

Business and Accounting Studies

Grade 11

Educational Publications Department



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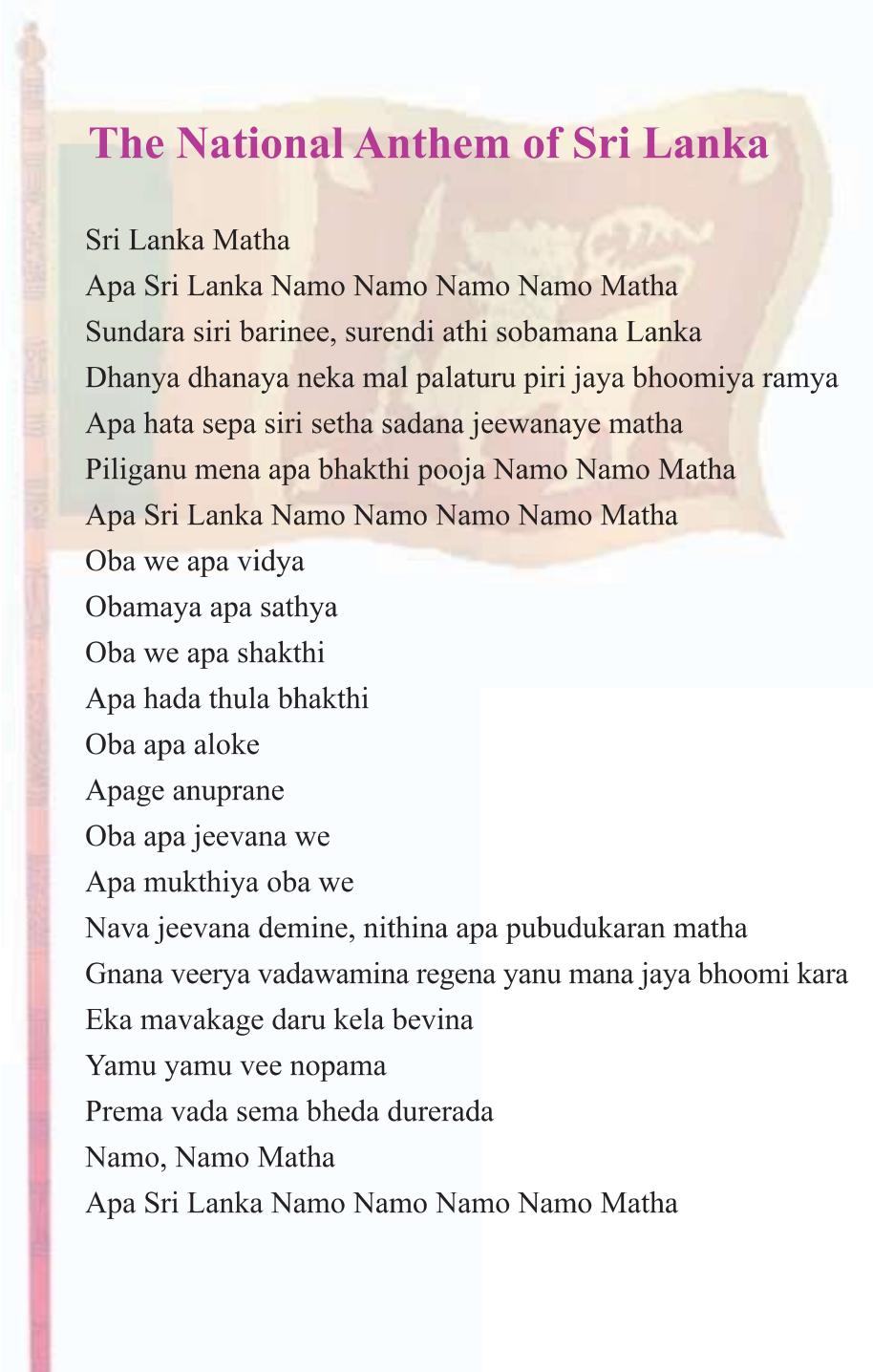
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The National Anthem of Sri Lanka

Sri Lanka Matha

Apa Sri Lanka Namo Namo Namo Namo Matha

Sundara siri barinee, surendi athi sobamana Lanka

Dhanya dhanaya neka mal palaturu piri jaya bhoomiya ramya

Apa hata sepa siri setha sadana jeewanaye matha

Piliganu mena apa bhakthi pooja Namo Namo Matha

Apa Sri Lanka Namo Namo Namo Namo Matha

Oba we apa vidya

Obamaya apa sathy

Oba we apa shakthi

Apa hada thula bhakthi

Oba apa aloke

Apage anuprane

Oba apa jeevana we

Apa mukthiya oba we

Nava jeevana demine, nithina apa pubudukaran matha

Gnana veerya vadawamina regena yanu mana jaya bhoomi kara

Eka mavakage daru kela bevina

Yamu yamu vee nopama

Prema vada sema bheda durerada

Namo, Namo Matha

Apa Sri Lanka Namo Namo Namo Namo Matha

அபி வேறு சிக மாக்கங் கூரவே
சிக நிவசனி வேசனா
சிக பார்தி சிக ரூடிரய வீ
அப கய தூல டுவனா

சிலைநி அபி வேறு சோட்டிரை சோட்டிரையே
சிக லெச சிதி வீதெனா
சீவந் வா அப மேம நிவசே
சோடை சிரிய டூஞ் வே

சூமத ம மேந் கரைஞா ஏஞ்சை
வேலீ சுமதி தில்தை
ரந் மீனி மூஞ் நொ வ சிய ம ய சுபதா
கிசி கல நொம தீரநா

ஆனந்஦ சுமரகைந்

ஒரு தாய் மக்கள் நாமாவோம்
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ஒன்றாய் வாழும் வளரும் நாம்
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நலமே வாழ்தல் வேண்டுமன்றோ

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ஆனந்த சமரக்கோன்
கவிதையின் பெயர்ப்பு.



