

# BUSINESS STUDIES

## FORM 1 SIMPLIFIED NOTES

### TOPIC 1: INTRODUCTION TO BUSINESS STUDIES

#### CONTENTS

- Introduction
- Terms used in business studies
- Components of business studies
- Importance of business studies in the society

#### INTRODUCTION

**BUSINESS:** Refers to all the activities carried out by an individual or an organisation involving the provision of goods and services with the aim of making profit

**BUSINESS STUDIES:** Refers to the study of the activities that are carried out in and around production, distribution and consumption of goods and services.

#### BASIC TERMS USED IN BUSINESS STUDIES

##### **a) Goods**

These are tangible items i.e. items that can be touched and felt e.g. furniture, fruits, goods etc.

##### **b) Services**

Services are actions or activities that can be sold. They are intangible. Examples include; teaching, banking, shoe shining etc.

##### **c) Production**

Production refers to the creation of goods and services. It also refers to the process of increasing the usefulness (utility) of goods and services.

People who are involved in production are known as producers. Examples of producers include: teachers, lawyers, doctors, farmers, constructors etc.

##### **d) Distribution**

Refers to the movement of goods and services from producers to the users (consumers)

Some of the activities which take place during distribution may include:

- Transportation
- Storage
- Insurance

- Advertising etc.

**e) Consumption**

Refers to the final use of goods and services. People who use goods and services are known as consumers.

Consumption is the main objective of production

**COMPONENTS OF BUSINESS STUDIES**

Components of business studies refers to the disciplines whose topics are covered in Business studies. These disciplines include:

- Economics
- Commerce
- Accounting
- Office practice
- Entrepreneurship

**a) Economics**

Refers to the study of how human beings strive to satisfy their endless wants using the available limited (scarce) resources. Human wants are the desires of human wants. Resources are the things required by human beings to satisfy his wants.

**b) Commerce**

Refers to the study of trade and aids to trade. Trade refers to the exchange of goods and services for other goods and services or for money whereas aids to trade refers to the human activities that facilitate trade. Examples of aids to trade are:

- Transport
- Banking
- Warehousing
- Insurance
- Communication

**c) Accounting**

Refers to the systematic way of recording business activities for decision making purposes

**d) Office practice**

Refers to all the activities that are carried out in the office. Such activities may include filing, clerical work, reproduction of documents etc.

**e) Entrepreneurship**

Refers to the study of all the activities involving the identification of a business opportunity and acquiring necessary resources to start and run a business. The person who carries out

entrepreneurship is known as an entrepreneur.

### **IMPORTANCE OF BUSINESS STUDIES**

- a) Assists the learner to understand other subjects better e.g. mathematics, agriculture etc.
- b) Provides basic knowledge to facilitate further studies in Business studies
- c) Equips the learner with knowledge and skills that can enable him/her start and run a business
- d) Enables the learner appreciate the importance of business in the society
- e) Assist the learner to develop ability to inquire, think critically and develop rational judgement
- f) Enables the learner to appreciate the importance of ethical practices and efficient business management
- g) Enables the learner to acquire self-discipline and positive attitude towards work
- h) Assists the learner in enhancing cooperation and interrelation in society through trade
- i) Enables the learner understand the role played by the government in business
- j) Enables the learner appreciate the role played by communication and information technology in modern business management
- k) Helps the learner develop positive environmental and healthy practices
- l) Equips the learner with skills and knowledge to enable him/her evaluate business performance
- m) Enables the learner appreciate the basic economic issues in the society
- n) Enables the learner appreciate the role of aids to trade (auxiliary services) in business
- o) Enables the learner appreciate the role market forces (demand and supply) in determining the price of goods and services
- p) Enables the learner to relate the knowledge, skills and attitudes acquired to the day to day business activities around the school and to the society in general
- q) Enables the learner appreciate the role of business in the provision of goods and services
- r) Enables learners and members of the society appreciate the need for good business management practices

## TOPIC 2: BUSINESS AND ITS ENVIRONMENT CONTENTS

- Introduction
- Purpose of business
- Types of business activities
- Types of business environments and their components

### INTRODUCTION

#### MEANING OF BUSINESS

The term business refers to any activity carried out by an individual or by an organisation with the aim of making profit. The term can also be used to refer to firms or entities which profit goods and services for the purpose of making profit.

#### PURPOSE OF A BUSINESS

The main purpose of a business is to make profit. This is done through the provision of goods and services to people who need them at a fee.

To make profit, businesses should do the following:

- Satisfy their customers
- Reduce operating costs (expenses)
- Compete favourably with other businesses

The purpose of a business therefore is to:

- a) Make profit
- b) Provide goods and services to the community
- c) Expand and grow the business by buying more stock and opening new branches
- d) Survive and remain in business for a long time

#### BUSINESS ACTIVITIES

A business activity is any activity that involves the production, provision and sale of goods and services with the aim of making profit.

#### Types of business activities

##### a) Extraction

Refers to the removing of goods from their natural setting. Extraction involves activities such as mining, farming, lumbering and fishing.

##### a) Processing of raw materials

Refers to the changing of the form of goods without combining with others. Examples of processing

activities include grinding maize into flour, refining crude oil to obtain diesel, petrol and kerosene.

**b) Manufacturing**

Refers to the combining of different raw materials to come up with a final product e.g. baking of bread by combining wheat, flour, yeast, sugar, margarine and water.

**c) Construction**

Refers to the building of structures such as roads, bridges and houses

**d) Distribution of goods**

Refers to all activities involved in moving goods from the production point to where they are needed. People who carry out distribution are known as distributors. Examples of distributors are the wholesalers and the retailers.

**e) Trade**

Refers to the buying and selling of goods with the aim of making profit. People who are involved in trade are known as traders.

**f) Provision of services**

Refers to the selling of services to the consumers by individuals or organisations. Examples of service providers include teachers, doctors, lawyers etc.

**Importance of business activities**

- a) Facilitates the provision of goods and services to the society
- b) Bridges the gap between producers and consumers
- c) Promotes healthy competition which leads to improvement in quality of goods and services
- d) Generates profit

**TYPES OF BUSINESS ENVIRONMENTS AND THEIR COMPONENTS**

The term business environment refers to conditions or factors which affect business operations. There are two types of business environments, namely;

- Internal business environment
- External business environment

**a) INTERNAL BUSINESS ENVIRONMENT**

Internal business environment consists of factors which affect business operations that originate from within the organisation. Internal business environment is also known as micro environment.

**Components of internal business environment**

These are factors which constitute internal business environment. They include the following;

- Resources
- Business structure

- Business culture
- Owners
- The managers

These factors are discussed below

#### **a) Resources**

Resources refers to whatever that can be used to achieve set objectives. Business resources includes the following;

- **Human resources**

Refers to the workforce or employees in the business.

The quality of human resources influences the quality of goods and services produced by the business therefore the business must employ people with relevant skills to do the work assigned to them.

- **Financial resource**

Financial resources refers to money required to facilitate the operations of a business. A business with adequate properly allocated and well managed financial resources is likely to perform better.

- **Physical resources**

These are tangible facilities such as buildings, machinery and furniture which belong to the business. These facilities enables smooth operation of the business.

- **Technology**

Technology refers to skills and methods used in production. Use of appropriate and up-to-date technology ensures quality goods and services are produced

#### **b) Business structure**

Refers to the formal arrangement of activities that are carried out by various levels of the organisation so as to ensure that objectives of the business are achieved.

Business structure lays down the duties and responsibilities of workers in the organisation. It also defines the relationship among workers in the organisation

A well laid out business structure contributes to the success of the business in the following ways

- It enables each employee know what is expected of him
- It enhances team work
- It ensures that there are no conflicts and disagreements among workers
- Ensure proper control in the business

A poor business structure will most likely lead to business failure

#### **c) Business culture**

Refers to the combination of employees' expectations, beliefs and values within the business.

Business culture is normally passed from one generation of employees to the next. For instance a business which has a culture of involving employees in decision is likely to perform better than the one that does not involve employees in decision making.

#### **d) Owners**

The owners of the business make major decision influencing the operations of the business besides providing necessary finances to start and run the business.

Good decisions will lead to business success while poor decisions are likely to lead to business failure

#### **b) EXTERNAL BUSINESS ENVIRONMENT**

External environment consists of factors from outside which affect the operations of the business. These factors may present opportunities or threats to the business.

External environment of a business is also known as the macro environment.

#### **Components of external business environment**

Refers to factors which constitute the external environment of a business. These factors are discussed below

##### **a) Economic environment**

These are factors which influence the ability of buyers to buy the goods and services offered by the business. These factors may include:

- Level of buyers' income
- Changes in tax rates
- Changes in prices of related products

The ability of buyers to buy determines the level of profitability of the business.

##### **b) Demographic environment**

Refers to the changes in the population. Such changes may include:

- Changes in the size of the population
- Changes in the geographical distribution of the population
- Changes in age and sex structure of the population
- Changes in birth and death rates in the population
- Changes in population density

Each of the above changes will influence demand for goods and services produced by businesses, for instance an increase in population size increases demand for goods and services whereas a decrease in population size decreases demand for goods and services

##### **c) Legal-political environment**

The government influences the operation of businesses by passing laws and policies that regulate

their activities. Such laws may relate to:

- Taxation
- Price control
- Quality and measures

Businesses will therefore be forced to operate within the laws set out by the government.

On the other hand, political stability creates a conducive environment for businesses to operate in whereas political instability creates unfavourable business environment leading to business failure.

#### **d) Technological environment**

Technology refers to the level of knowhow and efficient use of tools and equipment and other resources. Use of appropriate technology ensures business success whereas use of poor technology is likely to business failure.

#### **e) Cultural environment**

Culture refers to the norms that regulate behaviours of people in the society.

Culture includes customs, values and beliefs that are practiced by members of a given society. Culture is passed from generation to generation

Culture dictates how people live and what products to consume e.g. Muslims do not eat pork.

Culture will therefore influence the types of goods and services the business sells.

#### **f) Competitive environment**

This is an environment whereby firms compete for customers in their efforts to maximize profit. This environment is present where firms sell similar products or products which serve the same purpose.

Competitive environment could take the following forms:

- **Generic competition**

This refers to competition where products are used for the same purpose even though such products are different e.g. cinemas and discos.

- **Enterprise competition**

This refers to competition where firms deal in similar products e.g. shoe selling businesses

Competition determines the ability of the business to continue operating in the sense an organisation which cannot cope with competition will find itself out of business.

#### **g) Physical environment**

Physical environment includes such factors such as relief, climate and infrastructure such as roads, water supply, electricity, security etc.

These factors may affect the operation of the business both positively and negatively. For instance, good infrastructure supports business activities whereas poor infrastructure discourages such activities.

**NOTE:** in summary, the external environment of a business is composed of the following:



- Customers
- The government
- The economy
- Competitors
- Suppliers
- The community
- Technology
- The physical environment e.g. vegetation, air, water, soil etc.

### Healthy business environment

A healthy business environment refers to a situation where a business operates in harmony with both its external and internal environments.

A business should do the following to ensure a healthy business environment

- a) It should ensure that the environment is clean
- b) It should comply with all laid down legal requirements such as obtaining a trade license
- c) It should charge fair prices for its goods and services
- d) It should pay its workers fairly and treat them humanely
- e) It should pay its suppliers promptly
- f) It should pay government taxes fully

### (ILLUTRATION)

## TOPIC 3: SATISFACTION OF HUMAN WANTS CONTENTS

- Introduction
- Classification of human wants
- Types of human wants
- Goods and services
- Economic resources
- Renewable and non-renewable resources
- Scarcity, choice and opportunity cost

### INTRODUCTION

Human wants are the desires that human wants strive to achieve by using goods and services. Examples of human wants include food, clothes, phones, cars, education etc.

Satisfaction of human wants is the process of acquiring and using resources.

### CHARACTERISTICS OF HUMAN WANTS

#### **a) They are insatiable**

Human wants cannot be fully satisfied. This is because;

- They are endless e.g. no matter how many clothes one has, he/she needs more
- They are unlimited in numbers i.e. they are many hence the satisfaction raises the need for satisfying other needs. E.g. once one has enough food, he/she will think of buying clothes.

#### **b) They vary in intensity and urgency**

The amount of goods and services required varies from one person to another and also from time to time. This variation may also be influenced by gender and age.

#### **c) They are competitive**

Human wants compete for attention to the extent that each one of them yearns to be satisfied first. For example as human beings struggled to get food, other needs such clothes, education, medical care etc. will emerge.

#### **d) They are recurrent(repetitive)**

Satisfaction of human wants does not last forever. A particular want will want to be satisfied over and over again. This explains why human wants eat at regular intervals.

#### **e) Some human wants are universal**

Some human wants are common to all human beings though in varying proportions. For example, all human beings require food, shelter, clothing, security, entertainment etc.

#### **f) They are habitual**

Some human wants tend to create a habit among human beings of being desired every now and then. For example some people have developed of only using a certain type or brand of toothpaste

**g) They require resources**

All human wants require resources for them to be satisfied. For example, for one to acquire resources such as teachers, money, books, pens desks etc. are required.

**h) They are complimentary**

Some human wants are not used in isolation, they have to be combined with others. For example, a car requires fuel to operate

**TYPES OF HUMAN WANTS**

Human wants can be classified into basic and secondary wants. These are discussed below:

**a) Basic wants**

These are the requirements that one cannot do without because they are necessary in life.

They are also called primary wants.

They include food, shelter and clothing.

Basic wants must be satisfied before other wants (secondary) are satisfied.

**Characteristics of basic wants**

- One cannot do without them
- They are felt needs
- They cannot be postponed
- They are satisfied before secondary wants

**b) Secondary wants**

These are requirements that one can do without but are needed to make life more comfortable.

Secondary wants can be categorised into comforts and luxuries.

**Comforts:** these are wants which improve one's living standards beyond the level of mere survival. They include things like furniture, medical care, security and education

**Luxuries:** these are wants that provide excessive comfort. They include things like gold watches, very expensive cars, fully bedroomed house, some foods like biscuits and sweets etc.

NOTE: sometimes secondary wants may be classified as basic wants. E.g. medical care to a sick person is a basic want.

**Ways in which commerce satisfies human wants**

- a) Facilitates exchange which enables people to acquire what they don't have
- b) Facilitates storage of goods until the time they are needed
- c) Facilitates movement of goods to where they are needed
- d) Facilitates the conversion of goods to the right form

**GOODS AND SERVICES**

Goods and services also known as commodities, have distinct features that help in differentiating between them. These features are discussed below

**a) Goods**

Goods are tangible physical commodities that are used to satisfy human wants.

**Characteristics of goods**

**a) They are tangible**

Goods can be touched and felt. This is because they are material in nature.

**b) They can be stored**

Goods can be stored for future use. Some goods can stay longer than others without getting spoilt. Goods which stay for long without getting spoilt are known as durable goods e.g. furniture, buildings etc. whereas goods which go bad easily unless stored under special conditions are known as perishable goods e.g. onions, vegetables, bread etc.

**c) Their quality can be standardized**

The quality of goods can be made uniform through the use of certain machines. This enables the production of goods of specific sizes and qualities.

Goods can also be standardized through quality control. Quality control is the process of ensuring goods produced meet set standards

**d) They can change possession**

Goods can change ownership through trade. They can also change possession through donations.

**e) They can be seen**

Most goods other than air can be seen.

**f) Their quality can change over time**

Some goods lose value over time. These may include goods like furniture, cars, buildings etc. On the other hand some goods such as land increase in value over time.

**b) Services**

Services are actions. They are intangible and invisible. Examples of services include teaching, transportation, banking etc.

**Characteristics of services**

**a) They are intangible**

Services cannot be touched and felt since they are immaterial. However the effects of services can be felt e.g. the effect of entertainment is happiness.

**b) They cannot be stored**

Services are extremely perishable. They are consumed as they are provided.

**c) Their quality cannot be standardised**

Quality of services cannot be standardised because they vary over time from one service provider to another. E.g. the quality of hairdressing varies from one hairdresser to another

**d) They cannot be separated from the provider**

Services are provided directly from the provider to the consumer, therefore they cannot change possession. For instance, a teacher has to be there for teaching to take place.

**e) They cannot be seen**

Services are actions which not in material form, therefore, they cannot be seen

**Differences between goods and services**

<b>Goods</b>	<b>Services</b>
They are tangible	They are intangible
They can be stored	They cannot be stored
They can be standardized	They cannot be standardized
They can change possession	They cannot be separated from the provider
Not all goods are perishable	They are highly perishable
Most of them can be seen	They cannot be seen
They can change in value over time	They cannot change in value since they cannot change

**ECONOMIC RESOURCES**

**Resource:** resource refers to the means of achieving a result or of doing something.

Economic resources: these are resources which are scarce and have money value. Human effort or a price is required to obtain them. Examples of economic resources include food, books, minerals etc.

