a business should locate in the right areas designated for establishment of commercial entities.

#### **Activity 13 (a)**

1. State the importance of warehousing
2. Describe the factors to be considered when establishing a warehouse

### **TYPES OF WAREHOUSES – HOME AND FOREIGN TRADE**

#### 1. **Wholesalers' Warehouse**

- These are run by wholesalers who purchase goods in large quantities before they sell to retailers.
- While goods are in the warehouse, they may be graded, pre-packed or branded.

#### 2. **Manufacturer's Warehouse**

- Many manufacturers either own or rent warehouses to store raw materials intended for production.
- Work –in- progress pending further processing and finished goods pending sale to wholesalers or retailers.

### 3. **Bonded Warehouses**

- These are controlled either by government or customs authorities.
- Private organs can also own bonded warehouses.
- They are for the storage of durable goods before duty is paid or for goods pending re-export.
- While in bond, goods cannot be manufactured but can be blended, sorted, graded, tinned or packed.

#### **Advantages of bonded warehouses**

1. Bonded warehouses support entreport trade. While in bond, duty is not paid for these goods.
2. Customs authorities can inspect goods to ensure compliance.
3. Goods in bond can be sold. The new owner becomes liable for the duty of the goods.
4. The owner of the goods in bond can find a buyer for the goods and raise money to pay the duty.
5. Goods in bond can be blended, repackaged, graded to the liking of the customer.
6. Goods in a bonded warehouse can be removed in smaller quantities which are convenient to the owner.
7. Owners of bonded warehouses act as cleaning and shipping agents for exporters and importers.
8. Help importers and exporters without warehouse facilities.

### 4. **Public Warehouses**

- These are warehouses operated by statutory bodies, the central government etc.
- The central government division procures their supplies in large quantities and store them, for example, agriculture seed from the Ministry of Agriculture.
- Parastatals for example, GMB for the storage of grain.

### **Activity 13 (b)**

1. Describe the following types of warehouses:

- i) Wholesalers warehouse.
- ii) Manufacturers' warehouse.
- iii) Bonded warehouse.
- iv) Public warehouses.

2) Why are documents important in trading?

### **Examination type questions**

#### **MULTIPLE CHOICE**

1. Good warehousing
  - A Causes price savings
  - B Creates shortages
  - C Causes a glut
  - D Stabilizes prices
  
2. Public warehousing may be owned by
  - A Local authorities
  - B Sole traders
  - C Partnerships
  - D Public Limited Companies
  
3. Which of the following will not normally operate a warehouse
  - A Individual consumer
  - B Retailer
  - C Manufacturer
  - D Wholesaler

#### **Essay Questions**

1. Outline the reasons why warehousing is important. [20]
  
2. Explain the factors to consider in setting a warehouse. [20]

3. Explain the functions of the following warehouses
- (i) Manufacturer's warehouse
  - (ii) Wholesaler's warehouse
  - (iii) Bonded warehouses
  - (iv) Public warehouses [20]
4. Explain the advantages and disadvantages of bounded warehouses. [20]

# CHAPTER 12

By the end of this chapter you should be able to:

- define advertising.
- state the functions of advertising.
- describe the types of adverts.
- give the advantages and disadvantages of advertising media.
- describe the forms of sales promotion.
- describe associations controlling advertising.
- state the advantages and disadvantages of advertising.

## ADVERTISING

- This is a means for making product/ service known or spreading information or awareness.
- It is a non personal paid form of making the company's goods or services known to the public. This is done by an identified sponsor.

### Need for advertising

- 1) **Higher sales**  
When sales grow, costs per unit fall thus enhancing the profitability of a business.
- 2) **Promote new products**  
Advertising has the potential to create demand for product that people are not aware of or may not have considered. This is more so with new products

### **Importance of advertising**

- 1) Fighting competition
- 2) Image building
- 3) Promoting branded goods
- 4) Attracting customers
- 5) Remind customer to buy the product
- 6) Persuades customers to buy.
- 7) The information varies from the improvements in products to general information like an upcoming promotion.
- 8) For recruitment or job vacancies.



## Types of adverts

### 1) **Persuasive or competitive advertising**

This aims at increasing sales by attracting non-users, competing customers as well as encouraging more purchases from the current buyers. More adverts are persuasive

### 2) **Informative**

This gives information about something for example, Z.B.H advertising about the forthcoming T.V and Radio Licence Inspections. This kind of description is usually reserved for adverts in trade journals, adverts at particular events for example, at trade fairs and adverts for employment opportunities.

### 3) **Collective advertising**

This is when a group of producers or firms in an industry combine to advertise their product without mentioning any brand for example advertising for the essence of mealie meal in general without mentioning Red Sea, Amandla, Victoria etc.

## **Activity 14 (a)**

1. In your own words, define advertising.
2. State the functions of advertising to a business.
3. Describe types of adverts.

## Advertising media:

- ❖ Advertising medium is a vehicle or means for advertising.
- ❖ Adverts can be tailored to appropriate times for example sweets advert during cartoon times.

## Television

Television services are provided by Zimbabwe Broadcasting Holdings (ZBH), multi-channels (D.S.TV) and Philibao. Of these, ZBH is the widely used channel.