Being innovative, changing with right knowledge
Be a light to the country as well as to the world.

Message from the Hon. Minister of Education

The past two decades have been significant in the world history due to changes that took place in technology. The present students face a lot of new challenges along with the rapid development of Information Technology, communication and other related fields. The manner of career opportunities are liable to change specifically in the near future. In such an environment, with a new technological and intellectual society, thousands of innovative career opportunities would be created. To win those challenges, it is the responsibility of Sri Lankan Government and myself, as the Minister of Education, to empower you all.

This book is a product of free education. Your aim must be to use this book properly and acquire the necessary knowledge out of it. The government in turn is able to provide free textbooks to you, as a result of the commitment and labour of your parents and elders.

Since we have understood that the education is crucial in deciding the future of a country, the government has taken steps to change curriculum to suit the rapid changes of the technological world. Hence, you have to dedicate yourselves to become productive citizens. I believe that the knowledge this book provides will suffice your aim.

It is your duty to give a proper value to the money spent by the government on your education. Also you should understand that education determines your future. Make sure that you reach the optimum social stratum through education.

I congratulate you to enjoy the benefits of free education and bloom as an honoured citizen who takes the name of Sri Lanka to the world.

A handwritten signature in black ink, appearing to read "Akila Viraj Kariyawasam".

Akila Viraj Kariyawasam
Minister of Education

Foreword

The educational objectives of the contemporary world are becoming more complex along with the economic, social, cultural and technological development. The learning and teaching process too is changing in relation to human experiences, technological differences, research and new indices. Therefore, it is required to produce the textbook by including subject related information according to the objectives in the syllabus in order to maintain the teaching process by organizing learning experiences that suit to the learner needs. The textbook is not merely a learning tool for the learner. It is a blessing that contributes to obtain a higher education along with a development of conduct and attitudes, to develop values and to obtain learning experiences.

The government in its realization of the concept of free education has offered you all the textbooks from grades 1-11. I would like to remind you that you should make the maximum use of these textbooks and protect them well. I sincerely hope that this textbook would assist you to obtain the expertise to become a virtuous citizen with a complete personality who would be a valuable asset to the country.

I would like to bestow my sincere thanks on the members of the editorial and writer boards as well as on the staff of the Educational Publications Department who have strived to offer this textbook to you.

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Chapter 01

Trade and Supporting Services

This chapter discusses the followings.

- 1.1 Introduction to trade and supporting services
- 1.2 Trade
 - Domestic trade
 - International trade
- 1.3 Supporting services
- 1.4 Banking services
- 1.5 Insurance services
- 1.6 Communication services
- 1.7 Transportation services



1.1 Introduction to trade and supporting services

A business can simply be defined as any activity satisfying the needs and wants of humans. Trade is the most important activity carried out by a business among all other activities. In order to make trade easy and efficient, supporting services are essential. The supporting services and trade are mutually related i.e. supporting services facilitate the growth of trade and trade facilitates the growth of supporting services.

1.2 Trade

Trade means buying and selling goods and services. In simple terms, trade can be explained as purchasing and selling of products. In trade, the ownership of a good is transferred from one party to another. This transfer occurs based on a monetary value.

Trade has expanded its scope into domestic and international areas. The categories of trade can be depicted as follows.

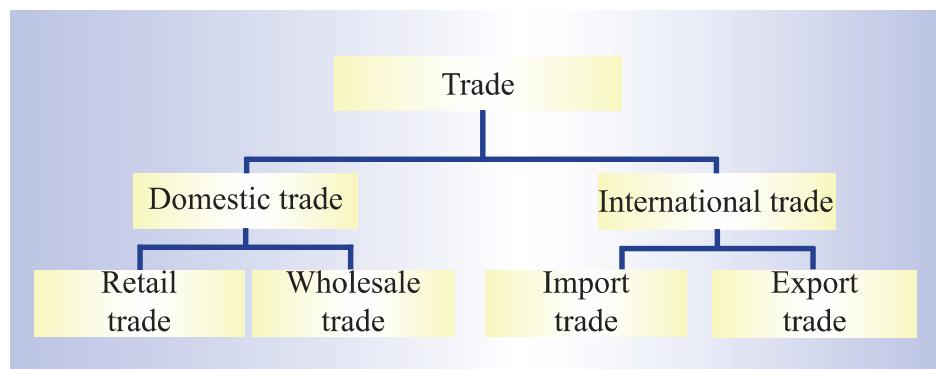


Figure 1.1- Categories of Trade

Domestic trade

Trading activities that occur among different parties within a country are domestic trade. In domestic trade, payments can be made in the currency used in that country. Domestic trade occurs in different ways.