**NOTE:** some resources are plenty in supply and have no money value. Such resources are called free goods because they are provided freely as gifts of nature. Examples include air, rain and sunshine.

Free goods may be viewed as economic resources depending on the activities carried on them. E.g. fishing and transport makes some water bodies economic activities

**CHARACTERISTICS OF ECONOMIC RESOURCES**

**a) They are scarce in supply**

Economic resources are less in supply than what is required by human beings. This is why human beings needed to work in order to acquire these resources.

**b) They have money value**

The value of economic resources can be expressed in terms of money. The money value is their exchange price. This money value facilitates change in ownership. E.g. the price of a packet of milk is Ksh 60. This is its monetary value

**c) They are unevenly distributed**

Economic resources are available in varying quantities at different places. Some places may have more of a particular resource than others. E.g. oil is not available everywhere

**d) They have utility**

Utility refers to the usefulness or ability of a commodity to satisfy human wants. All economic resources are capable of satisfying human wants in one way or another.

**e) They have alternative uses**

Economic resources may be put to different uses. For example a piece of land can be used for farming, construction or the owner can even rent it out. People therefore have to find useful uses for the resources at their possession.

**f) They can change ownership**

Due to the fact that economic resources have money value, change in ownership from one person to another can be effected through sale. Ownership can also change as a donation or as a gift.

**g) They can be combined**

Economic resources can be combined in other quantities to produce other goods and services. For example wood, nails glue and varnish are combined in certain quantities to make a table

**h) They can be complimentary**

Different economic resources can be consumed or used together. For example bread may be used with blueband.

**CLASSIFICATION OF ECONOMIC RESOURCES**

Economic resources can be classified into three. Namely:

- Natural resources
- Man-made (artificial) resources
- Human resources
- Renewable resources
- Non-renewable resources

**1) Natural resources (gifts of nature)**

These are resources which are provided by nature. They include forests, rivers, mountains, lakes, climate and land

Human beings work on natural resources to create goods and services.

Human beings must use natural resources profitably in order to gain from them. For example sunshine is beneficial economically when it is used to provide solar energy.

For natural resources to contribute to economic development, human beings must,

- a) Know that they exist
- b) Use their knowhow to extract the resource from their natural setting
- c) Use the extracted resources to produce goods and services that can satisfy human wants

Natural resources influences peoples' culture and their attitude towards work. E.g. people who live in cold places may use the resources available to protect themselves from cold such as the use of fur

### **Economic importance of natural resources**

- a) They create employment during extraction and exploitation
- b) They provide raw material for industries
- c) They bring foreign exchange to the country when exported
- d) They are a source of energy
- e) Provides settlement for both human beings and animals
- f) They are a source of food

### **Reasons why the government controls the exploitation of natural resources**

- a) To prevent the misuse of resources
- b) To prevent environmental degradation
- c) To conserve the resources
- d) To control production activities which require natural resources
- e) To generate revenue from the exploitation of resources
- f) Promote tourism

### **2) Man-made resources (artificial resources)**

These are resources which are created by human beings to be used in satisfying their wants. They are made from natural resources.

Human beings use natural resources to produce goods and services that are consumed directly (consumer goods) e.g. food and clothes or to produce goods and services that can be used to produce other goods (producer or capital goods) e.g. machines.

### **3) Human resources**

They refer to human beings when rendering services in production of goods and services.

An individual becomes an economic resource by using his/her intelligence and physical strength in the production of goods and services.

Examples of human resources are teachers, doctors, lawyers, engineers etc.

### **4) Renewable resources**

These are resources whose supply can be restored. They include wood, fuel, hydroelectric power,

solar energy, wind power and soda ash.

### 5) Non-renewable resources

These are resources whose supply cannot be restored after use. Using these resources results in their exhaustion e.g. gold. However it should be noted that with technology, certain non-renewable resources can be renewed. E.g. petroleum oil can be replaced with gasohol once exhausted.

### Examples of renewable and non-renewable resources

Renewable resources	Non-renewable resources
Wood	Coal
Natural rubber	Building stone
Wool	Gravel
Silk	Iron
Leather	Aluminium
Solar energy	Gold
Hydro-electric power	Lead
Wind power	Natural gas
Soda ash	
vehicle	

### SCARCITY, CHOICE AND OPPORTUNITY COST

**Scarcity:** refers to a limitation in supply of economic resources in relation to the unlimited wants

**Choice:** refers to selection of the human wants to be satisfied using the scarce resources

**Opportunity cost:** this is the value or alternative foregone in order to satisfy an equally competing want

Resources are scarce, as a result, human beings must make a choice on what wants to satisfy using the available resources since all their wants cannot be satisfied using the resources that are available. For example a student with Ksh 30 to buy either a pen or a loaf of bread will be forced to buy one of the two products and undergo the other. If he/she decides to buy a pen, then he/she will have to sacrifice a loaf of bread. This sacrifice is called opportunity cost.



# TOPIC: PRODUCTION

## CONTENTS

- Introduction
- Types of utility
- Types of production
- Levels of production and related activities
- Factors of production and their rewards
- Division of labour and specialisation
- Classification of goods and services produced in an economy

## INTRODUCTION

Production refers to the creation of goods and services in order to satisfy human wants.

It may refer to the increasing the usefulness of goods and services.

Production involves the activities that enables one to provide goods and services. Such activities may include:

- The transformation of raw materials into finished goods
- Transportation
- Storage

The goods and services created through production must have usefulness (utility) to the consumer

## TYPES OF UTILITY

Utility refers to the ability of a good or service to satisfy human wants.

There are for types of utility;

- Form utility
- Place utility
- Time utility
- Possessive utility

### **a) Form utility**

Refers to changing of the form of a commodity e.g. converting raw materials into finished goods. A good example of form utility is the conversion of sugarcane into sugar through processing

### **b) Place utility**

Refers to changing of the location of a commodity in order to bridge the geographical gap between

the producer and the consumer.

Place utility is facilitated by transportation. E.g. transporting bread to school.

**c) Time utility**

Refers to making commodities available to consumers at the right time. It created when a good is stored until it is ready for use.

Time utility is facilitated by storage. E.g. food in the school store during the holiday to be used when the school re-opens

**d) Possessive utility**

Refers to the transfer of ownership of commodities from one person to another.

Possessive utility is mostly facilitated through trade. E.g. transferring ownership of bread the shopkeeper to the student.

For ownership of goods and services to be transferred, a price must be paid.

**TYPES OF PRODUCTION**

Production can be classified into two;

- Direct production
- Indirect production

**1) Direct production**

Refers to the production of goods and services for one's own consumption.

It is also known as subsistence production.

Examples of direct production may include cases where one grows food products for his/her own use or where one makes clothes for his/her own use

**Characteristics of direct production**

- a) Goods produced are of low quality
- b) Encourages individualism
- c) Leads to low standard of living
- d) Can be very tiring
- e) It does not encourage invention and innovation
- f) A lot of time is wasted as one moves from one job to another
- g) Cheap tools are used in production
- h) It is mostly done on small scale
- i) Goods and services are produced for one's own use
- j) The rate of production is low

### **Advantages of direct production**

- a) Requires less finances
- b) Required goods can be produced directly
- c) Specialisation is not necessary hence the producer can engage in several other activities

### **Disadvantages of direct production**

- a) It cannot satisfy all the needs of the producer
- b) Poor quality goods are produced
- c) Improvement of the quality of goods may not be possible
- d) It discourages creativity and innovation
- e) Variety of goods cannot be produced
- f) Results in poor living standards
- g) The rate of production is quite low

### **Reasons for the popularity of direct production**

- a) Most producers rely on poor technology
- b) Most producers have low incomes
- c) Negative attitude towards commercialization of production activities
- d) Poor resource endowment
- e) Lack of international trade
- f) Lack of market for goods and services produced
- g) Lack of skills to produce in large scale

### **2) Indirect production**

Refers to the production of goods and services with the aim of selling the excess to acquire what one does not have.

Indirect production is geared towards satisfying the wants of an individual and those of others.

### **Characteristics of indirect production**

- a) Production is with a view of exchange
- b) Encourages specialisation
- c) It results in surplus production of goods and services
- d) It encourages invention and innovation
- e) Improves the standard of living of the producer

### **Advantages of indirect production**

- a) It encourages specialization in production

- b) It improves the skills of the producer since tasks are done repeatedly
- c) Better quality goods and services can be produced
- d) The rate/speed of production is high
- e) It leads to creativity, invention and innovation in production
- f) Variety of goods can be produced
- g) It leads to high living standards
- h) It promotes trade
- i) It promotes peace and understanding among people through trade
- j) It promotes division of labour

Indirect production encourages interdependence among countries as they engage in trade.

### **LEVELS OF PRODUCTION AND RELATED ACTIVITIES**

There are three levels of production;

- Primary level
- Secondary level
- Tertiary level

#### **a) Primary level**

This level is also known as the extraction level. It involves the extraction of goods from their natural setting.

The products of primary level are either used in their original form or are processed further to make them more useful. E.g. water can be consumed in its natural state while wood must be processed into furniture in order to be useful.

At this level, human beings do not create goods.

Examples of activities involved in primary production are;

- Mining
- Farming
- Fishing
- Lumbering

#### **b) Secondary level**

This level involves the transformation of raw materials into finished goods or into a more useful form.

This level includes manufacturing and construction activities.

Examples of manufacturing activities include;

- Food processing

- Textile and furniture making

Examples of construction activities include;

- Building houses
- Construction of roads
- Construction of railway lines

### c) Tertiary level

This level of production deals with provision of services. These services may be classified into two;

- **Commercial services:** these are activities which assist trade to take place. Commercial services includes the following occupations; wholesaling, retailing, banking and insurance
- **Direct personal services:** these are services which are rendered directly to the consumer (s). examples of occupations categorised under non-personal services include the following; nursing, teaching, legal practice and pastoral duties

Different levels of production and examples of occupations

level	nature	Examples
Primary	Extraction	<ul style="list-style-type: none"> <li>• Lumbering</li> <li>• Mining</li> <li>• Farming</li> </ul>
Secondary	Processing	<ul style="list-style-type: none"> <li>• Maize milling</li> <li>• Coffee processing</li> <li>• Oil refining</li> </ul>
	Manufacturing	<ul style="list-style-type: none"> <li>• Bread making</li> <li>• Textile manufacturing</li> <li>• Chemical manufacturing</li> </ul>
	Construction	<ul style="list-style-type: none"> <li>• Road construction</li> <li>• House building</li> <li>• Railway construction</li> </ul>
Tertiary	Commercial services	<ul style="list-style-type: none"> <li>• Banking</li> <li>• Insurance</li> <li>• Wholesaling</li> </ul>

	Direct personal services	<ul style="list-style-type: none"><li>• Retailing</li><li>• Teaching</li><li>• Hairdressing</li><li>• Medical care</li><li>• Nursing</li></ul>
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### **FACTORS OF PRODUCTION AND THEIR REWARDS**

Factors of production are the necessary resources required in the production process.

Factors of production are categorised into four;

- Land
- Labour
- Capital
- Entrepreneurship

#### **a) Land**

Land refers to all the natural resources below, on or above the surface of the earth.

Land is important in production because it provides space on which production takes place besides providing raw materials to be used in the production process.

Land earns a reward/remuneration/income in form of loyalty/rent/rates.

#### **Its characteristics**

- It is basic factor of production, i.e. without land production cannot take place
- Its supply is fixed .i.e. its size cannot be increased
- It is a natural resource
- It is subjected to the law of diminishing returns i.e. its productivity reduces with continuous usage.
- It lacks geographical mobility i.e. it cannot be moved. It is however occupationally mobile i.e. it can be put to several uses
- Its quality is homogeneous i.e. productivity varies from one piece of land to another
- Its productivity can be increased by increasing the quality and quantity of capital.

#### **b) Labour (human resource)**

Refers to the human effort applied in production. This effort can either be physical or mental or a combination of both e.g. a driver uses his hands, legs and brain at once while driving.

For any human effort to be regarded as labour, it must be aimed at production and it must be paid

for.

The reward for labour is wages, commission or salaries.

### **Forms of labour**

Labour may take three forms;

- Skilled labour
- Semi-skilled labour
- Unskilled labour

Skilled labour refers to people who have acquired the relevant skills for the job. Semi-skilled labour refers to people who have acquired a certain level of skills for the job. Unskilled labour refers to people who have specialised skills for the job

### **Characteristics of labour**

- a) It is a basic factor of production
- b) It cannot be stored
- c) It cannot be separated from the labourer
- d) It is saleable
- e) It is human, with ability to think and capacity to get annoyed
- f) Labour is mobile i.e. a labourer can move from one place to another or from one profession to another.

### **Ways of improving the efficiency of labour**

- a) Giving workers relevant tools and equipment
- b) Paying workers well
- c) Appropriately training workers
- d) Improving the working conditions
- e) Giving workers incentives
- f) Providing job security
- g) Giving proper job descriptions to workers
- h) Giving workers fringe benefits such as housing, free meals etc.

### **c) Capital**

Capital refers to all man-made resources used in production of goods and services. However in production, capital refers to those goods that are produced in order to be used in producing other goods and services.

Capital includes machines, tools and equipment.

Goods that are used in the production of other goods and services are known as capital goods or producer goods.

The reward for capital is interest.

### **Characteristics of capital**

- a) It is man-made
- b) It is a basic factor of production
- c) It is subject to depreciation
- d) It can be improved by the use of technology

### **e) Entrepreneurship**

Refers to the ability to organise other factors of production in appropriate proportions for effective production.

Entrepreneurship is conducted by an entrepreneur

The entrepreneur incurs all the costs of production

The reward for entrepreneurship is profit

### **Functions of an entrepreneur**

- a) He controls the business
- b) He starts the business
- c) He makes all decisions
- d) He acquires and pays for all the factors of production
- e) Bears all the risks and enjoys all the profit
- f) Incurs the cost of production i.e. he pays for expenses such as water , electricity, stationery and postage
- g) He owns the whole project

## **DIVISION OF LABOUR AND SPECIALISATION**

**Division of labour:** this is where the production process is divided into stages and each assigned to an individual or a group of persons. E.g. the process of producing bread may be divided into weighing, mixing ingredients, baking, packaging and selling and each of these areas assigned to certain individuals or groups of individuals

**Specialisation:** this is where a person concentrates in the production of what he/she can produce best.

Specialisation increases efficiency in the production of goods and services.

**NOTE:** division of labour leads to specialisation.

### **Advantages of specialisation and division of labour**

- a) Increases output per worker
- b) Enables workers engage in areas where they are best talented hence producing high quality goods and services



- c) Specialisation encourages invention and innovation as the workers tries to come up with improved methods of production
- d) Division of labour encourages the use of machines hence improving efficiency
- e) Specialisation and division of labour enables the worker to enrich his/her skills in a particular area
- f) Division of labour ensures that tasks are accomplished with speed hence saving time
- g) High quality and services are produced
- h) Reduces the amount of mental and physical effort used by a worker as he/she gets used to one routine
- i) It increases the rate/speed of production

#### **Disadvantages of specialisation**

- a) Specialisation leads to monotony of work resulting in boredom
- b) Specialisation of labour may hinder creativity since it makes people work like machines
- c) Specialisation makes a worker depend on only one line of trade, therefore if his/her or the goods he/she lose demand, the worker becomes unemployed
- d) Specialisation and division of labour encourages the use of machines. These machines have replaced human labour resulting in unemployment
- e) Specialisation makes a country dependent on other countries for what it doesn't produce
- f) Specialisation and division of labour brings people together resulting in social problems such as crimes
- g) The worker does not have pride in the final product because it results from the efforts of several people
- h) Failure of production in one stage affects the entire process of production

#### **CLASSIFICATION OF GOODS AND SERVICES PRODUCED IN AN ECONOMY**

##### **a) Free goods and economic goods**

Free (non-economic) goods are those goods that are provided by nature e.g. air. They are free, in abundance and priceless. Free goods have utility (usefulness) but no money value.

Economic goods on the other hand are those that are scarce in supply and have monetary value e.g. a car. People must work to obtain them. A price is paid to acquire them.

##### **b) Producer goods and consumer goods**

Producer (capital) goods are those goods which are produced to be used in the production of other goods and services e.g. a jembe.

Consumer goods are those goods that are ready for final usage (consumption) e.g. food, clothes, medicine etc.

**NOTE:** goods will be classified as consumer or producer goods depending on their intended purpose. For example vehicles used in factories are classified as producer goods whereas vehicles used for domestic purposes are classified as consumer goods.

### **Features of producer goods**

- a) They are produced to produce other goods
- b) Some may be durable in nature i.e. used again and again e.g. machines
- c) Some can only be used once in production e.g. raw materials

### **Features of consumer goods**

- a) They are produced for final consumption
- b) They are produced using producer goods
- c) Some may be durable i.e. they may be used again and again e.g. furniture, personal cars and radios.
- d) Some can be used once e.g. bread, sugar etc.