## Advantages of Television

1. Visual impact where you can see the advert.
2. It has great impact on the audience as it offers reputation of advertisements.
3. It appeals to both sight and hearing senses of the audience.
4. It is a prestigious way of advertising.
5. It is flexible as you can decide the time of the advert on the television.
6. It is possible to carry out some demonstrations on how the product is used.

## **However**

- ❖ Television advertising is very expensive

- ❖ Due to the availability and access to multi-channels (D.S.T.V) some adverts may never be seen by intended recipients.
- ❖ Advertisements have a short span of life on the television.

### **Radio**

Radio advertising is carried out on various stations e.g Radio Zimbabwe, Sports F.M, Power F.M etc.

### **Advantages of Radio**

1. National coverage.
2. Cheaper than T.V so messages can be repeated frequently.
3. There is flexibility in continuity or discontinuing the advertisement on the radio.

### **Disadvantages of radio**

1. It lacks the vision which is offered by T.V.
3. It is limited to few people who have radios especially in rural areas.
4. The timing of the radio advertisement is difficult to determine.

### **Newspapers**

- ❖ This could be national press like the Herald, Chronicles or Local press like Manica Post, Mtunywa, Newsday, Standard etc.
- ❖ The major advantage is the possibility of appropriate coverage depending on the nature of the issue
- ❖ Newspaper advertising is not as expensive as radio and television.
- ❖ Adverts may be placed at appropriate section. For example sporting equipment at the sport page.

### **However**

- ❖ Some adverts may go unnoticed because of their sizes think of the classified column.
- ❖ Some readers have got specific section they like so may miss some adverts.

They have a short life span and readers have to go through the paper quickly before it gets outdated.

### **Posters**

- ❖ These are usually used for events that are local and are one day events. Think of a poster the forthcoming musical extravaganza.
- ❖ They may be placed on vehicles, in buses or trees.
- ❖ Permission is required to stock these around.
- ❖ They are limited to a particular locality.
- ❖ Other media include cinemas, yellow pages and circulars.

### Activity 14 (b)

State the advantages and disadvantages of the following advertising media:

- i) Radio.
- ii) Newspapers.
- iii) Posters.
- iv) Television.
- v) Cinemas.

### Sales promotion

These are short term incentives and meant to induce trial and purchase of goods, and services. They take the following forms

- 1) **Free samples**  
A manufacturer of a new drink may offer small glasses of the drink to customers to taste.
- 2) **Free Gifts**  
These maybe attached to the product bought as may be given away for example free t-shirt written Prestige College.
- 3) **Price reduction** – reducing the selling prices of goods.
- 4) **Competitions**  
Entry into competition may require a label from the competition’s product, for example, Omo competition requiring an attaching of empty Omo package.

#### 4) New items

This could take the form of a dedicated section in a newspaper or an interview on a local television or radio.

### Advertising agents

These are specialists who are called in on big campaigns like launching a new product. They do the following

- 1) **Market research**  
A company needs a clear picture about the potential market for its products. Such information as who the buyer are ,where they are ,why the product will be liked, the likely prices, can all be gathered by advertising agents through market research.
- 2) **Creating the advert.**
  - The results of the research as well as information provided by the manufacturer on the strengths and weaknesses of the product will form the basis of an advert.
  - The advert may be printed or aired-on TV or radio.

### 3) **Placing the advert**

- The agent is responsible for choosing the suitable time for the promotion and will arrange for the appropriate media.
- The agent receives a commission from the media and also charges the client for the work done.

### **Regulations of adverts**

This is done by the following associations:

- 1) The Advertiser's Association of Zimbabwe (AAZ)  
This is made up of various manufacturers and companies which advertise their products on a large scale.
- 2) The Association of Accredited Practitioners in Advertising (AAPA)
- 3) The Advertising Media Association (AMA)  
These include print, electronic, outdoor media also includes newspaper, ZBH and bus companies.
- 4) The Advertising Standard Authority drew up a code of standards which all should adhere to. This is meant to make all adverts decent, honest and truthful. Adverts should not be a direct attack on others.

### **Arguments for and against advertising**

Debate is rife as to the benefits of advertising. Some think that it's wastage of resources although others content that its beneficial to use of resources. The full argument have been advanced for and against advertising.

#### **For**

- Increases sales that would result in increased profits. These profits maybe shared with customers through reduced prices and owners through re-investment.
- Advertising promotes development of new products.
- Advertising stimulates competition which leads to better quality and lower prices.
- Advertising revenue leads to lower prices for the advertising media, for example cheaper licenses for newspapers, TV etc.
- Advertising creates jobs both in the advertising industry as well as for the firms that are able to sell more.
- Informative advertising helps the operation of markets for example situations vacant helps free movement of labour

#### **However**

- Vast amounts of resources are spent on advertising as competitors join others who are advertising.
- When sales fail in response to advertising, costs are passed on to buyers.
- Consumers maybe mislead by adverts and end up spending beyond their means.
- Companies may concentrate on advertising to locate demand for their products at the expense of developing new products that appeal to the markets.
- Adverts only concentrate on the advantages of using the product not the effects.

### Activity 14 (c)

1. Describe the 5 forms of sales promotion
2. What are the functions of advertising agents.
3. State the associations involved in stipulating and enforcing regulations of advertising
4. State the advantages and disadvantages of advertising.