- ★ Retail trade
- ★ Wholesale trade

Retail trade

Consumers require purchasing various goods and services in order to fulfill their wants. These goods are sold to them by the retailers. Accordingly, retail trade means selling goods and services for final consumption.

Example :-

When a student buys the required exercise books from the school co-operative or from another trading shop, trader has carried out a retail sale.

The person who carries out retail trades is known as a retailer. At present there are both large and small scale retail shops.

Characteristics of retail trade

- ★ Selling goods and services for final consumption
- ★ Supplying required goods in required quantities at the required time to consumers
- ★ Close proximity to consumers
 - Retail shops are available in any area in order to facilitate consumers to fulfill their needs. Retail shops are located closely to consumers.
- ★ Providing a variety of goods
 - Most of the retail shops sell various goods that fulfill the same need. Further more, at present there are retail shops that sell most of the goods required by a household.

Importance of retail trade

Retail trade is important as it provides the following services.

- ★ Providing goods and services to consumers to fulfill their daily needs and wants
- ★ Introducing new goods to consumers
- ★ Providing goods on credit at times
- ★ Supporting to improve the quality of goods by informing consumer feedback to producers

Types of retail traders

At present, there are small scale retail traders as well as large scale retail traders. Depending on their nature they can be categorized as follows.

- ★ Fixed large scale retail traders

Examples :-

Supermarkets



- ★ Fixed small scale retail traders

Examples :-

Groceries, Beauty salons

- ★ Small scale mobile retailers

Figure 1.2 - Retail business

Examples :-

Retailers selling goods by visiting houses – Peddlers

Retailers selling goods by traveling from fair to fair

Mobile retail stores built on vehicles

Wholesale trade

Purchase of goods with the purpose of reselling is called wholesale trade. A seller who engages in wholesale trading activities is known as wholesaler.

Examples :-

Selling 50 kilograms of rice to a retailer

Selling a stock of cement to a contractor to construct a building

Characteristics of wholesale trade

- ★ Purchasing goods for the purpose of reselling
- ★ Often selling large quantities of goods in one transaction
- ★ Selling a few selected items
- ★ Unit selling price is relatively low
- ★ Providing trade discounts i.e. reducing a certain percentage from the listed price of goods in a sale



Figure 1.3 - Wholesale business

Differences between retail trade and wholesale trade

Retailer and wholesaler are both middlemen engaged in distributing required goods and services to consumers. However, depending on how the business activities are conducted, the following differences can be observed between retail trade and wholesale trade.

Retail trade	Wholesale trade
The objective of retail trade is to sell goods for final consumption.	The objective of wholesale trade is to sell goods for the purpose of reselling.
Retailers sell different types of goods by understanding consumer needs and wants.	Sells only one or limited types of goods.
Retail price is comparatively higher since retailers have to incur additional costs to resale and has to earn a profit as well.	The wholesale price is relatively lower compared to the retail price, as a result of selling in large quantities and trade discounts.
Goods are often sold at the listed price.	Trade discounts are given in wholesale trade.
Retailers are well aware of needs and wants of consumers, as they have direct contact with them.	Wholesalers do not have direct contact with consumers, they collect information about consumers, through retailers.

International trade

International trade is the trade carried out between two or more countries. In order to fulfill the needs of a country, both domestic and international products are required because a country is not self sufficient with goods and services required. Further, a country also needs to sell its excess production to other countries. Hence, almost all the countries are engaged in international trade.

There are two categories of international trade.

- ★ Import trade
- ★ Export trade

Import trade

Import trade is bringing goods from a foreign country or countries to this country.

Examples :-

- Purchasing crude oil from Middle East countries
- Purchasing automobiles from India

Export trade

Export trade is selling domestic goods to a foreign country or countries.

Examples :-

- Selling Sri Lankan tea to European countries
- Selling Sri Lankan apparel products to European countries



Activity 01

State whether the statements given below are **true** or **false**.

No.	Statement	True/ False
01	Purchasing of exercise books by a school co-operative shop to sell to students is a transaction relevant for retail trade.	
02	Selling ready-made garments manufactured in Sri Lanka to foreign countries is an example for export trade.	
03	Selling required goods for the daily needs of consumers in required quantities is a characteristic of wholesale trade.	
04	Buying required milk powder, fuel etc. for our country from foreign countries is an example for import trade.	
05	The difference between retail trade and wholesale trade lies in the purpose of purchase.	
06	Retailer often has direct contact with the consumers.	
07	The whole sale price of goods is often higher than the retail price.	
08	Selling rubber manufactured in Sri Lanka to China and bringing in Chinese machinery is an example for export trade.	
09	The retail trade involves a variety of goods whereas wholesale trade involves a limited types of goods.	
10	In our country, both retail trade and wholesale trade exist.	

1.3 Supporting services

Businesses engage in producing and distributing goods and services required by the humans. Business organizations require the support of different services in order to conduct business operations successfully. These facilitating services are known as supporting services. Today due to the revolutionary change that occurred in these supporting services, the world has become a global village.