#### **c) Perishable goods and durable goods**

Perishable goods are those goods that go bad quickly unless stored using special facilities. They include; tomatoes, meat, flowers etc.

Durable goods on the other hand are those goods that can stay for so long without spoiling e.g. tools, furniture etc.

#### **d) Public goods and private goods**

Public goods are those that belong to no one in particular. They are either owned by the government or collectively by the public. Examples of public goods include; airports, public schools, public parks, roads etc.

On the other hand, private goods are owned by individuals or a group of individuals. The owners have exclusive rights to the usage of these goods. Examples of private goods include; personal cars, mobile phones, private schools etc.

#### **e) Intermediate goods and finished goods**

Intermediate goods are those goods which are still undergoing the production process e.g. sugar cane, wool, cotton, wheat etc.

Finished (final) goods on the other hand are those goods that have come out of the production process (outputs). Examples of final goods include; ugali, wheat flour, sugar clothes etc.

#### **f) Material goods and non-material goods**

Material goods are tangible commodities such as food, desks, chairs etc.

Non-material goods on the other hand are intangible items or services such as teaching, nursing, banking etc.

### **Negative effects of production activities on the community**

- a) Results in air pollution that causes airborne diseases
- b) Results in water pollution that causes water borne diseases
- c) May cause congestion in places where production activities take place

- d) Results in noise pollution that can cause hearing problems
- e) Leads to pressure on available health facilities
- f) Results in solid waste pollution
- g) Results in environmental degradation that may cause health problems
- h) Results in social evils in regions where production activities take place

## TOPIC 4: ENTREPRENEURSHIP

### CONTENTS

- Introduction
- Importance of entrepreneurship to an economy
- Characteristics of an entrepreneur
- Business idea
- Business opportunity
- Business plan
- Factors that influence entrepreneurial practices
- Business failure
- Ethical issues in business

### INTRODUCTION

Entrepreneurship is the process of identifying a business opportunity and getting the necessary resources to start and run the business.

The person who does entrepreneurship is called an entrepreneur.

An entrepreneur is a person who creates a new business or transforms an existing business into a profit making business.

### Duties of an entrepreneur

- a) Provides the capital required to start the business
- b) Acquires the other factors of production
- c) Managing, controlling and co-ordinating the business activities
- d) Taking responsibilities over the risks involved in the business
- e) Earning profits

### IMPORTANCE OF ENTREPRENEURSHIP TO AN ECONOMY

Entrepreneurship contributes to the economic growth and development in the following ways:

#### **a) Creates employment**

Entrepreneurship enables the creation of jobs to employ the unemployed population

#### **b) Contributes to formation of capital**

Entrepreneurship may contribute to the creation of capital to help in expanding the existing business or to start new businesses. This is done by ploughing back profits. The salaries paid to workers may also be a source of capital to enable them start their own businesses

#### **c) Reduces rural-urban migration**

Entrepreneurs can set up businesses in the rural areas where they can employ the rural population thereby preventing them from moving to rural areas in search of jobs.

**d) Raises standards of living**

Entrepreneurship avails a variety of goods and services to people to enable them lead better lives. Besides the salaries paid to the workers by the entrepreneur enables the afford high quality goods and services

**e) Saves on imports**

Local entrepreneurs produce goods and services that substitute imports thereby enabling the country reduce the amount of money paid for imports

**f) Improves infrastructure**

Set up of many businesses in a particular area makes the government see the need of improving the infrastructure of that area. Besides, entrepreneurs may join hands to improve infrastructure in their area of operation.

**g) Reduces foreign dominance in the economy**

Local entrepreneurship reduces the number of foreign investors in the country.

**h) Makes use of local resources**

Entrepreneurship creates a conducive environment that makes the exploitation of local resources possible. For example resources like scrap metal can be used to make jikos

**i) Promotes technology**

Through their creativity, entrepreneurs can contribute to the development of new technology e.g. the development of charcoal refrigerators.

**j) Promotes entrepreneurial culture**

Successful entrepreneurs acts as an eye opener to the society hence encouraging more society members to engage in entrepreneurship.

**CHARACTERISTICS OF AN ENTREPRENEUR**

The following are some of the quality of successful entrepreneurs

**a) Desire to achieve**

An entrepreneur should have the drive to succeed while competing with others. He/she should be motivated to accomplish something new.

**b) Ability to solve problems**

An entrepreneur should be in a position to get solutions to complex problems in his/her business

**c) Ready to take risks**

A risky situation is the one which presents a loss or a gain. An entrepreneur should be in a position to assess a risky situation and take advantage of the gain

**d) Initiative**

An entrepreneur should be ahead of his/her competitors in implementing ideas

**e) Time consciousness**

An entrepreneur should be able to use time wisely in order to avoid time wastage.

**f) Creativity and innovation**

Creativity refers to the imagination or an idea in mind whereas invention refers to the introduction of new methods and ideas.

An entrepreneur should be able to generate new ideas and think of a way of putting them into practice.

**g) Independence**

An entrepreneur should be in a position of making decisions independently. He/she should be a position to become his/her own boss in order to run the business in his/her own way

**h) Self confidence**

An entrepreneur should have strong beliefs in his/herself and in his/her abilities

**i) Persistence and patience**

An entrepreneur should not give up when he/she is confronted with challenges. He/she should look for ways of overcoming challenging situations

**j) Seek information**

An entrepreneur should continuously seek for more and better ideas on how to run his/her business more effectively.

**k) Concern for high quality products**

An entrepreneur should always aim at providing high quality goods and services to his/her customers. This will enable him/her cope with the existing competition in the market.

**l) Commitment to work**

An entrepreneur should ensure that tasks are accomplished in time even if it involves working over-time.

**m) Concern for customer satisfaction**

An entrepreneur should ensure that his/her customers are satisfied with his/her products. He/she should be ready to deal with customer complaints as they arise

**n) Desire for feedback**

An entrepreneur should be interested in making follow-ups in order to know how his/her business is performing

**BUSINESS IDEA**

A business idea is what the entrepreneur is thinking concerning the prospective business. It is what is cooking in the mind of the entrepreneur.

### **Contents of a business idea**

- The products the business will sell
- The intended buyers (market)
- The intended location of the business
- The objectives of the intended business.
- The management of the intended business

### **Sources of business ideas**

#### **a) Newspapers**

Business ideas can be generated by reading the business and advertising sections of the local newspapers e.g. the nation and the standard newspapers.

#### **b) Shows and exhibitions**

Business ideas can also be generated by attending shows and exhibitions organised by manufacturers and distributors. The entrepreneur may get business ideas by asking sales persons in these shows and exhibitions questions

#### **c) Magazines and articles**

By reading magazines especially those with information on business may equip the entrepreneur with new business ideas

#### **d) Hobbies**

Hobbies are activities which a person engages in for pleasure. Such activities may be a good source of business ideas. For example a person whose hobby is to watch movies may end up opening his/her own movie shop.

#### **e) Vocational training and experience**

A business idea may be generated from a person's area of training or experience. For example a teacher use his/her experience as a teacher to start his/her own private school.

#### **f) Surveys**

Business ideas can also be generated by finding out what consumers want. The entrepreneur will hence turn the needs of the consumer into a successful business.

#### **g) Waste products**

Waste products can be recycled into useful products hence making it a business. For example scrap metal can be converted into a raw material for making products such as jikos.

#### **h) Listening to what people say**

By listening to people keenly, one will get information about their complaints about the goods and services offered in the market. These complaints may form a business for a business idea.

#### **i) Identifying a gap in the market**

Business ideas can be generated by identifying goods and services which are not available in the market. For example an area where schools and colleges are developing may be in need of a book

shop.

### **BUSINESS OPPORTUNITY**

This is a business idea that can be translated into a viable business activity.

It exists where there is gap to be filled in the market. Examples of business gaps which present business opportunities to the entrepreneur include:

- a) Inavailability of demanded products
- b) Provision of poor quality products
- c) Provision of products in low quantities
- d) Selling products at higher prices
- e) Provision poor customer care services

### **EVALUATING A BUSINESS OPPORTUNITY**

This means to assess whether the identified business opportunity is viable or not.

#### **Factors to consider when evaluating a business opportunity**

Factors to consider when evaluating a business opportunity may be classified into two:

- Personal considerations
- Business considerations

#### **a) Personal considerations**

These are the abilities and the expectations of an entrepreneur. They include the following:

##### **a) Entrepreneur's objectives**

The entrepreneur has to check whether a given business opportunity meets his/her objectives of starting the concerned business

##### **b) Entrepreneur's skills**

The entrepreneur has to assess whether he/she has the skills required to run the concerned business. For example a clinic requires one to have medical skills

##### **c) Personal commitments**

The entrepreneur has to consider the level of attention required by the concerned business. It is advisable for the entrepreneur to ignore the business opportunity if he/she has other commitments

##### **d) Personal interest**

The entrepreneur has to take into account his/her personal interests. He/she has to consider his/her level of interest in operating the concerned business. The business opportunity should be ignored if the entrepreneur has no interest in the business.

#### **b) Business considerations**

These are external factors which may affect the operations of the business. They may include:



a) Availability of market

Availability of market is determined by the number of customers (buyers). An entrepreneur should assess the availability of market before taking advantage of a given business opportunity. Market exists where there is a gap in the market. This gap may be characterised by:

- Inavailability of products
- Provision of insufficient quantities of products
- Provision of customer care services
- Provision of poor quality products
- Selling products at higher prices

a) Level of technology

Technology required to run the given business should be taken into consideration. As relates to technology, the entrepreneur should take into consideration the following

- Appropriateness of the technology
- The cost of the technology
- The effect in the operations of the business if the technology becomes outdated

b) Availability of raw materials

The entrepreneur should take into account access to raw materials required by the business. As relates to raw materials, the entrepreneur has to take into consideration;

- The availability of raw materials
- The cost of raw materials

c) Government policy

The entrepreneur has to consider the requirements of the government concerning the business to be started. For example the government may require certain businesses not to be located in certain areas.

d) Other considerations

Other factors to take into account when evaluating a business opportunity may include:

- a) Amount of capital required
- b) Level of market competition
- c) Difficulties in marketing
- d) Possibility of expansion
- e) Impact of operations of the business activities on the environment
- f) Level of security in the preferred location
- g) Level of development of infrastructure
- h) Business potential for future growth in terms of expansion

- i) The risks involved
- j) Acceptability of the business by the community

### **BUSINESS PLAN**

A business plan is written document which highlights the objectives of the business and the steps to be followed in achieving those objectives.

A business indicates where the business is, where it wants to move to, how and when to get there.

#### **Contents of a business plan**

- a) Name of the business
- b) Products to be sold
- c) Personnel to manage the business
- d) Amount of finance required
- e) Market to be served
- f) Types and number of employees required
- g) Projection ( objectives) of the business
- h) Summary of the plan

### **IMPORTANCE OF A BUSINESS PLAN**

#### **a) Helps the business avoid mistakes**

In the process of drawing a business plan, mistakes that would have been made in the business are identified and therefore corrected. This helps in avoiding the occurrence of such mistakes in the business

#### **b) Enables the identification of strengths and weaknesses**

A business plan helps in revealing the strengths and weaknesses in the business. If weaknesses are detected, remedial action may be taken early enough

#### **c) It is required by financiers**

Financiers are those financial institutions from where the business can borrow money e.g. banks. These institutions require the business to enable them determine whether the business will be profitable enough to repay them

#### **d) Determines the amount of finance required by the business**

A business plan enables the working out of the amount of finance that is required to fund the various activities of the business

#### **e) Enables efficient allocation of resources**

A business plan enables the entrepreneur to allocate the available resources in an efficient and appropriate way. This ensures that resources are not under-utilised or used for the wrong purposes.

**f) It acts as a motivating factor in the business**

A business plan is used to direct all the employees in an organisation towards a common objective. It therefore motivates them to work towards the attainment of common objectives

**g) Facilitates adaptability in the business**

A well-drawn up business plan will leave room for the business to accommodate any changes that might occur in the future.

**h) It acts as a control tool**

A business plan enables the business plan properly for future events in the business.

**FACTORS THAT INFLUENCE ENTREPRENEURIAL PRACTICES**

These are factors which influence the performance of entrepreneurs. These factors are discussed below

**a) Government policy**

Some government policies may be favourable to the operations while others are unfavourable. Favourable government policies e.g. decrease in taxes may encourage entrepreneurial practices while unfavourable government policies discourage entrepreneurial activities.

The government may also influence the location of businesses and even the type of goods to be produced.

**b) Level of infrastructure**

Infrastructure refers to the basic systems and services that are necessary for efficient operation of businesses. Infrastructure may include transport network, water systems, electricity, communication etc.

Availability of good infrastructure in an area encourages entrepreneurial practices while poor infrastructure discourages entrepreneurial practices.

**c) Levels of education and skills**

Relevant knowledge and skills are essential for business success. Knowledge and skills on business can be acquired through education, training and experience. An entrepreneur who has appropriate knowledge and skills is likely to succeed in business than the one without appropriate skills and knowledge.

**d) Availability of markets**

Availability of market determines the profitability of the business. Availability market encourages entrepreneurial activities whereas Inavailability of market discourages entrepreneurship.

**e) Availability of resources**

For a business to start and run efficiently, resources are required. These resources may include; capital, labour, technology, finances etc.

Availability of adequate resources enables the business produce high quality goods and services that will encourage more customers. Availability of adequate resources will therefore encourage entrepreneurial practices while lack of adequate resources discourages entrepreneurial practices.

**f) Culture**

Culture refers to the norms, values and beliefs of a given community. Culture influences the kind of goods and services that people consume thereby determining the type of businesses to be established in a given area. E.g. Muslims don't eat pork, therefore a business selling pork will not be suitable in an area with many Muslims.

**g) Level of competition**

Competition is an attempt by businesses to out-do each other in their efforts to attract and retain available customers. A business will therefore do well where there is minimal competition hence lack of competition encourages entrepreneurship than presence of competition

**h) Political stability**

Political stability gives a conducive environment for businesses to operate hence encouraging entrepreneurial activities. On the other hand, political instability increases the level of insecurity in a given area hence discouraging entrepreneurial activities.

**i) Natural factors**

Natural factors such as rainfall, temperatures, earthquakes, pests, wind, drought etc. may influence the type of businesses that are carried out in a certain area. E.g. fishing is only possible in places with water bodies.

**CAUSES OF BUSINESS SUCCESS**

These are factors which contribute to the success of a business. These factors are discussed below:

**a) Proper management of people (workers)**

When workers are managed properly, they will be motivated to work harder leading to the success of the business. Management of workers includes the following:

- i. **Hiring:** this is the process of acquiring new employees to take up new positions or to replace those who have left
- ii. **Assigning duties:** refers to the allocation of responsibilities to workers according to their qualifications
- iii. **Supervising:** refers to monitoring to ensure that workers undertake tasks assigned to them
- iv. **Training:** refers to enabling workers acquire knowledge and skills that are necessary to perform duties assigned to them
- v. **Motivating:** refers to giving employees inducements to make them perform their duties better.

**b) Proper location/availability of customers**

The business should be located in a place which is convenient for its operations. A business whose location is accessible and has minimal competition will have more customers hence it will be successful compared to a poorly located business

**c) Availability of raw materials**

A business requires adequate supply of raw materials to operate efficiently. Adequate supply of raw materials ensures that the business is operating continuously hence it is able to meet its customers' needs. Therefore a business with adequate supply of raw materials is likely to be

successful.

**d) Adequate finance**

Money is required in the business to acquire other resources that are required for efficient running of the business. These resources may include labour, capital, raw materials land etc. a business that has capital is likely to do well as it is able to finance its operations

**e) Lack of competition**

A business operating in an area where there is little or no competition is likely to succeed as it will have high sale volume

**f) Commitment to the business**

A business whose owner is committed to the business is likely to be successful. This is because such owner will have enough time to identify and solve any problems arising in the business.

**g) Proper financial management**

Finance refers to money required to fund the operations of the business. Proper management of finances results in business success as it ensures that money is always available and that it is used for the intended purpose

Financial management includes the following activities:

- i. **Acquisition of finances:** this refers to raising the required amount of money. Finances can be acquired through loans, grants, owners' contributions etc.
- ii. **Managing finances:** this ensures that the available moneys are used for the activities which are beneficial to the business
- iii. **Proper record keeping:** this involves keeping a record of finances raised and how they are used.

**h) Proper debt management**

Selling goods on credit increases business' sales volume. However credit should be extended to customers whose chances of paying back are very high. Debt collection should be carefully planned to ensure that they are collected when due. A business with proper management of debt is likely to be successful

**i) Good public relations**

Public relations refers to creation and enhancement of relationships between the business and other people. Good relations enables the business attract and retain customers. Therefore a business with good public relations is likely to be successful.