### Examination type questions

#### MULTIPLE CHOICE

1. This occurs where suppliers of similar products advertise a common product.  
  
A Competitive advertising.  
B Generic advertising.  
C Informative advertising.  
D Persuasive advertising.
  
2. Colour reproduction tends to be poor, thus reducing effectiveness of advertisements. This is a disadvantage of  
  
A Magazines  
B Mail order  
C Locational media  
D Newspapers
  
3. This organization ensures that members keep the standards of advertising  
  
A Consumer Council of Zimbabwe  
B Zimbabwe Congress of Trade Union  
C Advertising Media Association  
D Standards Association of Zimbabwe

#### Essay Questions

1. (a) Explain the term advertising. [5]  
(b) Distinguish between informative and persuasive advertising. [15]
  
2. Discuss the advantages and disadvantages of advertising. [20]

3. Describe the role of:
- (i) Advertising Agencies
  - (ii) Market research organizations. [20]
4. State how the following would advertise their products
- (a) School textbooks bookseller
  - (b) Car dealer
  - (c) Furniture dealer
  - (d) Insurance agent. [20]

# CHAPTER 13

By the end of this chapter you should be able to:

- define international trade.
- identify the advantages and disadvantages of international trade.
- state the difficulties faced by exporters.
- describe the institutions and policies used by Government to facilitate international trade.
- describe balance of trade.
- describe the concept of protectionism.
- identify the documents used in international trade
- describe the methods of getting payment in foreign trade
- state the functions performed by Customs and Excise Authorities.
- state the functions of port and harbor authorities.
- describe the middlemen in international trade.

## INTERNATIONAL TRADE (IT)

- This is the exchange of goods and services across international borders.
- An example of international trade is that which goes on between Zimbabwe and China, Britain, USA etc.
- Trade between Zimbabwe and the SADC is classified as regional trade. Regional trade affords members of a certain region to gain from the benefits of international trade with less hassles for example, Zimbabwe trade with Botswana, USA, Zambia. etc
- It differs from local trade in at least the following dimensions
  - ❖ currencies used
  - ❖ languages used
  - ❖ variety of goods traded
  - ❖ distance travelled etc
  - ❖ documents needed

### Advantages of International trade

- 1) It is the source of much needed foreign currency.
- 2) Specialization against nations is encouraged which enables countries to obtain their needs at low costs.
- 3) Enhances consumer choices.

- 4) The country can obtain what is not locally available for example, petrol, diesel etc.
- 5) Give rise to expertise and technology.
- 6) Promote regional and international relations.

### **Disadvantages of International trade**

- 1) There is too much dependence on others. Since countries have specialized, they are susceptible to condition in other countries which they cannot control.
- 2) In developing countries like ours, foreign goods may be cheaper than local goods leading to unemployment and other economic difficulties.
- 3) May result in balance of payments deficit which culminate in poor standard of living.
- 4) Influx of foreign goods destroys the infant firms or local businesses.
- 5) It may result in inflation especially when there is undue dependence on the foreign raw materials.
- 6) Foreign suppliers may compromise quality for price in order to make their merchandise cheap on the international market e.g Chinese goods.
- 7) It may result in dumping of obsolete goods and technology more so in developing countries.

### **Activity 5(a)**

- |  |
|--|
| <ol style="list-style-type: none"><li>1. State any 7 advantages of International trade</li><li>2. What problems does international trade have?</li></ol> |
|--|

### **Difficulties faced by exporters**

- 1) **Language and communication**  
This is a huge hinderance to international trade. Translators are needed but even though, difficulties arise. Think of trading with an Arab who does not speak any English word.
- 2) **Technical differences**  
This arises due to the use of different units of measurement like the use of gallons instead of litres. This limits the market that one can export.
- 3) **Lack of knowledge**  
The knowledge is with respect to the goods on demand, the cultural background, etc. Organizations like Zimtrade can provide valuable information on trade issues.



4) **Licenses and documentation**

Governments may put laws that all imports and exports be licenced.

The documentation regards exporting /importing is more complicated and different from local trade documentation .It therefore follow that if documents are not in order, delays may arise.

5) Competition from local producers with experience of the markets.

6) Problems of enforcing payments. The use of forwarding agents would help

7) **Import duties and transport companies**

Countries seeking to reduce the volume of imports could place significant duties on all imports.

Because of distance travelled, transport costs tend to be higher, if these two are very significant the business importing to resell may fail to be viable.

8) **Currencies**

Different currencies are used by the countries exchanging goods. Although the use of a common currency is used for example US dollar, fluctuations in the exchange rate of the **US-dollar** against the trader's currencies make planning and costing of goods difficult.

9) **Insurance**

Many risks characterise the international trade business. The buyer may not accept the goods or may not pay (commercial risk) or the importing country may become unstable due to wars or impose restriction on forex which all affect the exporter, and goods which may be damaged or stolen while in transit.

Taking out insurance to cover for this risk is critical. Help is available from IDC, ECGD, ZCIC (Zimbabwe Credit Insurance Cooperation).

**Government help**

The government helps through various institutions and implementation of numerous policies.

1) **Zimtrade**

This acts as a link between Zimbabwe traders and international traders.

- carries out market research in other companies
- participates in bilateral and multilateral trade agreements and ensures that the country take advantage of these.
- provides an information service through its extensive library documentation centre.