Among the different supporting services available, the following selected supporting services are to be discussed.

- ★ Banking services
- ★ Insurance services
- ★ Communication services
- ★ Transportation services

1.4 Banking services

The services offered by the banks to businessmen to conduct their business activities successfully are known as banking services. The development in the banking sector today has immensely influenced on the success of businesses. Among the different types of banks existing today, the supporting services provided by commercial banks will only be discussed below.

Commercial banks

Commercial banks are the institutes providing various banking services while maintaining current accounts and other accounts. These are also known as licensed commercial banks due to the fact that they are operated under a license issued from the Central Bank of Sri Lanka. There are number of services offered by these banks to customers. Among them the following supporting services offered by commercial banks are discussed below.

1. Services related to deposits
2. Services related to electronic cash

1. Services related to deposits

The commercial banks maintain various deposit accounts in order to provide an opportunity for the businessmen, to deposit their excess money and to facilitate their business transactions.

These different types of deposit accounts are as follows.

- ★ Savings accounts
- ★ Fixed deposits
- ★ Current accounts

Savings accounts

Businessmen as well as any individual can deposit money and withdraw money at any time from these accounts. The banks pay an interest at a certain rate for these accounts. Savings accounts can be opened individually or jointly by few individuals. Today, commercial banks have introduced different specialized savings accounts under different names other than the normal savings accounts.

Examples :-

- Dhanayojana savings accounts
- Savings accounts for women
- Senior citizen accounts

Opening a savings account would provide various advantages for both businessmen and individuals. Given below are such advantages.

- ★ Receiving security for money
- ★ Earning an interest income
- ★ Ability to deposit or withdraw money at any time
- ★ Ability to withdraw money in an emergency
- ★ Ability to transact via automated teller machines
- ★ Ability to pay using debit cards

Opening a savings account

The process of opening a savings account is simple. In order to open a savings account it is required to submit, a duly completed savings account mandate of the bank, deposit slip, Know Your Customer (KYC) form and the tax declaration form along with the national identity card. In addition, it requires to deposit the minimum amount recommended by the bank or any amount greater than that. When all these requirements are fulfilled, the bank issues a pass book for the savings account holder. Deposits, withdrawals and the balance are recorded in this pass book.

Fixed deposits

The deposits that are maintained for a certain time period at a certain interest rate are known as fixed deposits. This deposit system is important as a way to deposit excess money and as a safe investment opportunity. There are several characteristics of a fixed deposit. They are,

- ★ Maintaining the deposit for a certain period of time
- ★ Varying interest rates depending on the amount deposited and the deposit period
- ★ Receiving a relatively higher interest rate compared to normal savings accounts
- ★ A certain percentage of the fixed deposit can be obtained as a loan by providing the fixed deposit as a collateral
- ★ Interest will be accumulated monthly, at maturity or as per the agreed terms
- ★ Bank gives a certificate mentioning the details such as the deposit date, deposited amount and maturity date



Activity 02

State whether the following statements are **true** or **false**.

No.	Statement	✓ / ✗
01	The interest on fixed deposit can be obtained monthly, at maturity or as per agreed terms.	
02	Fixed deposit certificate can be transferred to anyone.	
03	The interest rate of fixed deposit varies depending on the deposit period.	
04	A certain percentage of the fixed deposit can be obtained as a loan by providing the deposit as collateral.	
05	The interest rate paid on fixed deposits is higher than the rate paid on normal savings account.	
06	The conditions related to fixed deposits can be changed at the discretion of the bank.	
07	The money on fixed deposits cannot be withdrawn for a necessity before the maturity.	
08	The interest rate to be paid on savings accounts can be changed as per the banking regulations but the interest rate agreed to pay on fixed deposits cannot be changed during the deposit period.	

Opening a fixed deposit

When opening a fixed deposit, a duly completed fixed deposit mandate, deposit slip, Know Your Customer (KYC) form and a tax declaration form should be submitted along with the national identity card to the bank. When all these requirements are fulfilled, the bank issues a deposit certificate to the customer.

Current accounts

Amid different types of accounts maintained by a commercial bank, the current accounts are essentially the important type of account for a businessmen. Current account is an account which allows doing transactions via cheques.

Opening a current account

Current accounts can be opened individually, jointly or in the name of businesses. Most of the businessmen use current accounts in order to conduct their business activities easily. When opening such an account, an individual having an active current account in the respective commercial bank is required to introduce the new customer by completing the relevant application form (mandate). When opening a current account the relevant current account mandate, deposit slip and signature card need to be completed and submitted along with the national identity card.

Current accounts do not earn an interest. The bank will charge a fee if the balance in the current account reduces below a certain minimum level and for the other services provided by the bank to the account holder.



Activity 03

Collect the specimen of mandates to open the following accounts.

Savings account
Current account
Fixed deposit

01. Observe the information requested in each form.
02. Discuss with your friends and complete the specimen forms.

There are several advantages of maintaining a current account.

★ Ability to make payments via cheques

The ability to make payments via cheques make it easy and secure for the transactions done by the businessmen.