**j) High level of creativity and innovation**

Creativity and innovation enables the business come up with new ways of doing things e.g. finding new uses of a product, finding markets new markets, identifying a new production methods. Creativity and innovation enables the business improve the quality of its goods and services hence attracting and retaining more customers to ensure business success.

**k) Proper market research**

Proper market research is necessary for the success of the business since it facilitates the

identification of new markets for its goods and services.

**l) Good infrastructure**

Availability of well-developed infrastructure such as roads, communication network and electricity enables the business operate efficiently hence making it successful.

**CAUSES OF BUSINESS FAILURE**

Some of the factors that may contribute to the failure of a business include:

- a) Lack of adequate finances
- b) Lack of market
- c) Use of poor technology in the production of goods and services
- d) Lack of proper entrepreneurial skills
- e) Poor customer (public) relations
- f) Poor infrastructure
- g) Presence of stiff competition
- h) Lack of creativity and innovation
- i) Poor location of the business
- j) Poor management of the business
- k) Lack of adequate raw materials
- l) Lack of commitment to the business by the entrepreneur
- m) Poor debt management
- n) Poor management of finances
- o) Lack of market research

**ETHICAL ISSUES IN BUSINESS**

The term ethics refers to a set of values and principles which influence how individuals, groups of people and the society in general behave.

Business ethics therefore deals with how such values and principles affect the operations of the business. They help a business in deciding what actions are right or wrong depending on given circumstances. Business ethics guides the business in ensuring fair play in its operations.

**Need for ethical issues in business (importance of business ethics)**

**a) Gets rid of discrimination in business**

Business ethics ensure that the business does not discriminate in areas relating to recruitment, promotion, training, remuneration and assigning of duties. Business ethics therefore that every person is given an equal opportunity when it comes to recruitment, promotion, training, remuneration and assigning of duties.

**b) Creates fairness in competition**

Business ethics ensures that there is fair play as businesses compete with each other. For example it will be unethical to:

- Destroy competitors' promotional materials such as bill boards
- Discredit competitors' products
- Buy competitors' products and destroying them before they get to the market.

**c) Ensures protection of the environment**

Business ethics prohibits businesses from carrying out activities that may cause environmental pollution and degradation.

Environmental degradation may be caused by human activities such as logging and unplanned cultivation. On the other hand environmental pollution may be caused by activities such as:

- Damping wastes from production units into water bodies thereby causing water pollution
- Emitting carbon dioxide and other gases into the atmosphere causing air pollution
- Damping of waste material on land surfaces causing solid waste pollution

**d) Ensure rights of employees are observed**

Ethics ensures that the employer does not violate the rights of employees laid down in the terms and conditions of employment and in the employment act. Such rights may include payment of salaries and wages in time.

**e) Eliminates use of unfair means of achieving business objectives**

Ethics ensures that business operations are carried out professionally by observing all the laid down standards. For example it will be unethical for a business to hoard goods awaiting their prices to go up

**f) Avoids consumer exploitation**

Business ethics ensures that consumers are not exploited by the business. Consumers may be exploited in the following ways:

- Charging them high prices
- False advertisement
- Selling poor quality goods and services.
- Selling goods of wrong quantities
- Selling harmful goods.

**NOTE:** Business ethics can be enforced through:

- a) Government legislations
- b) Activities of consumer associations
- c) Activities of owners of businesses and business associations
- d) International organizations and pressure groups

- e) Individual consumers' initiatives

**Reasons for starting a business**

- a) Lack of employment
- b) The need to supplement insufficient income
- c) The desire to be self-reliant
- d) The need to keep oneself busy in order to avoid idleness
- e) The need to gain recognition and prestige
- f) The desire to put one's talent into action



## TOPIC 6: THE OFFICE

### CONTENTS

- Introduction
- Functions of an office
- Types of office layout
- Types of office equipment
- Duties of various office staff
- Trends in office management

### INTRODUCTION

An office is a place, a room, or a building set aside in an organisation where communication, secretarial, accounting, administration and clerical work take place.

It is in an office where information is received, acted upon and recorded. It is also in an office where goods are purchased, money is collected from customers, staff are recruited and salaries and wages are paid

An office is regarded as the nerve centre of an organisation where various operations take place.

### IMPORTANCE OF AN OFFICE IN AN ORGANIZATION

- a) Enables management carry out its functions efficiently
- b) It serves as a centre where policies, rules and instructions that guide the operations of the organization are formulated
- c) Provides the information needed to managers to enable make decisions
- d) Provides a conducive environment for information storage, retrieval and dissemination
- e) Coordinates all the activities of the organization

### FUNCTIONS OF AN OFFICE

#### a) Receiving and recording information

The office receives information in the form of letters, telephone calls, orders, face to face conversation and reports. Received information is also recorded and stored in files, flasdiscs, computers, books of account, registers etc. This information is used by management in decision making.

**b) Distribution (dissemination) of information**

The office facilitates the passing of information from one point to another for implementation. For example, the books of account are passed over to the accounts office for action.

**c) Mailing**

Mailing involves processing and sending out letters and parcels. The office enables the processing and dispatch of out-going correspondences and parcels from various departments.

**d) Reproduction of documents**

It is in the office where documents are reproduced. This can be done using typewriters, carbon copying, photocopying machines, printing machines etc.

**e) Safeguarding and controlling the organization's property**

Through the office, organisation's property is protected and controlled. This can be done through the following ways:

- Enhancing security to get rid of cases of theft
- Ensuring that staff use property with care
- Keeping proper records of the organization's property
- Conducting physical stock-taking of the organization's property
- Taking insurance cover against the organization's property
- Ensuring organization's property is repaired, serviced and maintained regularly

**f) Communication**

Communication refers to the passing of information from one person to another. The office is the centre of communication in the organization as it facilitates information flow.

**g) Filing**

Refers to the process of classifying, arranging and storing documents for easy retrieval when required. The office provides a conducive environment where filing is done in the organisation

**METHODS OF REPRODUCING DOCUMENTS IN THE OFFICE**

**1) CARBON COPYING**

This is a method of reproduction of documents where copies are obtained using carbon papers.

The copies can either be handwritten or typewritten.

**Its advantages**

- Convenient where few copies are required
- It is cheap
- Does not require any special training

**Its disadvantages**

- It is not convenient for many copies

- Copies may be misaligned
- Produces poor quality copies
- It may not allow the production of copies with different colours
- It may not allow the reproduction of some documents e.g. photographs

## **2) DUPLICATING**

Refers to the reproduction of several copies from one copy known as the master copy. Duplicating is appropriate where several copies of one copy are required

### **Methods of duplicating**

#### **a) Ink duplicating**

This is where documents are reproduced using ink duplicators. When using this method, a stencil is cut using a typewriter or a stylus pen. The stencil is then fed into the duplicating machine to produce the required copies

#### **Its advantages**

- Cheaper especially when many copies are required
- Errors can be corrected
- May produce good quality copies
- Stencils can be stored to be re-used
- It is fast

#### **Its disadvantages**

- It is expensive where few copies are required
- It is time consuming
- It may not produce high quality copies

#### **b) Spirit duplicating**

This where a spirit duplicator is used. The master copy is prepared from which copies are reproduced. With the help of spirit, carbon is transferred from the master to the copies being produced.

#### **Its advantages**

- Cheaper where few copies are required
- Allows the reproduction of copies with different colours

#### **Its disadvantages**

- It is not suitable for many copies
- Copies produced fades out with time
- The master is expensive

### **c) Photocopying**

Refers to the reproduction of an exact copy of the original document using a machine known as a photocopier

#### **Its advantages**

- It is cheaper when few copies are required
- It is faster
- It does not require special training to operate
- It produces high quality copies
- Allows the production of coloured copies
- It does not pollute the environment

#### **Its disadvantages**

- It is expensive where many copies are to be produced
- Copies may fade out with time
- Only specific colours may be copied
- It requires electricity
- Photocopiers are expensive to acquire

### **d) Printing**

This is a method reproducing documents using either a printing machine or by mechanical means.

Copies can be produced using a printer which is connected to the computer or networked with the computer.

The information is fed into a computer and the computer is instructed to print the required copies

#### **Its advantages**

- Produces high quality copies
- Different colours can be reproduced
- Convenient where relatively many copies are required
- It does not pollute the environment

#### **Its disadvantages**

- Printers are expensive to acquire
- Requires trained personnel
- It requires electricity

### **e) Stencil (screen) printing**

This is a method of printing where characters to be printed are cut out from a piece of paper,

placed on a screen and ink applied. The impressions of the characters are left on the surface. It is mostly used to print words on T-shirts.

**Its advantages**

- It is cheap
- Requires little training
- Easily adaptable
- It can produce a variety of colours

**Its disadvantages**

- May reproduce poor quality documents
- It does not allow the production of many copies
- It may pollute the environment

**f) Offset lithography**

This where the document to be reproduced is first filmed using a camera and the information on the films used to produce an image on a flat sheet of metal called a plate. This plate is then affixed onto the printing machine to produce the required documents.

It is used to produce documents such as certificates and photographs. It can also be used to print on plastic and metals.

**Its advantages**

- Produces high quality documents
- It is appropriate where many documents are required
- Different colours can be produced

**Its disadvantages**

- Initial and maintenance cost of machines is high
- It pollutes the environment
- Requires monitoring
- The machine requires electricity

**Factors to consider when choosing a means of reproducing documents**

- a) The type/nature of documents to be produced
- b) The impression desired
- c) Number of copies needed
- d) The quality of copies desired
- e) Availability of skilled personnel to do the reproduction work
- f) The reproduction cost

- g) Availability of the means of reproduction

## **FILING**

Filing refers to the process of classifying, arranging and storing documents so that they can easily be obtained or retrieved when required.

### **Filing systems**

A filing system is the style of managing files in an organization

There are two types of filing systems, namely:

- a) The centralised filing system
- b) The decentralised filing system

#### **a) The centralised filing system]**

This is a filing system where one department has the responsibility of managing all the files in the whole organization.

#### **Its advantages**

- a) It ensures uniformity in filing
- b) Well trained and skilled persons can be employed to do filing
- c) Easy to supervise and control filing activities of staff
- d) It is more economical in buying filing equipment

#### **Its disadvantages**

- a) Only few people in the organization will know how the system operates
- b) Denies staff in other departments the opportunity to train and acquire filing skills
- c) Accessing files and documents may take long due to the file being attended elsewhere
- d) The file may not be traced quickly in case the file tracking system is poor
- e) It may lead to misfiling of documents

#### **b) The decentralised (departmental) filing system**

This is a filing system where each department is responsible for its own filing

#### **Its advantages**

- a) Files and documents can be accessed faster
- b) More staff members have a chance of acquiring skills in filing
- c) Chances of misfiling of documents are minimised
- d) Documents can be filed promptly and immediately they are received

#### **Its disadvantages**

- a) Wastage of space since each department will require space for its filing

- b) Supervision and control of filing is difficult
- c) may result in uncontrolled file movement
- d) it leads to duplication of work hence wastage of resources

### **Characteristics of a good filing system**

- a) It should be simple to understand and operate
- b) It should not occupy too much space
- c) It should be suitable to the needs of the organization
- d) It should be flexible so as to accommodate future changes
- e) It should be able to protect documents against loss, misplacement, damage, theft or landing on wrong hands
- f) It should facilitate easy retrieval of information
- g) It should not be expensive to start and maintain

### **Forms of filing**

#### **a) Vertical filing**

This is where files are arranged in drawers in a vertical position

#### **b) Horizontal filing**

This is where files are kept in horizontal positions in the drawer

#### **c) Lateral filing**

This is a mode of filing that uses pockets instead of drawers. Files are arranged vertically

#### **d) Circular filing**

This is where files are kept in wallets around a vertical circular pillar

### **Electronic filing**

This is where documents are stored in electronic devices such as flash discs, CDs or computer hard discs.

### **Advantages of electronic filing**

- a) Requires very little space
- b) Retrieval of documents is easy and fast
- c) Files can be accessed easily
- d) The cost maintaining files is relatively low
- e) The process of filing documents is automatic hence faster

- f) Documents are safe
- g) Presentable outlook
- h) Reduces labour costs
- i) Easy to update
- j) Reduces paperwork
- k) It is environmental friendly

#### **Disadvantages of electronic filing**

- a) Extra care must be taken to guard and protect files and documents from unauthorised access
- b) It requires special training on use of computers
- c) Electronic filing requires electricity
- d) Breakdown of the computer system leads to inaccessibility of the documents
- e) A file back-up system is required

#### **Role (importance) of filing in an office**

- a) Protects documents from loss and landing into unauthorised hands
- b) It makes the office neat, tidy and efficient
- c) It keeps a record for future reference
- d) Enables easy retrieval of information
- e) Ensures that documents are kept clean, neat and tidy.
- f) Ensures confidentiality of information
- g) Provides identity of an organization
- h) Contributes to easy management in the organization
- i) Enhances communication
- j) Saves on storage space
- k) Encourages transparency and accountability as no documents are easily misplaced

#### **Benefits of using latest technology in record keeping**

- a) Enables the organisation provide speedy customer care services
- b) Enhances confidentiality of information
- c) Records can be easily retrieved
- d) Produces clean and presentable documents
- e) Saves on storage space
- f) Enhances accuracy in the office



- g) Cost of maintenance of the record keeping system is lower
- h) documents are not easily damaged
- i) information is not easily lost
- j) Enhances business image
- k) Electronic gadgets are portable
- l) Less labour is required

### **Factors that determine the length of time documents should be stored**

#### **a) Availability of space**

Documents can be stored for long if space is available as compared to when space is inadequate

#### **b) Cost of storage**

Files can be stored for longer when the cost of storage is lower unlike when storage cost is high

#### **c) Nature of information**

Urgently needed information is stored for a shorter time unlike less urgent information

#### **d) Need for reference**

Information can be stored for long when future reference is required unlike when future reference is not required

### **TYPES OF OFFICE LAYOUTS**

Office layout refers to the outlook, arrangement and positioning of furniture and equipment in the office.

Furniture and equipment should be arranged properly so as to:

- a) Make the best use of office space
- b) Achieve maximum work output
- c) Facilitate easy flow of work
- d) Easily supervise workers
- e) Have an attractive appearance

There are three types of office layout:

- Open office layout
- Enclosed office layout
- Landscape office layout

#### **a) Open office layout**

This is a type of office layout where there is a large room where all staff work from.

Staff members may be grouped into departments.

Open office layout is mostly used in banks and educational institutions e.g. staff room.

**Its advantages**

- a) Supervision of workers is easy
- b) It is cheaper to construct
- c) It saves time when passing information since staff movement is minimized
- d) Close supervision of workers ensures that office equipment and machinery are not misused
- e) It promotes teamwork among employees
- f) Its maintenance cost is low
- g) Floor space is saved
- h) It is easier and cheap to decorate
- i) It discourages absenteeism of employees
- j) The layout is flexible hence it can be re-arranged when need arises

**Its disadvantages**

- a) There is disruption and disturbance from colleagues
- b) Mixing senior staff with junior staff reduces the status of senior staff
- c) The office may be untidy
- d) Due to overcrowding, air conditioning, lighting and heating in the room may not be conducive to all
- e) There may be noise from machines and workers which is likely to distract concentration and productivity
- f) Employees with contagious diseases may spread them to their colleagues
- g) Private discussions and consultations with management may be difficult

**b) Enclosed office layout (private plan office)**

This is a type of office layout where staff are allocated rooms. The rooms may be occupied by one person or by two people.

Names and titles of the member(s) of staff allocated a room are pinned on the door.

Enclosed offices can also be referred to as cubicles.

**Advantages of an enclosed office layout**

- a) There is privacy for confidential discussions
- b) There is less noise and disruption from workers and machines
- c) Provides a conducive working environment
- d) Retains the status of top level employees

- e) The occupant can control air conditioning, lighting and heating in the room
- f) Ensures security for valuable and sensitive items

#### **Disadvantages of a closed office layout**

- a) There is no close supervision of workers
- b) It is costly to construct and maintain
- c) It encourages absenteeism
- d) There is time wastage when moving from one office to another
- e) It encourages laxity in the office
- f) It reduces interactions between management and other workers
- g) There is a possibility of misuse of office facilities e.g. telephones

#### **c) Landscape office layout**

This type of office layout is similar to open office layout except that it is well decorated with better outlook, furniture and equipment. For example, the office may have a carpet, air conditioners, indoor plants and shrubs, flowers etc. Workers may also be categorised into departments by demarcating offices using clear glass.

#### **Its advantages**

- a) It promotes teamwork among employees
- b) It promotes the sharing of office equipment thereby reducing the cost of buying more equipment
- c) Supervision of workers is easy
- d) Its maintenance cost is low
- e) It is to locate workers within the office
- f) It discourages absenteeism of workers
- g) Decorations in the office creates an attractive and conducive working environment.