2) **Open General import license.** Companies are given license to import goods for example in 2009, the government required firms to pay US\$20 000 to acquire import license.

3) **Special Ex-rate arrangements** .This could be in the form of special rates offered to exporters both on acquiring forex and selling forex.

4) **Retention rate**

At the time of visiting, exporters can now retain 75% of their export proceeds in their forex account: This aims to promote viability of export business.

**Activity 5(b)**

1. State the problems that exporters must be prepared to face when participating in international trade.
2. Government is committed to promoting International trade. What institutions and policies has the Zimbabwean Government implemented to encourage international trade.

**Import trade**

Is the acquisition of goods, raw materials and technology from other countries. It affords a country an opportunity to acquire resources which are otherwise not locally available or are expensive.

The difference between the value of goods a country imports and exports is called the Balance of Trade. The goods being referred to here are called “visible” because they can be seen.

If a country has a total of major exports of goods valued at \$50 million and a total of major imports of goods of \$30 million.

Balance of Trade Figures	\$
Visible Exports	+ 50
Visible Imports	- 30
Balance of Trade	<u>+ 20</u> Surplus

When the value of imports exceed exports the balance is said to be unfavourable or adverse due to the outflow of funds from the country. A trade deficit would have been created.

If the visible imports had been \$36million and visible exports \$33 million the balance of trade would have been as follows:

Visible exports	+ \$33 million
Visible import	- \$36 million
	- <u>\$3 million</u> Deficit

When the value of exported goods is more than that of imported goods, the balance is said to be favourable.

## Invisible Trade

Export and import of services like banking, insurance, tourism, travel, entertainment (films, music, sports), transport and legal representation form what is called invisible trade. If Zimbabwe uses more of foreign than local, results in deficit as compared to when it uses less of foreign services, the balance of trade results in a surplus.

## Balance of payments

This is the difference between the total value of exported and imported goods and services. It is divided into two accounts current account and capital account.

Current account shows the difference between the total value of exported and imported goods and services totalled together i.e. figures for visible trade transactions for exports and imports of goods, and figures for invisible trade– transactions for exports and imports of services.

Capital account shows the difference between the value of funds, that is, capital flowing in and out of Zimbabwe. The balance of payments is prepared as follows:

## Balance of Payments

	\$m	\$m
Current Account		
a) Visible Trade Exports	40	
Less visible trade		
Imports	15	
Balance of trade		25 (Surplus )
Add		
b) Invisible Trade Exports	10	
Less invisible trade		
Imports	12	
Balance On		
Current Balance		(2) (Deficit)
c) Add Capital Account:		
Borrowing From		
Foreign Countries		
(Receipt)	30	
Less Lending to Foreign		
Countries (Payments)	20	
		10
Add Direct Investment By		
Foreign Countries (Receipts)	6	
Less Direct Investments In		
Foreign Countries (Payments)	10	(4)
<b>Balancing Item</b>		<b>29</b>

Country with a trade deficit has more imports. In its balance of payments that country is a deficit nation that owes money to other countries. A trade surplus in its balance of payments means that the country is a creditor nation that has other countries owing it some money. The balance of payments figures fluctuate from year to year due to changing trading conditions in the world. A country that has a large deficit takes action by cutting down on its imports and increasing its export. This helps to restore the balance of payments into favourable positions.

### **Activity 5(c)**

- 1) If Zimbabwe has a total value of goods exported amounting to US\$60 million and a total of its major imports of goods at US\$70. State the balance of trade figures. Describe the balance indicating the extent to which Zimbabwe benefited from international trade.
- 2) The following information was made available in a review of Zimbabwe's trade with other countries for the year ended December 31 2009.

Visible trade exports	50
Imports	20
Invisible trade exports	33
Borrowing from foreign countries	36
Lending to foreign countries	35
Direct investment by foreign countries	100
Payments by foreign countries	50

Required:

- (i) Prepare a balance of payments account for Zimbabwe for the year ending 31 December 2009
- (ii) Comment on Zimbabwe's success in International trade in the year 2009.

### **Protectionism**

This happens when a country protects its economy against being dominated by developed countries - Such a country protects itself by imposing restrictions on trade.

#### **Methods of restricting trade by government.**

- These are divided into two, that:

- (i) Tariff barriers
- (ii) Non- tariff barriers

## **(1) Tariff barriers**

### **Custom Duties**

- These are taxes imposed on foreign goods so as to increase their cost of importation.
- This makes local goods cheaper than imported goods.
- Customers/ consumers will spend more money on locally produced goods resulting in more people being employed.

## **(2) Non- tariff Barriers**

### **Quotas**

- These are quantitative restrictions on foreign goods imported into Zimbabwe.
- The quota protects local industry and allows the industry to develop for example importers may be limited to bringing only 100 litres of fuel into the country.

### **Subsidies**

- Government may decide to subsidise on certain domestic industries as a way of protecting the vulnerable industries from cheap foreign goods.
- Subsidies reduce production costs.
- Foreign goods fail to compete with subsidized goods.

### **Foreign exchange controls**

- Government can devalue its local currency to make imports expensive.
- Devaluation makes imports cheaper and thus the country sells more to foreigners.
- Imports are restricted.