Examples :-

Employee salaries, electricity bills, insurance premiums can be paid via cheques

★ Ability to obtain bank overdraft facilities

Bank overdraft facilities can be obtained by getting permission from the bank to write cheques for a balance which exceeds the deposited balance in the current account. The amount by which the current account holder has been indebted to the bank by issuing cheques under the permission of the bank exceeding the balance in the account is known as the bank overdraft. The businessmen often use this facility to fulfill short term credit requirements.

★ To collect remittances

The money to be received by businessmen from other organizations and individuals can be collected directly to the current accounts.

Examples :-

dividends, interest income, remittances from debtors

★ To activate standing orders

There are certain payments that businessmen have to pay continuously for certain activities. A request can be made to the bank in writing by filling the relevant application form to pay a certain amount of money on certain time intervals continuously. The payments made by the bank according to such written requests are known as payments based on standing orders.

Examples :-

payment of insurance premiums, payment of loan installments

★ Receiving a bank statement

The bank sends a statement to the current account holder stating the transactions done through the current account. This is known as the bank statement. This statement can be obtained monthly, quarterly or as per the requirement of the account holder. Through this statement, the deposits, withdrawals and the balance in the account are informed. In addition, this statement helps to reconcile the reasons for the difference between the balance in the bank account of the business and the balance in the bank statement, if any.



Activity 04

State whether the following statements are **true or false**.

No.	Statement	True/ False
01	The report sent by a commercial bank to the current account holder stating the transactions done with the bank is known as the bank statement.	
02	The bank statement helps to rectify any errors or omissions in the bank account of the business.	
03	The closing balance in the bank statement is always similar to the closing balance of the bank account in the books of the businessman.	
04	The payments made by the debtors directly to the bank are known as debtors' remittances.	
05	The business is made aware of the cheque book charges and bank charges charged by the commercial bank through the bank statement.	

Cheques

A cheque book is issued by the bank when a current account is opened. A cheque is a written order given to the bank by the current account holder in order to pay a certain amount of money to the individual whose name is written on the cheque or to the bearer of the cheque.

There are three major parties involved in the transactions related to cheques. They are,

Drawer – The drawer is the person who writes and signs a cheque. Generally, the drawer is the current account holder.

Drawee – It is the bank of the drawer. The drawee is the bank in which the current account is maintained.

Payee – The person whose name is written on the cheque and has the right to receive the payment mentioned in the cheque is the payee.

Writing a cheque

A cheque is a legal document which can be used instead of cash when settling transactions. The factors to be considered when writing a cheque could be explained using an example as follows.

Examples :-

Prabhath Nawaratne is a sweets manufacturer and his current account is maintained at the Bank of Ceylon in Dikwella Branch. In order to improve the business activities, he bought equipments for a value of Rs. 80 000 on 16.01.20XX from Sarath Sirimanna. He intends to make the payment using a cheque.

The following specimen of the cheque is the cheque duly completed by him to make this payment. Observe it.



Figure 1.4 - Specimen cheque

Accordingly, the following are some important facts to be considered when writing a cheque.

01. Writing the date accurately
02. Writing the name of the payee clearly and accurately
03. Writing the value accurately both in figures and letters
04. Signing the cheque accurately by the drawer
05. If there are any corrections to be made on a cheque, those should be written clearly and be certified by the full signature of the drawer
06. Writing the relevant information on the cheque counter foil
07. Not writing anything on the Magnetic Ink Character Recognition space of the cheque
08. Crossing appropriately

The counter foil is the part that remains in the cheque book when a cheque is issued. The details of the transaction should be included here. The counter foil is the part which is linked to the above specimen cheque in a broken line. If there are any corrections made on a cheque, those should be mentioned on the counter foil as well.

Today, the cheques issued by every commercial bank have a Magnetic Ink Character Recognition space. The following numbers are printed respectively on this space.

- A Cheque number
- B Bank number
- C Bank branch number
- D Bank account number

Examine how these numbers are included on the specimen cheque given above.

Crossing a cheque

Crossing a cheque means drawing two parallel lines on the face of a cheque. Writing the name of a bank inside the two parallel lines or even without parallel lines is also considered as crossing. A cheque is crossed in order to provide more security for that cheque. Then, it cannot be encashed over the counter of a bank. Crossed cheque should be deposited to a bank account in order to obtain the money. Therefore, crossing a cheque ensures that the amount mentioned in the cheque will be given to the relevant person only.

A cheque can be crossed in two ways.

1. General crossing
2. Special crossing

General crossing

A general crossing is done by drawing two parallel lines on the face of a cheque with or without including a condition inside. The general crossing can be done in several ways. The following are some examples for commonly used general crossings.

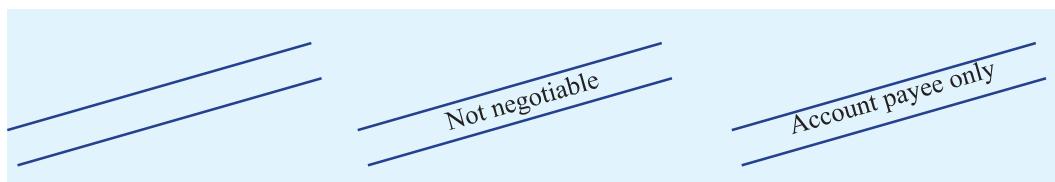


Figure 1.5 - Examples for general crossing

Special crossing

A special crossing is a crossing mentioning a name of a commercial bank written on the face of a cheque inside two parallel lines or without parallel lines. It can be done in the following ways.