#### **Its disadvantages**

- a) Noise from machines and colleagues may interfere with concentration of worker
- b) It may be expensive to set up and maintain the office
- c) There is no privacy for senior officers
- d) There is no confidentiality

#### **Factors to consider when choosing an office layout**

- a) The construction cost
- b) The cost of maintenance

- c) Government policy
- d) The level of supervision required
- e) The size of floor space available
- f) The level of confidentiality and privacy required

### **OFFICE EQUIPMENT**

These are facilities used in an office to make work easier and efficient.

#### **Functions (advantages) of office equipment**

- a) They speed up and simplify work hence saving time and cost
- b) They enhance neatness and accuracy in the office
- c) They ensure security of documents and other valuables
- d) They provide a comfortable working environment

#### **Types of office equipment and their uses**

Type of office	Machines used	Uses of the machine
General office	Guillotine	<ul style="list-style-type: none"><li>• Trims documents into required sizes</li></ul>
	Paper punch	<ul style="list-style-type: none"><li>• Makes holes in papers to be filed</li></ul>
	Stapling machine	<ul style="list-style-type: none"><li>• Pins papers together</li></ul>
	Staple remover	<ul style="list-style-type: none"><li>• Removes pins from papers</li></ul>
Mail room	Folding machine	<ul style="list-style-type: none"><li>• Folds letter and seals envelopes</li></ul>
	Franking machine	<ul style="list-style-type: none"><li>• Prints postage impressions on envelopes</li></ul>
	Addressing machine	<ul style="list-style-type: none"><li>• Prints addresses on mails</li></ul>
	Sorting machine	<ul style="list-style-type: none"><li>• Sorts letters</li></ul>

	Letter opener	<ul style="list-style-type: none"> <li>• Opens letters</li> </ul>
	composite	<ul style="list-style-type: none"> <li>• Folds documents, places them in envelopes and seals the envelope</li> </ul>
Typing room	<p>Typewriter</p> <p>Dictating machine (Dictaphone)</p> <p>Paper shredders</p> <p>Duplicating machine</p>	<ul style="list-style-type: none"> <li>• Used for typing</li> <li>• Makes shorthand dictations and recording information on tapes</li> <li>• Cuts unwanted documents into tiny pieces to avoid such documents getting into wrong hands</li> <li>• Reproduces documents from a master copy</li> </ul>
Communication	<p>Telephone</p> <p>Tele-printer (telex machine)</p> <p>Facsimile (fax machine)</p>	<ul style="list-style-type: none"> <li>• Used to send and receive messages</li> <li>• Prints telexed messages</li> <li>• Transmits printed messages</li> </ul>
Duplicating	<p>Photocopier</p> <p>Printing machine</p>	<ul style="list-style-type: none"> <li>• Reproduces documents</li> </ul>

	Stencil duplicator	
Accounts	Adding machine  Cash register  Calculating machine (calculators)  Accounting machine  Computer  Money counting machine	<ul style="list-style-type: none"> <li>• Adds and subtracts figure</li> <li>• Prepares cash receipts</li> <li>• Does calculations</li> <li>• Posts information to ledgers and prepares payrolls</li> <li>• Record and stores information</li> <li>• Counts coins and notes</li> </ul>

### Other equipment

- Chairs, desks, tables and stools
- Filing cabinet: used for storing documents safely
- Safe: this is a strong metal box or cupboard that is used to store valuables
- Trays: this is a flat piece of wood, metal or plastic that is used to keep incoming or outgoing documents temporarily.

### Factors to consider when choosing office equipment

#### **a) Cost**

Refers to the initial, maintenance and running costs. An affordable equipment which is cheaper to maintain should be chosen

#### **b) Adaptability**

This is the ability of the equipment to cope with future changes and development. A highly adaptable equipment should be selected

#### **c) Possibility of hiring rather than buying**

One has to consider the cost and convenience of buying an equipment as opposed to hiring. A cheaper option should therefore be chosen

**d) Durable**

This refers to the lifespan of the equipment. One should always go for a more durable equipment

**e) Effect on staff morale**

This refers to the attitude of staff towards the equipment. The equipment selected should not have a negative effect on the morale of office staff

**f) Availability of complementary resources**

Complementary resources are the accessories required in order to operate the equipment e.g. power. One has to consider whether the spare parts of the equipment will be readily available or not.

**g) Availability of manpower**

Manpower refers to the personnel required to operate the equipment. One should choose an equipment which is easy to operate or an equipment which personnel to operate it are easily available

**h) Availability of room**

One has to consider whether space or room for keeping the equipment is available or not.

**i) Security of the equipment**

One has to consider whether the available resources are adequate to offer enough security for the equipment or not.

**Advantages of office machines**

- a) They are labour saving because they reduce the number of office staff
- b) They do work faster hence saving time
- c) They are accurate
- d) Their products are of high quality
- e) They help in reducing cases of fraud since they may be programmed to record transactions as they occur
- f) They may ensure uniformity since they may be programmed to produce uniform outputs
- g) They reduce monotony which is created by doing the same work repeatedly
- h) They reduce the cost of production

**Disadvantages of office machines**

- a) Initial and maintenance cost may be high
- b) Breakdowns of machines may lead to stoppage of production
- c) They contribute to unemployment since they reduce the number of office staff required
- d) They may become outdated due to advancement in technology hence becoming useless

- e) Some machines trained personnel in order to be operated. Such trained personnel may not be available or they be expensive to acquire
- f) Some machines may require special stationery and other materials for them to operate. Such materials and stationery may be expensive to acquire.
- g) Carelessness of office staff may result in misuse of machines leading to losses

### **Reasons (circumstances) for replacing an old office machine**

- a) Where there is need to improve the image of the business organisation
- b) Where the old machine is not capable of performing multiple functions
- c) The old machine has become out-dated
- d) Where a faster machine is required

### **OFFICE STAFF**

Office staff refers to a team of employees who work to achieve the goals of the organization.

Office staff can be classified into three:

- Managerial staff
- Junior staff
- Subordinate staff

#### **1) Managerial staff**

These are officers who are responsible for:

- Formulating the organization's policies
- Implementing organization's policies
- Supervising the activities of the organization

Managerial staff forms the management team in an organization

Examples of managerial staff include the general manager, production manager, finance manager, company secretary etc.

### **Qualities of an office manager**

- a) Must have clear and achievable objectives
- b) Should be tolerant, firm, polite and courteous
- c) Should be consistent in decision making
- d) Should be sociable
- e) Able to delegate duties
- f) Should be concerned with members' welfare
- g) Should be knowledgeable



- h) Should be appreciative
- i) Should be fair in judgement
- j) Should be a good communicator

## **2) Junior staff**

These are employees who carry out the activities of the organization as assigned to them by the management. They may be skilled or unskilled.

Examples of junior staff include accounts clerks, secretaries and sales persons.

## **3) Subordinate staff**

These are unskilled employees who perform non-specified duties such as cleaning, serving tea, delivering messages etc.

## **DUTIES OF VARIOUS OFFICE STAFF**

### **a) General manager**

This is a senior employee in the organization whose duties include:

- a) Controlling all the activities of the organisation
- b) Co-ordinating all the activities of the organization to ensure that all departments are working harmoniously towards common goals
- c) Being responsible for staffing
- d) Provision of resources required in the organization
- e) Advising the owners on matters relating to the organization
- f) Planning the work and time schedule in the organization

### **b) Company secretary**

This is a senior employee whose duties include:

- a) Being responsible for legal matters of a company hence he/she is the company's legal advisor
- b) Taking down minutes during general meetings

### **c) Departmental managers**

These are employees who are responsible for running and controlling the affairs of their individual departments. They include production manager, sales, manager, finance manager, personnel manager etc.

In particular, the duties of a finance manager (officer) include:

- a) Keeping books of account
- b) Collecting, banking and making payments on behalf of the organization
- c) Making financial returns to the general manager
- d) Preparing financial statements

e) Preparing payrolls and budgets

**d) Personal secretary**

This is a senior employee who is mostly attached to a more senior officer in an organization such as the general manager.

Duties of a personal secretary include:

- a) Filing information for the boss
- b) Attending meetings and taking minutes
- c) Supervising junior secretarial staff
- d) Receiving and making telephone calls for the boss
- e) Taking dictation from the boss
- f) Making travel arrangements and booking hotels for the boss
- g) Keeping the petty cashbook

**e) Typist**

This is a junior employee who is usually in the typing room. Some of the duties of a typist include:

- a) Typing information from original documents
- b) Filing documents
- c) Reproduction of documents through photocopying or duplicating.

**f) Clerk**

This is a junior employee who does routine jobs. Duties of a clerk include:

- a) Handling mails
- b) Duplicating documents
- c) Indexing and filing
- d) Helps in store-keeping or record keeping
- e) Ordering, receiving, storing and issuing of stationery
- f) Operating various office machines

**g) Telephone operator**

This is a junior employee who runs a switchboard. A switchboard is an equipment on which telephone calls are received and directed to the relevant officers

**h) Office messenger**

This is a subordinate employee who performs unskilled office duties such as collection and delivery of mails

**i) Receptionist**

This is a junior officer in the organization whose duties include:

- a) Supervision of messengers
- b) Receiving and directing visitors to their respective destinations within the organization
- c) Taking and passing of messages
- d) Making, renewing and cancelling appointments
- e) Keeping visitors' record book

### **ESSENTIAL QUALITIES OF OFFICE STAFF**

These are those qualities that a worker is expected to have for him/her to perform his/her duties more efficiently.

Qualities of office staff may be classified into three:

- a) Personal attributes
- b) Office etiquette
- c) Personal knowledge and skills

#### **a) Personal attributes**

Refers to general appearance of a person. They include the following:

- a) Good physical appearance i.e. good dressing style, moderate hair cut styles, non-excessive use of make-ups.
- b) Good hygiene
- c) Good posture i.e. appropriate walking, sitting and talking styles
- d) Good moral behaviour
- e) Good health and physical fitness

#### **b) Office etiquette**

Refers to prescribed or the accepted code of behaviour in an office. They include:

- a) **Respect:** refers to showing regard to other people according to their rank in the organization, their age and social status
- b) **Punctuality:** the ability to keep time
- c) **Courtesy:** handling people politely, pleasantly and with consideration
- d) **Loyalty:** commitment to the employer
- e) **Honesty:** ability to tell the truth
- f) **Co-operation:** ability to work with others comfortably
- g) **Diplomacy:** the ability to convince others tactfully
- h) **Judgement:** ability to make a ruling after considering all possibilities
- i) **Accuracy:** performing duties with excellence, precision and correctness

- j) **Initiative:** ability to create and implement ideas

### **Ways of improving office etiquette**

- a) Show courtesy to both friends and visitors
- b) Be organised at work at all times
- c) Be honest and truthful in performing duties
- d) Co-operate with workers, visitors and management
- e) Be punctual
- f) Be loyal
- g) Be diplomatic
- h) Be accurate
- i) Be initiative
- j) Be judgemental.

### **c) Personal knowledge and skills**

- a) **Knowledge:** refers to the relevant academic and professional qualification and experience that enables the worker to perform his/duties efficiently
- b) **Skills:** refers to capabilities which are usually acquired through training and practice that enables an employee to perform his/her duties more efficiently.

On knowledge and skills, office staff should have the following qualities

- a) Be literate
- b) Have attained the minimum academic qualifications
- c) Have professional training in a particular field
- d) Have relevant work experience
- e) Be skilled in the performance of duties

### **Problems caused by workers with poor qualities in the office**

- a) Other workers may copy the bad habits
- b) The organisation may incur high costs due to absence of the worker
- c) Contributes to reduction in production
- d) Contributes to reduction in morals
- e) Creates indiscipline among workers

### **COMPUTERS IN THE OFFICE**

A computer is an electronic device that is used for processing data, storing information and for communication purposes

### Uses of a computer

- a) Data storage and stock control
- b) Processing accounting transactions, preparing ledgers and payrolls
- c) It is used for communication purposes
- d) It can store information relating to members of staff
- e) Electronic filing
- f) Word processing

### Advantages of using computers

- a) It economises on space and material
- b) It is faster
- c) Its output is presentable
- d) It can store a large volume of information
- e) It facilitates communication i.e. through E-mail.
- f) It is accurate

### Disadvantages of computers

- a) Contributes to unemployment since it replaces human labour
- b) Discourages innovation
- c) Creates monotony and boredom brought about by using the same machine always
- d) Requires a back-up storage system which is an extra cost
- e) Requires skilled manpower
- f) Confidential information stored in computers may be accessed by unauthorised persons
- g) Initial acquisition cost is high
- h) Requires electricity
- i) Can be attacked by computer viruses
- j) It is subject to a lot of technological changes

### Uses of computers in communication

#### a) Internet

Internet refers to the interconnection of many computers in the world thereby facilitating the flow of information from one place to another. Information is sent in the form of E-mail (electronic mail)

#### b) Intranet (innet)

Refers to the inner connection of computers within a small geographical area e.g. within a school

#### c) Extranet

This is the interconnection of computers to facilitate communication between the organization and selected persons.

Access to extranet requires the use of a password because it is not meant for use by everyone

**d) Website**

This is a virtual location in the internet where information can be posted for other parties to access e.g. olx.

**e) E-commerce**

Refers to carrying out trading through the internet e.g. through olx.

It has the following advantages

- a) Facilitates access to a large market
- b) Creates a conducive environment for large and small business to conduct transactions without discrimination
- c) It is a faster way of doing business as it facilitates urgent transactions
- d) Reduces paperwork since dealings are done online
- e) Reduces the cost of sending, receiving and storing information
- f) Enables one to access important information that will enable him/her improve the running of his/her business

**g) Tele-conferencing**

Refers to holding a conference through the computer. It is used when participants are located in different areas

**Advantages of internet, intranet, website, extranet and e-commerce (advantages of using computers in communication)**

- a) They are fast
- b) Relatively cheaper
- c) Convenient since information is readily available
- d) Facilitates storage of information for future use

**Disadvantages of internet, intranet, website, extranet and e-commerce (disadvantages of using computers in communication)**

- a) High initial cost
- b) Maintenance cost is high
- c) Requires trained personnel
- d) Computers suffer from occasional break-ups e.g. virus attacks
- e) Computers are prone to misuse

- f) Computers require electricity to operate

### **TRENDS IN OFFICE MANAGEMENT**

This refers to the current changes in office management. These trends are discussed below:

**a) Use of computers**

A computer is an electronic device which is used for processing data, storing information and for communication purposes

**b) Office arrangement**

Office layout is shifting from an enclosed office layout to open or landscape office layout in order to ensure workers are properly supervised.

**c) Introduction of public relations department**

The need for customers' satisfaction has seen the introduction of a customer care department in most organization. This department handles all the concerns of customers in order to ensure customers are satisfied

**d) Use of mobile (cell) phones**

Use of mobile phones for communication has replaced the use of landlines.

**e) Change in office location**

Most organizations are now locating their offices in sub-urban areas. This is in their efforts to avoid many problems associated with locating the office in urban areas. Such problems include heavy traffic jams, lacking of parking space, high running costs etc.

Offices located in sub-urban areas are accessible hence convenient for both the customers and the business owners.

**f) Change in procedure and routines**

Outdated procedures and routines that were used in traditional offices are now being replaced with modern procedures and routine. For example through the use of machines such as computers, managers are now able to handle tasks that were previously delegated to junior staff.

## TOPIC 7: HOME TRADE

### CONTENTS

- Introduction
- Importance of trade
- Classification of trade
- Forms of home trade
- Documents used in home trade
- Means of payment
- Terms of payment

### INTRODUCTION

Trade refers to buying and selling of goods and services with the aim of making profit.

Home trade (local trade) refers to trade that is carried out within the boundaries of a country.

### IMPORTANCE OF TRADE

- a) Helps people to acquire goods and services they don't produce.
- b) It avails a variety of goods and services to the people
- c) Enables producers dispose their surplus
- d) Creates employment
- e) Encourages specialization and division of labour
- f) Enhances good social relations and understanding among the parties involved in trade
- g) It is a source of revenue to the government through taxation
- h) Ensures steady supply of goods and services
- i) Provides a channel through which goods and services are distributed
- j) Promotes full exploitation and utilisation of economic resources.

### CLASSIFICATION OF TRADE

Trade can be classified into two:

- Home (local/domestic) trade
- Foreign (international) trade

#### **a) Home trade**

This trade that is carried out within the geographical boundaries of a country.



### **Classification of home trade**

**Retail trade:** this involves the buying of goods and selling them to the final consumer. It is carried out by retailers

**Whole sale trade:** this is trade which involves the selling of goods in large quantities to other traders for sale. It is carried out by a wholesaler.

#### **b) Foreign trade**

This is trade that is carried out between two or more countries.