### **Embargo**

- It is a total ban on certain imports
- An embargo can be placed on harmful goods such as dangerous drugs.
- Embargo can also be imposed for political and economic reasons.

### **The need for protection**

- To assist new or declining industry. Infant industries need to be protected from competition from foreign goods.
- To collect revenue – customs duties provide a source of revenue for the government.
- To protect a country's standard of living imported goods may undermine the high standard of living locally if they are too cheap.
- To protect strategic industries that can not be left in private hands for example ZISCO.

### Activity 5(d)

1. State the methods of restricting international trade
2. Why is it important that international trade be

### Documents used in international trade.

#### 1) **Bill of lading**

Is a document of title which gives the holder rights to ownership of goods.

- ❖ This has the name of sender (consignor)
- ❖ The recipient (consignee)
- ❖ Full alert of the goods being send
- ❖ Their destination
- ❖ Name of the carrier (shipping agent)
- ❖ Freight charges to be paid
- ❖ Delivery terms
- ❖ Parcel identity

#### **Importance of Bill of Lading**

- 1) Contract of carriage between ship owner and shipper.
- 2) It is a document of title which renders the right of ownership to the goods.
- 3) It confirms receipts of goods by the shipper.
- 4) It is a negotiable instrument which allows title to be passed on.

#### **Copies are distributed as follows:**

- ❖ Copy is given to the consignor as a receipt. This ought to be signed by the ship's /carrier's master
- ❖ Copy is retained by the carrier as a contract between the carrier and the consignor.
- ❖ Other copies (2 or more) are sent ahead to the consignee to act as document of title. The consignee uses this to claim the goods from the carrier company.
- ❖ The Bill of lading is a negotiable instrument which can be passed on to someone by endorsement

#### 2) **Airway bill**

- ❖ This is used when goods have been sent by air.
- ❖ Is a contract of carriage
- ❖ It is made in three, one retained by consignor, one retained by air line and one sent with he goods to consignee
- ❖ It shows a full description of goods.
- ❖ It differs from the Bill of lading in that its not a document of title and thus not negotiable.

### 3) **Consular Invoice**

- ❖ This is a document which contains prices of the goods being imported.
- ❖ It is mainly used in calculating duty when it is based on value.
- ❖ The prices should be certified as correct by the consular a representative of the importing country resident in the exporting country. This avoids the problem of under invoicing for the purposes of charging duty.
- ❖ The customs officials can quickly calculate the duty due without physically inspecting the goods.

### 4) **Certificate of origin**

- This is proof that goods were produced in the exporting country. May be of use for claiming some duty exemptions. This is only done to countries that enjoy preferences.
- All forex payments should be authorized by the Central Bank for the exporter.
- The following methods of payments are common.

### **Methods of getting payment in foreign trade.**

#### 1) **Bills of exchange**

- ❖ This is an acknowledgement of debt claim by a creditor (exporter) and accepted by his debtor (importer).
- ❖ It shows the value of goods sent and the expected payment date.
- ❖ It is then signed by importer and returned to the export.
- ❖ This could be payable after 3 months or on sight. Known as a sight bill.
- ❖ The creditor may discount the bill for immediate cash payment with a bank; it can also be kept until maturity.

#### 2) **Promissory notes**

- ❖ This is a promise to pay, drawn up and signed by the debtor (importers) and also signed by the creditor (exporter)
- ❖ Once signed ,it can be discounted

#### 3) **Letters of credit**

An importer would obtain a letter of credit from his bank and sends it to the exporter who attaches shipping documents to the letter of credit and can present this to his own (exporter's) bank.

- ❖ the exporter's bank would obtain payment from the importer's bank. Apparently, the importer would pay his own bank and not the exporter.

- ❖ It's also called a **documentary credit** because of the attached shipping documents.

#### **Procedure of paying by letter of credit.**

- ❖ There must be an agreement between the importer and exporter to use the letter of credit.
- ❖ After the agreement, the importer applies for a letter of credit from his/her bank.
- ❖ The importer's bank send the letter of credit to the exporter's bank.
- ❖ The exporter's bank advises the exporter of the letter and goods to be supplied.
- ❖ Exporter bank advises the exporter of the letter and goods to be supplied.
- ❖ The exporter presents the documents and the letter of credit of his bank.
- ❖ Exporter's bank pays the exporter.
- ❖ The importer's bank pays the exporter's bank.

#### **4) Bank drafts or cable transfer**

- ❖ This is very much like a cheque drawn by a bank on its own account in favour of the payee.
- ❖ This would be sent by post or by telegraphic transfer to the exporter who just deposit it into his account as a bank certified cheque.

#### **5) Merchant bank finance**

Credit maybe arranged with a merchant bank.

The bank will then draw up a bill of exchange against the importer for the duration of the loan which is a proof of debt and also a negotiable security tradable on the money market.

#### **Customs and excise duties**

- ❖ Excise duty is levied on local goods to raise revenue as well as to discourage consumption for example on cigarettes.
- ❖ Customs duty is a tax on import to discourage their consumption

#### **Bonded warehouse**

- ❖ Bonded warehouses maybe used to store goods under the supervision of customs authorities to facilitate payment of the duties.
- ❖ These are usually located at ports although large manufactures may have their own bonded warehouses.