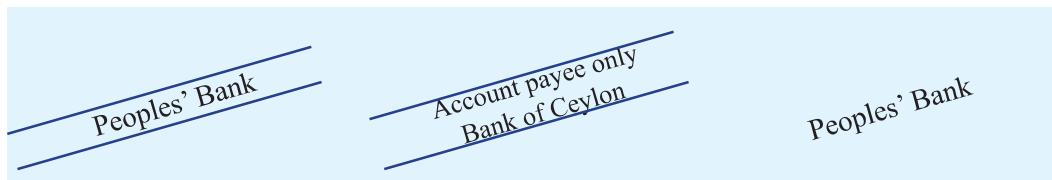


Figure 1.6 - Examples for special crossing

A cheque crossed in this way requires to be deposited in an account in the named bank in the crossing.

Endorsing a cheque

Endorsing a cheque means writing the name of the payee, as mentioned on the face of the cheque, at the back of it by the hand writing of the payee himself. A cheque can be endorsed when a businessman transfers a cheque that he has received to another party for a transaction or when depositing a cheque into a bank account. Endorsing a cheque ensures that a person has the true title for that cheque.



Activity 05

Assume that you are a businessman distributing rice and assume that your friend is a rice supplier. If you have decided to pay by cheque for a stock of rice that you have purchased from your friend,

01. Design a specimen of a cheque.
02. Name the information required to fill the cheque.
03. Complete the cheque and cross the cheque in order to provide complete security.
04. Discuss with your friend, the advantages of transacting via cheques than transacting via cash.

2. Services related to electronic cash

A payment for buying a good or a service can be made using cash or any other payment settlement method. Until recent times, the businessmen often used coins, notes and cheques for settling the payments. At present, banks have introduced different services to the customers using electronic communication technology. These services are known as services related to electronic cash.

Electronic cash (e-cash) is an electronic payment settlement method which can be substituted for cash and cheques. Let us discuss the commonly used electronic cards given below.

- ★ Credit cards
- ★ Debit cards
- ★ Automated Teller Machine cards (ATM)

Credit cards

These are a type of card issued by commercial banks on credit basis. It is not essential for a customer to have a bank account in order to obtain such a card. A credit card can be submitted for a recommended trade organization to buy goods and services on credit basis up to a certain amount. In addition, the credit card can also be used to withdraw cash up to a certain limit from automated teller machines. The bank will later inform the credit card holder the credit balance obtained using the credit card. The credit card holder is liable to pay that credit balance to the bank.

The transactions related to credit cards occur via automatic electronic networks. The international credit card networks are Visa, Master, American Express and Discover. The commercial banks issue credit cards with the support of these credit card networks. The following are some examples for such credit cards.

Examples :-

- Bank of Ceylon – Cey Bank Visa
- Peoples’ Bank – Peoples’ Visa

Debit cards

Debit cards are the cards issued by the commercial banks to their customers facilitating them to make payments directly using the cash available in the bank account. It is required to have a bank account to obtain a debit card. Goods and services can be purchased using these cards up to the cash balance available in the bank account. When goods and services are purchased using these cards, the relevant amounts will be directly debited to the bank account of the customer.

The special fact about the debit cards is that it transfers the relevant value of a transaction by reducing it from the customers' account and by transferring that to the seller's account via the bank. In addition, it is possible to withdraw cash in the account from the automated teller machines by using these debit cards.

The following are some examples for debit cards.

Examples :-

Sampath Bank – Set Card
Commercial Bank – Cat Super Card

Automated Teller Machine (ATM) Cards

These cards are issued to customers by a commercial bank in order to provide services similar to that of normal savings account. Money can be withdrawn from a savings account using automated teller machines that are operated via a computer. These cards can be used to transfer cash from one account to another account as well. The following are some examples for the automated teller machine cards issued by commercial banks.

Examples :-

Peoples Bank – PET
Bank of Ceylon – CEYNET
Sampath Bank – SET



Figure 1.7 - Electronic money

Importance of the services related to electronic cash

The following advantages can be achieved by using electronic cash for the transactions.

★ Instantaneity

The services related to electronic cash are efficient and methodical. Since all activities are performed via electronic media, banks and customers can save time by doing their activities easily and quickly.

★ Minimizing the risk

The risk of losing cash while carrying it is reduced due to these services.

★ Recording information automatically

Since all activities are performed automatically, transactions are recorded easily and accurately.

★ Ability to transact at any time of the day

Limitations of services related to electronic cash

- ★ Risk of data being destroyed
Problems can arise due to the risk of data being destroyed as a result of technical errors.
- ★ Risk of being exposed to new types of electronic frauds

Example :-

A person can use personal Identification Number (PIN) of another person fraudulently to do transactions

- ★ Incurring an extra cost
When the payments for a credit card are delayed, a penalty for delayed payments and high interest rates will be charged.
- ★ Inability to use for payments at certain shops



Activity 06

The following are some instruments that can be used for making payments.

A note of Rs. 2 000
A cheque
A credit card
A debit card

01. Briefly explain each instrument mentioned above.
02. Prepare a table stating the advantages and disadvantages of using each of the above instruments for settling payments.