### **Classification of foreign trade**

**Bilateral trade:** this is trade which is carried out between two countries

**Multilateral trade:** this is trade which is carried out among many countries

**Import trade:** this is trade which involves the purchase of goods and services from other countries

**Export trade:** this is trade which involves the selling of goods and services to other countries

### **(Illustration)**

### **FORMS OF HOME TRADE**

There are two form of home trade, namely,

- a) Retail trade
- b) Wholesale trade

Each of the above forms is discussed below

#### **1) RETAIL TRADE**

This is a form of home of home trade which involves the buying of goods and selling them to the final consumer.

The person who carries out retail trade is known as a retailer.

### **TYPES OF RETAILERS**

Retailers can be classified into two, namely.

- a) Small scale retailers
- b) Large scale retailers

#### **a) SMALL SCALE RETAILERS**

These are retailers who require small amount of capital to start and operate their businesses. They mostly operate small scale businesses.

They are found in all parts of the country hence forming the majority of retail traders.

They are mostly owned by one person.

They deal mostly in fast moving consumer goods such as foodstuffs, kerosene, detergents etc.

### **Classification of small scale retailers**

Small scale retailers can be classified into two:

- a) Small scale retailers without shops
- b) Small scale retailers with shops

### **Small scale retailers without shops**

These are those small retailers who don't operate from fixed premises. They include:

- Itinerant traders
- Roadside sellers
- Open air market traders
- Automatic vending machines

#### **a) Itinerant traders**

These are traders who from one place to another to sell their goods. They usually move on foot, bicycles or using motor cycles.

They include hawkers and peddlers.

They mostly sell goods such as clothes, plates, vegetables, fruits etc.

They require a license from the respective local authority before the start operating

### **Characteristics of itinerant traders**

- a) They are found mainly in densely populated areas
- b) They move from one place to another to sell their goods
- c) They are very persuasive
- d) Their prices are not fixed

### **Advantages of itinerant traders**

- a) Flexible since they move from one place to another
- b) Requires little capital to start and operate the business
- c) Convenient since they deliver goods to customers
- d) They mostly sell in cash hence they do not suffer from bad debts
- e) They require few legal formalities to start

### **Disadvantages of itinerant traders**

- a) They are affected by bad weather conditions since they operate in open air markets
- b) Sometimes it is difficult to transport goods to some places e.g. far away places
- c) They do not offer a guarantee in case goods are found to be defective

#### **b) Roadside sellers**

These are traders who sell their goods at places where people pass by e.g. along busy streets.

They may place their goods on the ground, on trays, on mats or on empty sacks

They mostly sell fast moving goods such as sweets, roasted maize, scratch cards, fruits etc.

**c) Open air market traders**

Open air markets are places set aside by the government where people meet to buy and sell goods.

Traders pay a fee in order to be allowed to sell goods in these markets.

The market under the administration of the local authority (county government).

These markets are open on specific days of the week.

**d) Automatic vending machines**

These are coin operated machines. Coins are inserted into the machine depending on the price of the goods one wants to buy. The machine will the automatically release the required item.

They are mostly used to buy items like drinks and postage stamps.

**Advantages of automatic vending machines**

- a) They offer 24 hour services
- b) Does not need an attendant hence reducing labour costs
- c) Serves customers quickly
- d) Renders accurate services
- e) Saves on rent since they are located in an open place
- f) Saves on space

**Disadvantages of automatic vending machines**

- a) They sell limited varieties of goods
- b) Customers may use fake money to buy from the machine
- c) Machines are expensive to install
- d) Breakdown of the machine inconveniences customers
- e) Not all coins are used to buy goods from the machine
- f) They do not offer personalized services
- g) Coins may be heavy to carry around

**Small scale retailers with shops**

These are those small scale retailers that operate from fixed premises. They include:

- Single shops (unit shops)
- Tied shops
- Kiosks

- Market stalls
- Canteens
- Mobile shops

**a) Single shops (unit shops)**

Single shops are fixed premises. A unit shop is usually operated by one person who may get assistance from his/her family or employ attendants

They are commonly known as dukas in Swahili

They mostly operate in one line of commodity e.g. clothes, groceries, books etc.

**b) Tied shops**

These are retailers that sell the products of one particular manufacturer.

The shops are owned and controlled by the manufacturer. The manufacturer designs the outlook of the shop

Examples include Bata shops which sell shoes from Bata, petrol stations for Caltex, total, kobil etc.

**c) Kiosks**

These are small shops which sell fast moving goods such as newspapers, sweets and soft drinks.

They are mostly located in strategic places such the corner of a busy street, residential areas, road sides etc.

**d) Market stalls**

These are permanent stands found in market places.

They are open daily.

They are constructed and owned by the county governments but are leased and hired to traders

**e) Canteens**

These are retail shops that are found in institutions such as schools, colleges, police stations, hospitals etc.

They sell goods mostly to people within the institution though they also sell to outsiders.

They can be operated by the management of the institution or by individuals.

They deal in a variety of consumable goods such as tea, sodas, sugar, foodstuffs etc.

**f) Mobile shops**

These are vehicles that are converted into shops from where customers can buy goods.

Mobile shops visit different places at different times

**Features of small scale retailers**

- a) They invest small amounts of capital in the business
- b) They are conveniently located to serve the needs of customers more efficiently

- c) They provide personal attention with customers
- d) They may provide credit facilities to their loyal customers
- e) They may operate for longer hours
- f) They are flexible
- g) Overhead costs are low

#### **Advantages of small scale retailers**

- a) Requires little amount of capital to start hence it is easy to raise the start-up capital
- b) Retailers may give credit facilities to their loyal customers
- c) Retailers have close contact with their customers hence they are able to attend to their complaints and concerns
- d) They are able to use cheap or free labour from family members
- e) Overhead costs and risks are low
- f) The business is simple to manage
- g) Few legal formalities are required when starting the business
- h) It is flexible hence the trader can change from one line of trade to another
- i) The owner can keep business secrets
- j) Decision making is faster since the owner does not need to consult anyone

#### **Disadvantages of small scale retailers**

- a) The trader has limited access to wider sources of capital
- b) The trader may not afford to hire specialised staff
- c) The business may suffer from bad debts
- d) The trader does not enjoy economies of scale
- e) The sales volume is low due to the little amount of invested capital
- f) Lack of good managerial skills
- g) The business may face competition from bigger business

#### **Ways in which customers benefit by buying from small scale retailers**

- b) They can get free advice on use of the product
- c) There is personal attention hence they are able to voice their concerns directly to the trader
- d) They are assured of steady supply of goods
- e) They can be allowed credit facilities
- f) Goods are brought nearer to them
- g) They can enjoy personalized services from the trader

## **h) LARGE SCALE RETAILERS**

These are retail businesses which operate on large scale.

### **Types of large scale retailers**

Large scale retailers include the following:

- Supermarkets
- Chain stores
- Departmental stores
- Hypermarkets
- Mail order stores

## **a) Supermarkets**

These are large self-service stores which mostly deal in house hold goods such as utensils, foodstuffs and clothes.

Goods are displayed on shelves. Each item has a price tag.

The walks around, selects and picks the items he/she wants to buy and pays for them at the cashier stationed near the exit.

### **Features of supermarkets**

- a) Requires a large amount of capital to start
- b) Stocks a variety of goods
- c) They offer self-service facilities
- d) Goods have price tags
- e) Prices of goods are fixed i.e. there is no bargaining
- f) They do not offer credit facilities
- g) They sell goods at comparatively lower prices
- h) Labels are displayed to help shoppers in finding the goods easily

### **Advantages of supermarkets**

- a) They stock a variety of goods , therefore the customer is able to find what he/she wants
- b) Their prices are comparatively cheaper
- c) Self-service system enables them serve many customers within a short time
- d) There is no risk of bad debts since all goods are sold on cash basis
- e) The price tags guides the customer
- f) Shop attendants can assist in packing goods on behalf of the customer
- g) Supermarkets employ fewer attendants hence reducing their labour costs

- h) Self-service may promote impulse buying to the benefit of the supermarket

### Disadvantages of supermarkets

- a) There is no personal attention given to customers
- b) They do not allow credit facilities
- c) They encourage impulse buying due to self-service. This makes customers buy goods which they do not need
- d) They are located mainly in urban areas
- e) They do not deliver goods to the customers' premises

### **b) Chain stores**

These are large-scale businesses with separate branches which are managed and organised centrally e.g. African retail traders.

Chain stores sell their goods at the same price irrespective of the location.

They have similar shop-front appearance and displays.

They sell identical goods in all their stores. They also have a central stores control system.

### Characteristics of chain stores

- a) All purchases are centralised
- b) Prices are same for all their products in all their branches
- c) Sales are decentralised
- d) All branches deal in identical goods
- e) They are uniform in outward appearance and interior design
- f) They are managed and controlled by a central administration at the head office
- g) They sell their goods on cash basis

### Advantages of chain stores

- a) They sell goods at comparatively lower prices. This is due to the fact that they buy goods in large quantities from the supplier hence are given trade discounts enabling them reduce their selling prices
- b) The cost of running a chain store is managed at the head office hence promoting sharing of costs among various branches
- c) Slow moving goods in one branch can be moved to another branch where demand is higher
- d) Identical goods sold by chain store, similar shop-front colours and similar design publicises the business
- e) They serve a wider market since they are spread all over the country
- f) Goods are sold on cash basis hence avoiding bad debts

### Disadvantages of chain stores

- a) They are highly inflexible i.e. they can adjust to rapid changes in market conditions
- b) They require large amount of capital to start
- c) Centralisation of management leads to slow decision making which may result into loss of an opportunity
- d) They do not stock a variety of goods since all branches stock identical goods
- e) Most of don't offer credit facilities
- f) Lack of personal touch with customers
- g) Lack of personal touch between the employer and the employees due to central management may reduce incentive for hard work among staff

### **c) Departmental stores**

A departmental store comprises many single shops under one roof and one management.

Each department deals in a different line of goods and is controlled by a departmental manager.

The departmental manager is responsible for buying in his/her own department though sometimes this may be centralised.

Control of general services such as transport, personnel and finance are centralised

They are mostly located in town centres.

### Features of chain stores

- a) They offer a wide variety of goods at relatively lower prices
- b) They are usually located in towns
- c) Each department is managed by a departmental manager
- d) Each department deals in a different line of goods
- e) They consist of many shops under one roof and central management
- f) They have different independent shops, each forming a department
- g) Each shop is responsible for buying its own stock
- h) Goods are not transferable from one department to another
- i) They sell goods on cash basis



### Advantages of departmental stores

- a) Customers are able to buy all they need under one roof
- b) Their selling prices are relatively low
- c) The stores are able to employ specialised staff who provide quality services
- d) They generally open for long hours
- e) They offer adequate parking facilities to customers
- f) Decision making is easy and quick since each department is responsible for making its own decisions and implementing them

### Disadvantages of departmental stores

- a) They require a large amount of capital to start and operate
- b) A departmental store may run one department at a loss in order to attract customers
- c) They are mostly located in urban areas
- d) Lack of personal contact with customers
- e) Managerial problems arise due to their large size
- f) Credit facilities are not allowed

### **d) Hypermarkets**

A hypermarket is a large shopping centre in one building comprising a variety of businesses under different management.

Hypermarkets are mostly located in places far away from the city centre and are accessible with ample parking space.

Examples of hypermarkets in Kenya include the sarit centre, yaya centre, uchumi hyper and the Westgate shopping mall.

### Characteristics of hypermarkets

- a) They have goods access to roads
- b) They have ample parking space
- c) They have many businesses under one roof
- d) They are attractive and convenient to shop in
- e) They are located in the outskirts of towns

- f) They offer a variety of goods and services

#### Disadvantages of hypermarkets

- a) They provide a variety of goods and services to customers hence customers do all their shopping under one roof
- b) They offer easy and convenient parking to their customers
- c) They are open for long hours
- d) Some shops in the hypermarket may offer credit facilities by accepting credit cards
- e) Hypermarkets save on space by having all businesses under one roof. This reduces rents and rates

#### Disadvantages of hypermarkets

- a) Since they are located away from the city, they serve a limited number of people especially those with cars
- b) They may require large space for their establishment
- c) Their prices are not controlled therefore some businesses may charge high prices
- d) They require a large amount of capital to start and operate

#### **e) Mail order shops**

These are retail businesses where buying and selling of goods is done through the post office.

Mail order shops advertise their goods in catalogues which are sent to the post office. To make a purchase, the customer selects the goods from the catalogue and sends the order by mail. They may also advertise their goods through the print media, journals, radios etc.

The goods are dispatched mostly on the basis of cash with order or cash on delivery.

They mostly deal in less bulky, high value, durable and fragile goods.

#### Characteristics of mail order shops

- a) They sell goods through the post office
- b) They advertise their goods through the print media, electronic media, journals and cinemas
- c) Transactions are carried out through the post office
- d) Customers do not visit the selling premises
- e) Goods are dispatched on the basis of cash with order or cash on delivery basis.
- f) They may have large warehouses

- g) They mostly sell on cash basis
- h) There is no contact between the buyer and the seller

#### Advantages of mail order shops

- a) They are able to reach customers who are far away
- b) They do not require the services of sales personnel
- c) They may not require transport facilities
- d) It is possible to control the distribution of goods
- e) There is no need for shops and show rooms
- f) They sell at relatively lower prices since their operation costs are lower
- g) They eliminate the need to make trips from one shop to another in search of goods

#### Disadvantages of mail order shops

- a) High cost of advertising increases the price of the goods
- b) Inspection of the goods by the customer is not possible
- c) Limited variety of goods are sold
- d) Personal contact between the seller and the buyer is not possible
- e) This method of selling is only suitable for those who can read and write
- f) Problems arising in the post office may affect the business e.g. strikes
- g) Where goods are paid in instalments, the risk of losses due to bad debts is high
- h) It is not possible to operate the business in places where post office services are not available
- i) Advertisements in the catalogue may be misleading
- j) Most mail order shops do not allow credit
- k) It may lead to impulse buying

#### Functions of retailers

Functions of retailers can be discussed by considering the services they render to consumers, wholesalers and producers

#### Services provided by retailers to consumers

**a) They offer credit facilities**

Since retailers have personal contacts with their customers, they are able to give credit to the customers they trust

**b) They offer after-sales services**

These are services to buyers by the seller after they have bought the goods in order to retain them. These services may include transport, installation, repair etc.

**c) They provide a variety of goods to consumers**

Retailers can buy and stock goods from different manufacturers and wholesalers which they later sell to consumers

**d) They offer advisory services**

Retailers advise consumers on matters relating to choice and use of products

**e) They avail goods to consumers**

Retailers make goods available to consumers at the right time and place

**f) They break the bulk**

Retailers buy goods from wholesalers and manufacturers in large quantities and later sell them to consumers in relatively smaller quantities

**Services provided by retailers to producers**

- a) They market goods by displaying them in their shops for all customers to see
- b) They link producers to consumers by ensuring that producer's products do reach the consumer
- c) They provide information to producers on consumer demand in the market
- d) They break the bulky on behalf of producers
- e) They provide finances to producers by buying goods from them

**Services provided by retailers to wholesalers**

- a) They provide information on market demand to wholesalers
- b) They distribute goods on behalf of the wholesalers
- c) They transport the goods on behalf of the wholesaler
- d) They store goods on behalf of the wholesaler
- e) They break the bulk on behalf of the wholesaler

- f) They provide finances to wholesalers by buying goods from them
- g) They market the goods on behalf of the wholesaler

### **Qualities of a good retailer**

- a) Should be customer friendly
- b) Be a good buyer so as to buy from the right supplier
- c) Able to forecast future demand changes and market trends
- d) Be a good manager
- e) Honesty in his/her business dealings
- f) Good record keeping skills
- g) Good personal habits and hygiene

### **2) WHOLE SALE TRADE**

Wholesale trade is the buying of goods in large quantities for the purpose of reselling in smaller quantities to other traders.

Wholesale trade is done by a wholesaler. A wholesaler is a trader who buys goods in bulk from producers and sells them to other traders, normally retailers.

### **Classification of retailers**

Retailers can be classified in the following ways

- a) According to the range of products they handle
- b) According to the geographical area in which they operate
- c) According to the method of operation

#### **a) According to the range of products they handle**

When classified according to the range of products they handle, wholesalers can be categorised into:

- General merchandise wholesalers
- General line wholesalers
- Specialised wholesalers

#### **a) General merchandise wholesalers**

The word merchandise means goods. These are wholesalers who deal in a wide variety (types) of goods. E.g. a wholesaler who sales hardware, foodstuffs, clothing, chemicals etc.

**b) General line wholesalers**

These are wholesalers who deal in a wide range of products but within one line e.g. a wholesaler who sells all types of hardware such as iron sheets, nails, cement etc.

**c) Specialized wholesalers**

These are wholesalers who deal in particular goods from a given line of product. E.g. a wholesaler who specializes in the distribution of iron sheets only from the line of hardware.