- ❖ Manufacturers of liquor store their output in the bonded warehouses and only pay excise duty when these goods have been removed from the warehouse.
  - ❖ Bonded warehouses are also required when dealing in private trade. Goods would be stored in a bonded warehouse pending re-export without paying any duty e.g. entrepot trade.
  - ❖ A custom's drawback is available for goods on which duty was paid but the goods were subsequently exported.
2. Customs duty – the reasons for charging this duty is to protect the domestic industry firms, improve the balance of payment and to raise government revenue.

### Activity 5(e)

Match the following situations with the documents and methods of payment in foreign trade listed below:

- (i) Proof that goods were produced in the exporting country
- (ii) A contract of carriage between the ship owner and the shipper
- (iii) A document containing prices of goods imported
- (iv) Promise to pay
- (v) Drawn by a bank on its own account in favour of a payee.

Promissory note.  
 Consular invoice.  
 Bill of lading  
 Airway bill  
 Bill of exchange  
 Certificate of origin  
 Bank draft  
 Letter of credit

## The Functions performed by Customs and Excise Authorities

### Statistics

- ❖ The Customs Authorities (CA) compile statistics of the movement of goods.
- ❖ They provide this to the central statistics officer.
- ❖ -They are not involved in checking movement of people which is the duty of immigration officers.

2) **Control**

The CA restricts the importation and exportation of goods by ensuring that prohibited goods are not imported or exported.

3) **Revenue collection**

- ❖ They collect the import and excise duty levied on the appropriate goods for example excise duty on wines, tobacco etc.

4. **Control of bonded warehouses**

C.A. do not own bonded warehouses but do control them. These warehouses are regularly inspected to ensure that no goods are removed duty free (smuggled).

5. Control and inspect live stock.

6. Ensure public health through controlling and inspecting livestock and food for infectious diseases.

**Activity 5(f)**

- |  |
|--|
| (i) Outline the procedure of paying by letter of credit    |
| (ii) State the functions of customs and excise authorities |

**PORT AND HARBOR AUTHORITIES**

In some cases goods are shipped through airports or seaports. These two are normally owned and operated by a local government. The services provided by Port & Harbor authorities are as follows:

1. **Deep water and clear access**

These services include provision of knowledge of the approach to and leaving the port.

2. **Wharves**

This authority should provide for speedy loading and off-loading of vessels. Such facilities as canes, home labour, should be available.

3. **Access**

Links should be established with railway and road network capable of handling the traffic generated.

4. **Office space**

5. **Ship repair Yards**

For routine maintenance of the ship or aircraft.

6. **Special facilities**

- This is for goods that require special handling for example timber.

**Middlemen in international trade**

1. **Factors**

- These are agents who take ownership of the goods they sell and find a buyer for the goods.
- They can sell the goods in their own name and at prices they deem fit. They are paid on factorage.
- They provide warehousing and handling facilities for foreign sellers.

2. **Merchants**

- These are middlemen who buy and sell goods in their own right. They purchase the goods, 'wholesale' and find a market for the goods.
- They help manufacturers who want to export without direct involvement by purchasing the goods and exporting merchandise.
- They deal in general goods through taking or assuming their title.

3. **Brokers**

- They merely bring the importer and exporter together.
- They do not own the goods that they would be selling
- They receive a brokerage fee for their services.
- Are not responsible for delivery of the goods.
- They do not contract in their own name.

4. **Del -credere agents**

- Guaranteeing that the goods would be sold. They then assume greater risk than the other agents.
- They give the guarantee that in the event of their buyers falling to pay, they take over the debt.
- Due to greater risk assumed, they receive a higher commission.

5. **Forwarding Agents**

These agents play a pivotal role for goods being imported and exported.

## Functions of Forwarding Agents

- a) Deliver goods to the customer or importer.
- b) Arrange for the storage of imported goods through operating bonded warehouses.
- c) They arrange for the transportation of exports from the producers.
- d) Make sure formalities are followed when importing or exporting goods.

## Import and export terms

There are auxiliary or extra costs which are incurred when transporting goods from the exporter to the importer. These encompasses insurance, transport costs, customs or excise duties and special purchases.

Some costs are paid by exporter while others by the importer and it is critical that both parties agree on the charges through the use of the following terms:

(i) **Free on board**

It means all costs up to the ship's rail or agreed shipping point are paid by the exporter. These costs are normally included on the quoted price.

(ii) **Free on rail**

Prices include production costs, rail costs and other special costs up to the agreed railway station.

(iii) **Free alongside ship**

The importer pays for packaging and transport costs as well as loading charges (dock expenses).

(iv) **Cost and freight**

This includes the free on board and freight charges to the port of destination.

(v) **Cost, Insurance and freight**

- Encourages fob, freight charges and insurance which must be paid by the exporter.

(vi) **Ex- ship**

All costs are paid by the exporter until they are unloaded.

## Activity 5 (g)

1. Why are port and harbor authorities important in foreign trade.
2. Describe the middlemen in international trade
3. Why are forwarding agents necessary in international trade?