1.5 Insurance services

Every individual as well as every businessman has to face risks. It is impossible to identify with certainty when or where those risks would occur. Instant fires, storms, floods, tsunamis, earthquakes, accidents and riots are some such risks.

In order to face to these risks a systematic method should be adopted. Insurance institution give systematic method to minimize these risks.

The basis of insurance is accumulating risk. The insurance collects premiums from individuals who anticipate different risks and pays compensation from that common fund to those individuals who have faced these risks in definite. Insurance accumulates the risks of all into a single insurance funds hence insurance is known as a pool of risks.

Insurance is established to share financial losses among the participating individuals of that insurance fund, of one or few individuals who have worn a risk with difficulty. Insurance is a pool of risks where the losses of one party are shared collectively. This is an agreement between two parties.

Parties involved in insurance

1. First party – The party who obtains the insurance coverage i.e. the insured
2. Second party – The party who provides the insurance coverage i.e. the insurer.
The insurer is the insurance company.
3. Third party – All the other parties and properties will be affected by an insurance contract. For example, the passengers and other vehicles on the roads will become the third party when a vehicle is insured.

Principles of insurance

Insurance service is built on insurance principles of which a few are mentioned below.

- ★ Insurable interest
- ★ Utmost good faith
- ★ Indemnity

Insurable interest

The legal right to obtain an insurance coverage for a life or for a property is known as insurable interest.

Example :-

Husband and wife have insurable interest for each other's life.

In property insurance, the legal owner of such property has an insurable interest.

A creditor has an insurable interest over the life of the debtor up to the value of the loan.

Utmost good faith

This principle states that both parties to the insurance contract should disclose all the relevant information accurately for the contract. The parties involved in the contract are the insurer and the insured. The insurer is the insurance company and the insured is the party who has obtained the insurance coverage. If either party does not disclose any important information it will be a breach of utmost good faith. Then both parties have the legal right to cancel the insurance contract.

Indemnity

This principle states that if a loss occurs to an insured property, the compensation paid should be sufficient only to reinstate the damage to the previous state. This principle does not apply to the life insurance.

Example :-

When a motor vehicle having a value of Rs. 2 000 000 is insured for the same value, a compensation of Rs. 500 000 can only be obtained for a damage valued Rs. 500 000.

Life insurance

Insurance provides a vital service for individuals. If an insured dies prematurely, his dependents can obtain the compensation from life insurance. Life insurance covers the risks associated with the life of an individual. Life insurance is also termed as life assurance.

Accidents, health issues, surgeries undergone by individuals and hospital charges etc. can also be included as additional covers into the life insurance contract.

Importance of life insurance

- ★ Can be used as a method of saving or investment
- ★ If the insured survives until the policy matures the insured can obtain the insured value and other benefits
- ★ If the insured dies prematurely, the named dependents can obtain the compensation
- ★ Can obtain financial assistance in case of marriages and education of children
- ★ Can be used as a collateral when obtaining loans from financial institutions

Property insurance

Property insurance is the insurance obtained to cover damages that might occur to property such as buildings, machineries, vehicles and inventories.

Insurance companies issue various types of insurance policies under this insurance.

Example :-

Fire insurance, Motor insurance, Marine insurance, Insurance for natural disasters

Importance of property insurance

- ★ Cover financial losses arising in an organization from the various risks.

Example :-

threat of fire, burglary, occupational hazards



Figure 1.8 - A vehicle met with an accident

- ★ Facilitate in conducting business operations continuously

Since the insurance pay compensation for the massive damages faced by businessmen, it facilitates a business to be reinstated to the previous state and continue the operations.

- ★ Supports both in domestic and foreign trade activities

Example :-

Marine insurance, Goods in transit insurance, Export credit insurance, Cash in transit insurance

Differences between life insurance and property insurance.

The following table provides several differences between these two insurances.

Life insurance	Property insurance
The value of the policy depends on the risk of the life and the insured's ability to pay.	The value of the policy depends on the monetary value of the property.
Since the damage to the life cannot be reinstated, the principle of indemnity does not apply.	Since the compensation can be paid only to reinstate the property, the principle of indemnity does apply.
Benefits such as bonuses, interests etc will be received in addition to the insured value.	Not entitled for such additional benefits.



Activity 07

State whether the following statements are **true or false**.

No.	Statement	True/ False
01	Life insurance covers the risks related to the life of an individual.	
02	Insurance collectively shares the loss of a participating party to an insurance fund among all participating parties of the fund.	
03	When a property or a life is insured, the risk of those will be eliminated.	
04	The value of a property insurance will be determined by the willingness and the ability to pay of an individual.	
05	When obtaining an insurance policy, the insured and the insurer should disclose all the relevant information.	
06	When a vehicle is insured for the value of Rs. 2 500 000, as compensation the entire Rs. 2 500 000 can be obtained in the case of a loss estimated to Rs. 1 000 000.	
07	Indemnity principle does not apply for life insurance.	
08	An individual has the legal right to insure any relative.	

1.6 Communication services

Communication is an important supporting service required for the successful operation of a business. Communication is known as the exchange of messages, information and ideas among different parties through any medium.