**b) According to the geographical area in which they operate**

When classified according to the geographical area in which they operate, wholesalers can be categorized into:

- Nationwide wholesalers
- Regional wholesalers

**a) Nationwide wholesalers**

These are those wholesalers who distribute their products all over the country. They establish warehouses or depots in different parts of the country from where they distribute their products

**b) Regional wholesalers**

These are those wholesalers who sell their products to certain parts of the country only e.g. soda and bread distributors

**c) According to their method of operation**

When classified according to the method of operation, wholesalers can be categorised into:

- Cash and carry wholesalers
- Mobile wholesalers
- Rack jobbers
- Drop shippers
- Truck wholesalers (distributors)

**a) Cash and carry wholesalers**

These are those wholesalers who operate on a self-service basis like a supermarket. Traders come, pick their goods and pay in cash

**b) Mobile wholesalers**

These are wholesalers who use vehicles to go round as they sell their goods to traders e.g. distributors of bread.

**c) Rack jobbers**

A jobber is a person who buys goods from a producer or from another country for reselling.

Rack jobbers are wholesalers who specialise in selling particular products to other specialised wholesalers e.g. a wholesaler who buys horticultural products from farmers and sells them to other wholesalers

Rack jobbers usually stock their goods in shelves or racks from which customers select the goods to buy

Rack jobbers may allow their customers to pay for their goods after selling them.

**d) Drop shippers**

These are those wholesalers who do not have stores of their own.

**e) Truck wholesalers (distributors)**

These are those wholesalers who combine buying, selling and delivery in one operation

**Functions of wholesalers**

The functions of wholesalers can be discussed by considering the services they render to producers, retailers and consumers

**Services provided by wholesalers to consumers**

- a) They ensure steady supply of goods to consumers through retailers
- b) They stabilise market prices by ensuring a steady supply of goods in the market
- c) They make it possible for producers to enjoy a variety of goods
- d) They break the bulky thereby enabling the consumer through the retailer to get the goods in relatively smaller and convenient quantities
- e) Through the retailer, they give information to consumers on new products available or on changes in products
- f) They transmit consumers' complaints to producers

**Services provided by wholesalers to retailers**

- a) They provide a variety of goods to retailers
- b) They avail goods at places convenient to retailers
- c) They break the break for the benefit of retailers

- d) They may offer transport services to retailers
- e) They may offer credit services to retailers
- f) They sort, grade, blend, pack and brand goods thereby relieving the retailer the bother of having to do so.
- g) They store the goods on behalf of retailers
- h) They advise retailers on business matters such as new products, retail prices of products etc.
- i) They link retailers and producers thereby passing information from retailers to producers and vice versa.

#### **Services provided by wholesalers to producers**

- a) They distribute goods on behalf of the producer
- b) They relieve the producer of the risks involved in selling the products. Such risks may include a fall in market price, theft of the goods, and damage to the goods etc.
- c) They store goods on behalf of the producer
- d) They carry out market research on behalf of the producer and pass the information obtained to the producer
- e) They transport, break the bulk, sort, grade, pack. Blend and brand goods on behalf of the producer
- f) They market the products on behalf of the producer
- g) They provide finance to producers by buying goods from them

#### **Circumstances when the wholesaler can be eliminated in the chain of distribution**

- a) Where retailers operate in large scale
- b) Where the producer decides to distribute goods directly to the retailers
- c) Where the number of retailers to be served are few and can be reached easily by the producer
- d) Where the goods being distributed are perishable in nature

#### **DOCUMENTS USED IN HOMETRADE**

These are documents which are used to show that trade has taken place. These documents are discussed below

##### **a) Letter of inquiry**

This is a document that is sent by the buyer to the seller to inquire about the availability of goods,



their prices and methods of supplying the goods.

It enables the buyer to determine the goods available and the most suitable price.

The letter of inquiry can be general or specific. A specific letter of inquiry inquires about a particular whereas a general letter of inquiry seeks information about all goods stocked by the seller

#### **b) Catalogue**

This is a booklet which briefly describes the goods stocked by the seller.

It responds to the general letter of inquiry.

It contains the following:

- After-sale services offered by the seller
- Packaging and posting expenses to be incurred
- Delivery services to be used
- Terms of sale

#### **c) Quotation**

This is a document that is sent by the seller to the buyer in response to a specific letter of inquiry.

It shows the terms of sale, prices of the goods and a brief description of the goods to be supplied.

It contains the following:

- Prices of goods or services
- Terms of sale
- Any discount offered
- Any warrant given
- Time of delivery
- Any other special instructions

#### **d) Pricelist**

This is a list of items sold by the trader together with their prices.

#### **e) Order**

This is a document sent by the buyer to the seller requesting the seller to supply the goods or services whose details are given in the order.

It gives a list of goods or services required, date when they are to be delivered and how they are to be transported.

An order that is used in home trade is known as the local purchase order.

Its contents include:

- Names and addresses of the buyer and the seller
- The number of the order
- Quantities to be supplied and the amounts to be paid
- A brief description of the goods ordered
- Price per item
- Special instruction on matters relating to packaging and delivery

**f) Acknowledgement note**

This is a document which is sent by the seller to the prospective buyer to inform him/her that the order has been received and is being acted upon.

**g) Packaging note**

This is a document which is prepared by the seller to the buyer where goods are being transported by an independent transporter.

It gives details of the goods contained in the package or container.

A copy of the packing note is packed with the goods to enable the buyer make a spot check when the goods arrive.

It contains the following:

- Quantities of goods packed
- A brief description of the goods
- The means of delivery

**NOTE:** a packing note does not contain prices of goods. This is to ensure that those people transporting the goods don't get to know the value of the goods. This is done to avoid theft.

**h) Advice note**

This is a document which is sent by the seller to the buyer after the goods have been dispatched to inform him/her that the goods have been dispatched.

It is usually sent through the fastest means available so as to reach the buyer before the goods arrive.

An advice note therefore serves the following purposes:

- It informs the buyer that goods are on the way so that in case of any delay in delivery, the buyer can make inquiries
- It alerts the buyer so that the necessary arrangements can be made for payment when goods arrive

It contains the following:

- The means of delivery
- A description of the goods
- The quantity dispatched

**NOTE:** an advice note can serve the purpose of the acknowledgement note.

**i) Delivery note**

This is a document which shows that the goods have been delivered by the seller.

The delivery note is sent together with the goods. It is prepared in triplicate. A copy is retained by the seller and the other two copies are sent with the goods to the buyer.

After counterchecking the delivery note with the goods, and the buyer is satisfied, he/she signs both copies of the delivery note, keeps the original and returns a copy to the seller.

It contains the following:

- The names and addresses of the seller and the buyer
- Date of delivery
- Delivery note number
- Quantities and descriptions of the goods
- Space for the buyer to sign and comment on the condition of the goods delivered
- Order number

**NOTE:** the delivery note like a packing note does not contain the prices of the goods as a precautionary measure

**j) Consignment note**

To consign means to send. The seller is the consignor and the buyer is the consignee. A consignment note is a document that is prepared by the transporter when the goods are received from the seller for transportation.

A consignment note is sent when the seller does not use his/her own means of transport hence

hires a transporting company to carry the goods.

A consignment note is prepared by the transporting company and issued to the seller who completes and signs it. The seller returns the consignment note to the transporter who takes it together with the goods to the buyer. On receipt of the goods, the buyer signs the consignment note as evidence that the goods were actually transported.

It contains the following

- Details of the goods to be transported
- Names and addresses of the seller and the buyer
- Terms of carriage and conditions of transporting the goods

#### **k) Invoice**

This is a sent document that is sent by the seller to the buyer to demand payment for goods delivered.

There are two types of invoices:

- Cash invoice
- Credit invoice

A cash invoice is sent when payment is expected immediately after delivery thus acting as a cash sale receipt. A credit invoice on the other hand is issued when the buyer is allowed to pay at a later date.

The invoice serves the following purposes:

- a) It shows the details of goods sold i.e. their quantity, prices and terms of sale
- b) It demands payment from the buyer
- c) It is used as a source document in recording transactions in the books of account
- d) Shows details of goods sold
- e) Shows amount of discount
- f) Shows the level of indebtedness by the buyer

The letters E & O.E (errors and omissions excepted) are printed at the bottom of the invoice. These letters means that the seller has the right to correct any errors and omissions made in the invoice.

#### **l) A bill**

This is a document which is sent by the seller to the buyer to demand payment for services rendered by the seller.

It is used by businesses which provide services

**m) Pro-forma invoice**

This is a document which is sent by the seller to the buyer before goods are delivered. It shows how the invoice will look like in case the buyer buys the goods.

It serves the following purposes

- a) It is a polite way of asking for payment before the goods are delivered
- b) It is sent when the buyer does not want to give credit
- c) It is used by importers to get customs clearance before goods are delivered
- d) It is issued to the agent who sells goods on behalf of the seller
- e) It shows the amount the buyer will pay in case the order is accepted
- f) It can serve as a quotation

**NOTE:** a pro-forma invoice can be used in both home and international trade.

**n) Goods received note**

This is a document which is sent by the buyer to the seller to inform him/her that goods have been received.

It is prepared in duplicate. The copy is retained by the buyer while the original is sent to the seller.

It contains the following:

- Date when the document was prepared
- Names and addresses of the buyer and the seller
- The corresponding purchase order
- Details of the goods received
- Date when the goods were received

**p) Goods returned note**

This is a document which is sent by the buyer to the seller to show details of the goods returned by the buyer.

Goods can be returned by the buyer to the seller due to the following reasons

- a) If they are damaged on the way
- b) They are of the wrong type

- c) They are excess
- d) They are of the wrong quality

Where goods are returned due to damage, the note may be referred to as the damaged goods note.

Once the seller receives the returned goods together with the goods returned note, he/she sends a document known as a credit note to the buyer.

**q) Credit note**

This is a document which is sent by the seller to the buyer to inform him/her that amount of money to be paid by him/her has been reduced. It is therefore sent to correct undercharges.

This amount can be reduced due to the following reasons:

- a) When goods are returned by the buyer
- b) When the buyer is overcharged by the seller
- c) When empty containers and packing cases whose values were included in the invoices are returned by the buyer
- d) Allowing more discount to the buyer
- e) Inclusion of items in the invoice that were not ordered

The credit note is usually printed in red to distinguish it from other documents

**r) Debit note**

This is a document that is sent by the seller to the buyer to inform him/her that the amount to be paid by him/her has been increased.

It acts as an additional invoice.

It is sent to correct undercharges which may arise from:

- a) Mistakes in calculation
- b) Price undercharges on items
- c) Omission of some items from the invoice
- d) Disallowing discount
- e) Failure by the customer to return empty boxes

**s) Statement of account**

This is a document that is sent by the seller to the buyer to show a summary of all the transactions between the seller and the buyer over a given period of time and the amounts owing to the seller.

Its contents include:

- Names and addresses of the buyer and the seller
- The buyer's account number
- Date column for recording transaction dates
- Particulars column for recording the type of transaction
- Amount of column for recording the amount of money in each transaction
- Terms of credit
- Number of invoices sent
- Number of receipts issued
- Number of credit notes issued
- Number of debit notes issued
- Amount from the previous period
- Outstanding balance carried forward

**t) Receipt**

This is a document that is issued by the seller to the buyer to act as evidence that payment has been made.

It contains the following

- Date when payment was made
- Name of the person making payment
- Amount paid both in words and figure
- The means of payment
- Name of the person to whom payment is made
- Receipt number
- The signature of the person issuing the receipt

**u) IOU**

An IOU (I Owe You) is an acknowledgement of a debt. It is written by the debtor (buyer) as an acknowledgement he/she owes the creditor (seller)

It acts as an evidence that a debt exists

It however does not indicate the date when the debtor will clear the debt.

## **MEANS OF PAYMENT**

These are the methods used in paying for goods and services. The common means of payment include:

- a) Cash payment
- b) Cheque
- c) Bill of exchange
- d) Promissory note
- e) Money order
- f) Postal order
- g) Postage stamps
- h) Premium bonds
- i) Banker's cheque (bank draft)
- j) Credit cards

### **a) CASH PAYMENT**

This is where payment for goods and services is made using notes and coins. These coins and notes are referred to as legal tenders.

Legal tender means they are supposed to be accepted by people for settling debts.

### **Advantages of cash payment**

- a) It is the only means of payment with legal tender i.e. the only legal means of settling debts
- b) It is convenient for the settlement of small debts
- c) It can be used by people with or without bank accounts
- d) It gets rid of bad debts

### **Disadvantages of cash payment**

- a) it is cumbersome to carry large sums of money
- b) Cash can be lost or stolen easily since it is readily usable
- c) Payment in cash lacks evidence when a receipt is not issued



- d) If counting machines are not used, counting large sums of money can be cumbersome and time consuming

### **Circumstances under which cash payment is appropriate**

- a) When the amounts involved is small
- b) Where the payee (the person to be paid) does not accept other means of payment
- c) Where cash is the only means of payment available
- d) Where the payee requires cash immediately
- e) Where there is need to avoid expenses associated with the other means of payment

### **b) CHEQUE**

A cheque is a written order by the account holder to his bank to pay on demand a specified amount of money to the named person or to the bearer.

### **Parties to a cheque**

#### **a) Drawer**

This is the person who writes the cheque. The drawer must have an account holder with the bank (drawee)

#### **b) The payee**

This is the person to be paid.

#### **c) The drawee**

This is the bank from where payment will be made.

### **Types of cheques**

There are two types of cheques:

- a) Open cheque
- b) Crossed cheque

#### **a) Open cheque**

This is a cheque that can be cashed over the counter i.e. the payee can receive cash when/she presents the cheque to the drawee (bank).

#### **b) A crossed cheque**

This is a cheque which must be deposited in payee's bank account i.e. when the payee takes the cheque to the bank, the bank increases the money in his/her account.

A cheque is crossed by drawing two parallel lines on its face.

The crossing can be general or special. A general crossing contains only the parallel lines. A special crossing on the other hand has additional instructions included in the crossing e.g. "account payee only" or "not negotiable" which means that the cheque can only be deposited in the payee's account and nobody else.

### **Dishonoured cheque**

A cheque is dishonoured when the bank refuses to pay. It is also known as a bounced cheque.

### **Reasons for dishonouring a cheque**

- a) When the funds in the drawer's account are insufficient
- b) When the signature of the account holder is different from the specimen signature provided to the bank when the account was opened
- c) When the cheque is post-dated i.e. presented for payment earlier than the date indicated on its face
- d) When the cheque is stale i.e. presented six months from the date of issue
- e) If the drawer has closed his/her account with the bank
- f) If the bank learn about death, insanity or bankruptcy of the drawer
- g) When the cheque has been altered and the drawer has not signed against the alterations
- h) If the cheque is defaced i.e. torn, or dirty
- i) When the amount in words differs from the amount in figures
- j) When the drawer instructs the bank not to pay a particular cheque

### **Advantages of using a cheque as a means of payment**

- a) They are more secure than cash because they can be traced to the person who cashed them in case it is lost or stolen.
- b) It is light hence convenient to carry
- c) Payment can be made without the need to travel
- d) It provides evidence that payment has been made hence acting as a record for future reference
- e) They can be used to pay a third party (someone other than the named payee)
- f) It facilitates payment of large sums of money

### **Disadvantages of using a cheque to make payment**

- a) It may be dishonoured
- b) It requires the payee to go to the bank
- c) The drawer pays some bank charges
- d) It can only be issued by an account holder
- e) Cheques are not readily available by everyone due to fear of being dishonoured
- f) Payment by a cheque depends on the availability of funds in the drawer's account

**Circumstances under which the cheque may be preferred as a means of payment**

- a) When the amount of money involved is large
- b) When the policy of the business demands that payments be made by cheques
- c) When the cheque is the only means of payment available
- d) Where there is need to avoid expenses associated with other means of payment

**c) BILL OF EXCHANGE**

This is an unconditional order, made in writing, addressed by one person to another, requiring the person to whom it is addressed to pay on demand, or at a stated future date, the sum of money indicated on the bill to a named person or to the bearer.

**Parties to a bill of exchange**

- a) The drawer: this is the person who writes the bill of exchange
- b) The drawee: the person to whom the bill is addressed
- c) The payee: the person to be paid the amount of money stated

**Essentials of a valid bill of exchange**

- a) It should be issued unconditionally i.e. it is issued without conditions
- b) It must be in writing
- c) The amount of money to be paid must be clearly stated
- d) The payee must be named i.e. he can be the drawer himself, someone else or the bearer.
- e) Date of payment must be stated or can be determined
- f) It must bear the signature of the drawer (the person who writes the bill)
- g) It must be accepted by the drawee
- h) It must bear the appropriate revenue stamp

- i) It must be accepted unconditionally

### **Procedure of preparing a bill**

The procedure of preparing a bill of exchange involves three key stages

- a) The creditor (drawer) prepares the draft and sends it to the debtor (drawee)
- b) The debtor upon receiving the draft and accepting the conditions laid therein, signs on it and writes the word "accepted". The signature makes the draft a bill of exchange. He/she then sends it back to the creditor.
- c) Upon receiving the bill, the creditor may:
  - Keep it until maturity after which he/she will present it to the debtor for payment
  - Discount it with the bank i.e. present it to the bank for payment before maturity upon payment of a discounting fee.
  - Negotiate it i.e. use it to pay someone else.