## **Examination type questions**

### **MULTIPLE CHOICE**

1. Which of the following will not discourage imports
  - A Import substitution
  - B Customs duty
  - C Open general import licence
  - D Embargos
  
2. Which of the following is not a method of correcting a balance of payments deficit:
  - A Devaluation
  - B Import substitution
  - C Tarrifs
  - D Reducing import duties
  
3. Which of the following most accurately describes the basis upon which foreign trade occurs?
  - A Comparative cost advantage
  - B Absolute cost advantage
  - C Terms of trade
  - D Comparative cost disadvantage.
  
4. Which of the following foreign trade control methods will lead to retaliation by other countries.
  - A Exchange control
  - B Tariffs
  - C Quotas
  - D Embargoes

### **Essay Questions**

1. (a) Distinguish between home and international trade. [5]  
(b) Outline the main characteristics of international trade. [15]
2. Outline the problems faced by exporters. [10]  
Explain how the government of Zimbabwe had assisted exporters. [10]
3. Explain the purpose of international trade. [20]
4. (a) Explain the main causes of international trade. [10]

- (b) Discuss the role of the middlemen of foreign trade. [10]
5. Explain the following documents used in foreign trade.
- (i) Invoice
  - (ii) Indent
  - (iii) Certificate of origin
  - (iv) Customs specification.
6. Write brief notes on each of the following:
- (i) Tarrifs
  - (ii) Quota
  - (iii) Embargo
  - (iv) Subsidies

# CHAPTER 14

By the end of this chapter you should be able to:

- identify the functions of the Zimbabwe Stock Exchange (ZSE).
- define terms used in the Stock Exchange.
- prepare final accounts.
- define terms used in final accounts.

## THE STOCK EXCHANGE

### Activity 8a

State the sources of financé for small firms  
State the sources of finance for large firms

### The Stock Exchange

- This has been defined by Andison as a meeting place where dealers can buy and sell existing stocks, shares and other securities.
- G. Matindike defined it as a market that deals in existing shares and stocks.
- In Zimbabwe we have the Zimbabwe Stock Exchange (ZSE).
- The buying and selling of shares on the ZSE is done through licenced brokers for example Kingdom Stock Brokers.
- A Stock Exchange acts as a secondary market for shares owned in the primary market.

### Need for a Stock Exchange

#### 1. **Raising Capital**

As noted above, the ZSE is a secondary market. As such, it enables firms to issue their securities and investments, buy them knowing that they can realize their fruits. It thus helps firms to raise capital.

#### 2. **Protection of Investors**

- The Stock Exchange keeps investors informed about the company listed and in some cases suspends companies from trading.
- Certain information may also be required to be published by the listed companies.
- Provides code of conduct to members and protects investors from unfair dealings.

3. **Service to the government.**

- The availability of a ready market for the government securities helps the government better implement its policies and raise the funds it requires.

4. **Indicator of economic activity**

- The ZSE acts as an economic barometer for a country.

5. Easy valuation of shares makes administration of taxes for estate duty and capital gains easy.

6. Establishes prices for shares and makes prices known to the general public.

7. Prepares reports and statistics concerning firms dealing on the exchange.

**Activity 8 (b)**

Define a stock exchange  
Describe any 7 functions of the Zimbabwe  
Stock Exchange

**Terminology used on the stock exchange**

- (b) Cum dividend – they paid its form declaration to last date to register for the dividend declared. *Cum dis* basically means “including dividend.”
- (c) Ex dividend – shares are ex- dividend once the last day to register has passed. The dividend is for the seller. Ex- dividend means without dividend.
- (d) Blue chips – defines a company as solid, safe investment. The company is large, well and profitable for example Old Mutual.
- (e) Speculation – involves the buying, holding and selling of ‘financial’ assets to make profits from fluctuations in their prices.
- (f) Bull investor who believes that the value of a particular contract, share or the market is on increase.
- (g) Bears – these are investors who believe the market or value of a particular share is going to fall. Thus a bear market is where prices are dropping.
- (h) Dividend – sum paid as reward to holders of company shares.

**Interpretation of financial statements**

Financial statements are accounts which are prepared at the end of each financial period. These accounts are as follows:

**1. Trading and Profit and loss account (Income statement)**

Is a financial statement which shows whether the business is making profit or is realising losses.

**2. Balance Sheet**

A Balance sheet is a final account which measures the financial status (financial position) of the business that is whether the business had enough assets to pay for its liabilities.



The following are the accounts for Munodzi General Dealer.

**Trading and Profit and loss account for the year ended 31 December 2005**

	\$	\$
<b>Sales</b>		<b>150 000</b>
<b>Less sales returns</b>		<b><u>10 000</u></b>
<b>Turnover</b>		<b>140 000</b>
<b><u>Less cost of sales</u></b>		
<b>Opening stock</b>	<b>10 000</b>	
<b>Add purchases</b>	<b><u>80 000</u></b>	
<b>Cost of goods available for sale</b>	<b>90 000</b>	
<b>Less closing stock</b>	<b><u>12 000</u></b>	<b><u>78 000</u></b>
<b>Gross profit</b>		<b>62 000</b>
<b><u>Less expenses</u></b>		
<b>Electricity</b>	<b>8 000</b>	
<b>Rates</b>	<b>4 000</b>	
<b>Insurance</b>	<b>6 000</b>	
<b>Salaries</b>	<b><u>4 000</u></b>	<b><u>22 000</u></b>
<b>Net profit</b>		<b><u>40 000</u></b>

**Balance sheet as at 31 December 2005**

Fixed Assets	\$	\$	\$
<b>Plant and machinery</b>			<b>40 000</b>
<b>Equipment</b>			<b>60 000</b>
<b>Motor vehicles</b>			<b><u>30 000</u></b>
			<b>130 000</b>
<b>Current Assets</b>			
<b>Stock</b>	<b>12 000</b>		
<b>Debtors</b>	<b>24 000</b>		
<b>Bank</b>	<b>16 000</b>		
<b>cash</b>	<b><u>8 000</u></b>	<b>60 000</b>	
<b>Less current liabilities</b>			
<b>Creditors</b>	<b>35 000</b>		
<b>Short term loan</b>	<b><u>15 000</u></b>	<b><u>50 000</u></b>	
<b>Working capital</b>			<b><u>10 000</u></b>
			<b><u>140 000</u></b>
<b>Capital</b>			<b>150 000</b>
<b>Add net profit</b>			<b><u>40 000</u></b>
			<b>190 000</b>
<b>Less drawings</b>			<b>50 000</b>
			<b><u>140 000</u></b>

**ISSUES ILLUSTRATED**

**1. Gross Profit**

This is the difference between sales/turnover and the cost of sales. In the example above Gross profit equals \$62 000.00.

**2. Net Profit**

When a trader sells goods some expenses are incurred for example electricity, rent etc. if these are subtracted from the Gross profit, Net Profit result. In the example Net Profit is \$62 000 - \$ 22 000 = \$40 000.

**3. Turnover**

This is another term for sales, which is the value of goods sold. It is also the difference of sales and sales returns. From the example, turnover = \$150 000-\$10 000  
 =\$140 000

**4. Cost of Sales**

- This is the cost of the goods that have been sold.

It is calculated as illustrated in the example given.

$$\begin{aligned}\text{Cost of Sales} &= \text{Opening Stock} + \text{Purchases} - \text{Closing Stock} \\ &= \$10\,000 + \$80\,000 - \$12\,000 \\ &= \underline{\$78\,000}\end{aligned}$$

#### 5. **Rate of stock turn (Rate of Turnover)**

- Also known as stock turnover ratio.
- This defines the number of times a firm sells its stock.
- It's calculated from the cost of sales figure and the average stock figure.
- In the event that the cost of sales figure is not given but the sales figure then the gross profit element should be subtracted from sales to reduce them to cost.

$$\text{Rate of stock turn} = \frac{\text{Cost of sales}}{\text{Average stock}}$$

$$\text{Where average stock} = \frac{\text{opening stock} + \text{closing stock}}{2}$$

$$\begin{aligned}\text{From the example given average stock} &= \frac{\$10\,000 + \$12\,000}{2} \\ &= \$11\,000\end{aligned}$$

$$\begin{aligned}\therefore \text{Rate of stock turn} &= \frac{\$78\,000}{\$11\,000} \\ &= \mathbf{7.1 \text{ Times}}\end{aligned}$$

- The higher the number of times stock is turned the better as sales and profit are enhanced.
- Higher rate of stock turn is ideal because it releases capital which is tied up in stock.

#### **Fixed assets**

These are 'assets' that belong to the business and are not for trading – they are permanent for example vehicles, buildings. They are used for a long time by a business for the generation of profit.

#### **Current assets**

These are held for shorter period that is less than one year and maybe used in trading. Examples are stocks, debtors, bank and cash.

#### **Capital**

- This is the contribution by the owner of the business which is held permanently in the business.

- It is held in the form of fixed assets and this becomes fixed capital and current assets.
- For listed companies, this is raised by issuing ordinary shares, preference shares.

### **Working Capital**

- This is the capital (money) that is used in the day to day running of the business.
- It is determined as the difference between current assets and current liabilities. It is thus  $$(60\ 000 - 50\ 000) = \$10\ 000$ .
- The availability of adequate working capital ensures that the business continues to function efficiently.

### **Activity 8 (c)**

1. Define the following terms used on the stock exchange
  - i) Bears.
  - ii) Dividend.
  - iii) Bulls.
  - iv) Speculation.
  - v) Cum dividend.
  - vi) Ex dividend.
  - vii) Blue chip.
2. What is working capital?

### **Examination type questions**

#### **MULTIPLE CHOICE**

4. An example of fixed capital for limited companies is
  - A Overdraft
  - B Credit transfer
  - C Share capital
  - D Debt factoring
  
5. A company would need to pledge collateral security to raise an;
  - A Overdraft
  - B Long term loan
  - C Ordinary share capital
  - D Preference share capital
  
6. The money that is put into the business by the owner from his own personal savings is called;
  - A Debentures

- B Capital
- C Retained profits
- D Interest

### Essay Questions

Explain the sources of capital for the following business units:

- (i) Sole Traders [6]
- (ii) Partnerships [6]
- (iii) Companies [8]

2. Explain the following terms;

Ordinary shares

Preference shares

Retained profits

[20]

- 3. (a) Distinguish between debentures and ordinary shares. [10]
- (b) Explain why an investor would rather invest in debentures than in ordinary shares. [10]
- 4. (a) List the sources of fixed capital for public enterprises. [10]
- (b) Discuss the risks associated with raising capital through borrowing. [10]

## **REFERENCES**

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