### **Features of a bill of exchange**

- a) a bill of exchange is negotiable
- b) it is drawn by a creditor and sent to a debtor
- c) a bill of exchange can be discounted before maturity
- d) the span of a bill of exchange is 90 days
- e) a bill of exchange must be accepted by the debtor to be valid

### **Circumstances under which a bill of exchange is appropriate**

- a) Where the creditor wants to be assured that payment will be made
- b) Where the creditor wants money while the debtor is not able to raise it before the end of the credit period
- c) Where the creditor wants to use the debt to clear another debt

### **Advantages of a bill of exchange**

- a) The holder may pass the rights of the bill to another person
- b) Payment date is determined in advance
- c) Acceptance of the bill makes it legally binding
- d) The payee may receive money before maturity by discounting the bill

### **Disadvantages of the bill of exchange**

- a) It may be dishonoured on maturity
- b) Sometimes banks may be reluctant to cash bills of exchange from debtors of doubtful financial backgrounds
- c) It may be an expensive means of payment especially when discount charges are paid

**d) PROMISSORY NOTE**

This is a document whereby one person promises to pay another person a specified sum of money at a certain stated date.

It resembles a bill of exchange in the following ways:

- a) Both act as evidence of the acknowledge of a debt
- b) Both may be discounted before maturity
- c) Both are legally binding

Unlike a bill of exchange, the promissory note is drawn and signed by the debtor.

**d) MONEY ORDER**

This is a document which is sold by the post office for the purpose of remitting money. To use this service, a customer fills a money order requisition form stating:

- The name and address of the payee
- The post office where money will be paid
- The amount of money to be remitted
- Whether the money will be paid through the bank or in cash
- Name and address of the sender
- Whether the money order is ordinary or telegraphic
- Whether the sender wishes to be informed if the money has been paid

A commission is charged by the post office for using this service.

For telegraphic money order, the post office sends a telegram to the payee inviting him/her to go to the post office so as to claim the money.

In order to be paid, the payee has to:

- Identify him/herself e.g. by producing his/her identification documents
- Identify the person who sent the money

The sender is left with a counterfoil which may be used as evidence that money was sent. The counterfoil can also be used to reclaim the money if it does not reach the intended payee.

There is a limit on the maximum amount of money that can be sent in one money order.

Money orders can be crossed or open. Crossed money orders are paid through a bank account whereas open money orders are paid through at post office

### **Circumstances under which money orders are preferable**

- a) When it is the only means of payment available
- b) When other means of payment are not accepted
- c) When there is need to avoid inconveniences and risks associated with using other means of payment

### **Advantages of money orders**

- a) They guarantee payment hence they are readily accepted in payment for goods and services
- b) They can be crossed to make them more safer
- c) They are cheaper
- d) The sender can claim the money sent in case it is lost before reaching the payee

### **Disadvantages of money orders**

- a) There is a limit on the maximum amount of money that can be sent in a single money order
- b) They are not negotiable i.e. they cannot be transferred to somebody else
- c) A crossed money order must be paid through a bank account hence inconveniencing the payee who doesn't have a bank account
- d) Open money orders are unsafe

### **e) POSTAL ORDER**

Postal orders are documents which are sold by the post office in fixed denominations such as Ksh 50, Ksh100 and Ksh 500 and are used to remit or make payments for small amounts. The sender buys postal orders whose value is equal to the amount of money to be sent.

A commission is charged by the post office for using this service.

The sender remains with a counterfoil which acts as evidence of the remittance and can be used to claim the money in case it is does not reach the payee.

The sender writes the name of the payee on the postal order as a safety measure otherwise payment will be made to the bearer. The payee can be paid at any post office with postal order services

**Circumstances under which postal orders are appropriate**

- a) Where the amount to be sent is small
- b) Where it is the only means of payment available
- c) Where there is need to avoid inconveniences and risks associated with other means of payment

**Differences between postal orders and money orders**

<b>Postal orders</b>	<b>Money orders</b>
They can be cashed at any post office	They are cashed at a specific post office
They are in fixed denominations	Denominations vary depending on the needs of the remitter
Does not require any application form when making remittances	Requires the filling of an application form when making remittances
They can be cashed by the bearer	They are only cashed by the payee

**f) POSTAGE STAMPS**

This is means of payment that is used to make payments for small amounts of money. The person to whom stamps are sent can use them to send mail or pay somebody else.

**g) PREMIUMS BONDS**

This is a means of payment which is offered by the post office. They are issued in denominations of Ksh 10 and Ksh 20.

Once someone buys premium bonds, he/she has to wait for a given period of time for them to mature after which he/she can cash them or use them to pay debts. Premium bonds can also be entered in a draw to win money.

**NOTE:** postage stamps and premium bonds are suitable for making payments involving small amounts of money.

**h) BANKER'S CHEQUE (bank draft)**

This a cheque which is drawn by the bank on itself. To use this means of payment:

- One has to fill an application obtained from the bank
- The filled application form together with the money to be transferred is handed over to the bank

- On receiving the filled application form and the money, the bank prepares a banker's cheque and gives it to the applicant
- The applicant can then send the banker's cheque to the payee as a means of payment

A commission is normally charged by the bank for using this service.

Banker's cheques are readily acceptable as a means of payment since they guarantee payment.

They are mostly used to pay school fees.

### **Circumstances when banker's cheques are appropriate**

- a) Where the amount involved is large
- b) Where the payee wants to be guaranteed payment

### **i) CREDIT CARDS**

These are cards which are issued by some major banks and other credit card companies to enable the holder of the card to buy goods or services from business organisations which accept the cards without paying for them on the spot. The value of the goods and services bought is deducted directly from the holder's bank account.

### **TERMS OF PAYMENT**

These are terms used by the seller to indicate how payment is to be made, when it is to be made and what the quoted price contains.

### **Types of terms of payment**

Terms of payment can be categorised into two:

- a) Cash
- b) Deferred payment

### **1) CASH**

Refers to where payment is made immediately on or before delivery. It is also referred to as spot cash or a cash transaction.

Terms used under cash transaction

### **a) Cash on delivery (COD)**

This is where payment is made when goods or services are delivered and received

### **b) Cash with order (CWO)**

This is where payment is made at the time of making the order.



### **Advantages of cash transactions (COD&CWO)**

- a) It reduces the risk of bad debts
- b) Ensures the continued availability of working capital
- c) Reduces the number of records to be kept by the business hence resulting in fewer employees
- d) No time is wasted to follow customers to pay

### **Circumstances under which cash transactions (COD&CWO) are appropriate**

- a) When the buyer is new to the seller
- b) Where the buyer's credit worthiness is in doubt
- c) Where the seller is operating a business that does not allow credit e.g. a supermarket and a mail order shop.
- d) Where the policy of the business requires all transactions to be in cash

## **2) DEFERRED PAYMENTS**

This is where payment for the goods is made at a future date either on instalments or as a lumpsum.

### **Types of deferred payment**

Deferred payment may take three forms;

- Open trade credit (credit purchase)
- Hire purchase
- Instalment buying

#### **a) Open trade credit (credit purchase)**

This is where the buyer pays for the goods delivered at a future date or within a given period of time. The buyer may pay for the goods in agreed instalments.

Under open credit, ownership of the goods passes to the buyer immediately after entering the contract with the seller.

No interest is charged on open trade credit, the seller may however allow the buyer a cash discount in order to encourage him/her pay quickly

### **Factors to consider when giving credit**

- a) Credit worthiness of the buyer i.e. ability and willingness of the buyer to pay
- b) The repayment period

- c) Amount of goods to be sold on credit
- d) Availability of the required goods in the right quantities
- e) Honesty and reliability of the buyer
- f) The number of times the buyer buys from the seller
- g) The objectives or intentions of the seller
- h) Prevailing economic conditions
- i) Credit period
- j) Accessibility of the customer
- k) Type of security provided

#### **Ways of ensuring that the buyer will pay**

- a) Ascertaining the credit worthiness of the buyer
- b) Asking the buyer to commit him/herself in writing e.g. by signing a bill of exchange
- c) Requiring the buyer to have a guarantor
- d) Requiring the buyer to pledge his/her property as security

#### **Factors influencing the credit period**

- a) The relationship between the seller and the buyer
- b) The types of goods sold
- c) The value of goods sold
- d) Financial ability of the seller i.e. if the seller is financially stable, a longer period may be allowed

#### **Forms of open trade credit**

##### **a) Simple credit (prompt cash)**

This is credit that is extended to the buyer for a very short time i.e. not more than a week.

##### **b) Monthly credit**

This credit that is extended to the buyer for one payment i.e. the buyer pays for the goods after one month.

The buyer can however continue to take more goods from the seller in the course of the month.

This credit is usually extended to salaried people.

**c) Budget accounts**

This is a form of credit which is usually extended by large scale retailers to their regular customers.

The retailer opens and keeps an account of his/her regular customers in his/her books of account in which all transactions between them are recorded.

The customer is required to pay a deposit to the retailer followed by regular payments after which he/she will be allowed credit up to a given maximum.

The retailer may also offer after sale services to the customer at a fee.

**d) Trade credit**

This is a type of credit which is given by a trader to another trader who buys goods for purposes of reselling.

**e) Credit cards**

This is a card which enables the holder to obtain goods and services on credit from specific sellers. The holder may also use the card to obtain money from specified banks and other financial institutions.

After buying the goods, the holder of the card fills a specified form which is provided by the seller. The seller will use the duly filled form to claim payment from the holder's bank.

**Advantages of credit cards**

- a) They are smaller hence convenient to carry around
- b) Enables the holder get the goods he/she requires immediately without paying for them
- c) Enables the holder to obtain money from specific banks
- d) They increase the credit rating of the holders
- e) It is safe to carry compared to carrying cash
- f) Some credit cards may be accepted internationally

**Disadvantages of credit cards**

- a) It is not easy to acquire the card since the holder is required to have a good credit record
- b) The card holder is charged interest by the card company
- c) It is prone to abuse through fraud
- d) Interest is charged to the card holder in case there is delay in payment
- e) The card is issued only to people who are above 18 years
- f) They may encourage impulse buying

- g) They are mostly used in urban areas only
- h) They are accepted by very few businesses
- i) Long procedures are involved when getting the card
- j) They are only afforded by high income earners

#### **Characteristics of open credit (credit purchase)**

- a) Ownership of the goods passes to the seller immediately the contract is entered into to
- b) The buyer takes possession of the goods immediately
- c) Payment for the goods is not made immediately
- d) The buyer has the right to transfer ownership of the goods to another or resell them before payment is made

#### **Advantages of open credit to the buyer**

- a) The buyer is able to obtain the goods or services before making payment
- b) The credit period allowed gives the buyer time to raise the required money
- c) The buyer can resell the goods during the credit period to raise the required money
- d) The goods cannot be repossessed by the seller in case the buyer fails to pay for them

#### **Disadvantages of open credit to the buyer**

- a) It may encourage impulse buying
- b) The buyer may be sued by the seller in case he/she fails to pay for the goods

#### **Advantages of open credit to the seller**

- a) It leads to increased sales
- b) Perishable goods can be sold faster
- c) The seller can attract and retain more customers
- d) Goods sold on credit are usually sold at higher prices than the cash price hence generating more profits

#### **Disadvantages of open credit to the seller**

- a) The goods cannot be repossessed in case the buyer fails to make payment
- b) Suing the buyer to recover the debt may be an additional expense to the seller
- c) There is a risk of bad debts

- d) The seller needs a high amount of working capital to be able to sell on credit
- e) The seller must keep buyers' records which is time consuming and costly

### **b) Hire purchase**

To hire means to use someone else's property for a payment. Hire purchase therefore is a method of hiring property with an option to buy.

Under hire purchase, the buyer pays a deposit and takes possession of the property. The remaining balance is paid in equal monthly instalments. Ownership passes to the buyer after the last instalment has been paid.

The buyer cannot transfer or resell the property before paying all the instalments

On payment of the last premium, the seller issues a certificate of completion to the buyer to serve as proof of transfer of ownership.

If the buyer fails to complete payment of all instalments, the seller can repossess the property.

Goods sold on hire purchase are mostly durable and expensive goods like radios, television sets, vehicles, refrigerators etc.

Hire purchase price is usually higher than the cash price.

The law requires that both cash and hire purchase prices are to be displayed on goods to enable the customer make an informed decision on the appropriate method to use.

### **Advantages of hire purchase to the buyer**

- a) The buyer possesses the goods immediately he/she pays the deposit
- b) The amount of money to be paid in each instalment is calculated and determined in advance hence the buyer is able to budget
- c) Enables the buyer to buy expensive goods

### **Disadvantages of hire purchase to the buyer**

- a) The seller retains ownership until all the instalments have been cleared
- b) It may lead to impulse and unplanned buying
- c) The buyer pays more under hire purchase compared to cash
- d) Limited variety of goods can be bought under hire purchase

### **Advantages of hire purchase to the seller**

- a) It increases the volume of sales
- b) Hire purchase price is higher than cash price hence it earns more profit

- c) Goods belong to the seller until the buyer clears all the instalments
- d) It attracts and retains customers
- e) The seller can repossess the goods and resell them in case the buyer fails to clear all the instalments

#### **Disadvantages of hire purchase to the seller**

- a) Hire purchase requires high amount of working capital to be operated efficiently
- b) Goods repossessed by the seller from the buyer can only be sold at a lower price as second hand
- c) The risk of loss is high e.g. bad debts
- d) Expenses incurred when operating hire purchase business are normally high e.g. for repairing damaged goods

#### **Characteristics of hire purchase**

- a) Goods belong to the seller until the last instalment is paid
- b) The buyer cannot resell the goods or transfer them to another person before paying all the instalments
- c) Hire purchase price is usually higher than cash or credit price
- d) The seller can repossess the goods if the buyer defaults in paying the instalments as agreed

#### **Differences between hire purchase and open trade credit**

Hire purchase	Open trade credit (credit purchase)
Ownership is retained by the seller until the last instalment is paid	Ownership passes to the buyer immediately he/she enters into contract with the seller
The buyer cannot resell or transfer the goods before clearing all the instalments	The buyer can resell or transfer ownership of the goods to another person
Hire purchase price is usually higher than credit price	Credit price is usually lower than hire purchase price
The seller can repossess the goods in case the buyer defaults in paying the instalments	The seller cannot repossess the goods if the buyer defaults in payment but he/she can sue the buyer

#### **c) Instalment buying**

Instalment buying is similar to hire purchase except that possession and ownership of the commodity passes to the buyer immediately the deposit is paid.

The seller cannot repossess the commodity in case the buyer defaults in making payment. The seller can however take legal action against the buyer to reclaim the amount due from the buyer.

Instalment buying unlike hire purchase can be used for non-durable goods.

### **Circumstances under which deferred payments may be appropriate**

- a) When the credit worthiness of the buyer is unquestionable
- b) When the seller wants to attract and retain customers
- c) When the seller wants to increase his/her sales
- d) When market competition is high and the buyer wants to use deferred payment as a tool to counter market competition
- e) When the seller wants to expose off slow moving stock

### **DISCOUNTS**

A discount is an allowance by the seller to the buyer which enables the buyer to pay less than the marked price.

There are three types of discounts:

- a) Quantity discount
- b) Trade discount
- c) Cash discount

#### **a) Quantity discount**

This is a discount which is allowed to the buyer to encourage him/her buy more goods. The amount of discount increases with the quantity of goods bought

#### **b) Trade discount**

This is a discount which is allowed by a trader to another trader who is buying goods for resell

#### **c) Cash discount**

This is a discount which is allowed to customers who buy on credit to encourage them to pay their debts promptly.

It is usually calculated as a percentage of the marked price after trade discount has been deducted.

**(Illustrate)**

### **MONEY REMITTANCE SERVICES**

These are methods used to send money from one person to another through the bank

They include:

- a) Telegraphic transfer
- b) Standing order (bank order)

**a) Telegraphic transfer**

This is a method of remitting money which is provided by the bank. The person wishing to send the money will fill an application form and provide the following information:

- The sender's name
- The payee's name
- The amount of money to be sent
- The bank where money will be paid

The payee identifies him/herself before payment is made.

The sender pays a commission to the bank for using this service.

**b) Standing order**

A standing order is an instruction to the bank by the account holder to pay the person named a specified amount of money according to the order.

A standing order may remain in force for a given period of time e.g. a year. A fee is charged by the bank for using this service.

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**\*0714497530\* (Mr Isaboke)**

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