Importance of communication for business activities

Today, a revolutionary growth can be observed communication parallel to the development of information technology. Accordingly, different communication methods are in use. In this competitive market, communication technology has become an essential service for the success and survival of businesses.

The communication is important to obtain required information for the business as well as to provide information to the various stakeholders of the business. Since we are now living in an information technology era, communication is vital for businessmen in order to make different decisions.

Communication can be divided into two main parts depending on the various stakeholders.

01. Internal communication
02. External communication

Internal communication

This means communicating messages, information and ideas via various mediums between different parties within an organization. This communication always occurs among owners, managers and other employees. Since internal communication is required when performing the business activities, the frequency of occurrence of this communication is very high. Further, in internal communication the distance between the sender and the receiver is minimum.

External communication

External communication is the communication of a business with external individuals and external organizations. This communication occurs with individuals such as different customers, suppliers, retailers, wholesalers and agents and with governmental and other organizations. The external communication occurs in less frequency compared to internal communication. Further, the distance between the sender and the receiver is relatively high.

Different communication mediums used by businesses

A business uses different communication mediums for communicating with internal and external parties. Depending on their nature the communication mediums can be categorized as follows.

Nature of the communication	Examples for communication mediums
Verbal	Meetings, Discussions, Workshops, Conferences, Telephone conversations
Written	Letters, Notice boards, Reports, Hand bills, Newspapers, Magazines, Banners, Posters
Electronic	Loud speakers, Digital display boards, E-mail, Fax, Internet, Broadcasting medium, Telecasting medium, Social web sites
Codes and signals	Road signals, Universally accepted signs, Bell

Although the above communication mediums are categorized broadly into four, most of the time they cannot be limited only to one category depending on the nature of the communication.

Example :-

Telephone conversations – Electronic/ Verbal

E mail – Electronic/ Written

Skype – Electronic/ Verbal/ Written



Figure 1.9 - Mobile phones

Process of communication

Communication is not a single activity but a process comprised of few common elements.

Sender - the person or the institution sending the message

Message - information conveyed by the sender

Medium - the communication medium used for sending the message

Receiver - the person receiving the message

Response - how the receiver act on the message

Feedback - reply, either verbally or non-verbally, regarding the message sent from the receiver to the sender

This process can be explained by the figure given below.

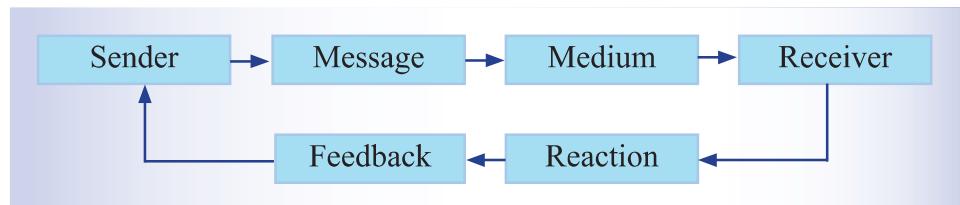


Figure 1.10 - Process of communication

Factors to be considered when selecting an appropriate medium of communication

Any individual or an institution need to consider several factors when selecting a communication medium in order to carry out communication activities productively and effectively.

★ Appropriateness

An appropriate communication medium requires to be selected depending on the information expected to be communicated and the objectives of communication.

★ Speed

An appropriate communication medium needs to be selected depending on how quickly the information to be delivered.

★ Cost

The total cost for communication is an important factor to be considered. Due to the advancement in technology, low cost communication methods have been created.

Example :-

Short Message Service (SMS)

★ Clarity

The receiver should be able to understand the message clearly.

★ Easy to use

The communication medium should be easy to use depending on the knowledge and skills of the sender and the receiver.



Activity 08

Communication is important not only in businesses but also in education. State the facts to prove this statement.

1.7 Transportation services

Transportation can be explained as moving goods and passengers from one location to another location. Transportation is an essential service not only for the business activities but also for the development of the entire society. Nowadays, business activities have become efficient due to the development in the transportation services.

Elements of transportation

Transportation is not just a fleet of vehicles. It is a system that consists of several elements. Those elements are given below.

- ★ The way
- ★ Transportation medium
- ★ Power
- ★ Terminal



Figure 1.11 - A scenery of a harbour

★ The way

This means different ways used for transports. These ways can be categorized mainly as roads, railways, water ways and air ways. Some ways are man made whereas some are natural.

★ Medium

Different types of vehicles and crafts used in different transportation ways are known as medium of transportation.

Examples :-

Buses, Trains, Ships, Aero planes

★ Power

The energy used to run transportation medium is known as the power. Today, different types of energies are used due to the advancement in technology.

Examples :-

Solar power, Gas, Electricity, Fuel, Hybrid technology

★ Terminal

Terminal or a station is the place where the medium of transportation is handled. The terminals are known in different names.

Examples :-

Bus stop, Port, Railway station, Air port

The advancement in the elements of transportation mentioned above enables the development of the entire field of transportation.

Factors to be considered when selecting an appropriate transportation medium

Businessmen consider the following factors when selecting an appropriate medium of transportation.

★ Nature of the good

According to the factors such as the nature of the good, existence, expiry period, weight and value, the transportation medium used will be varied.

Examples :-

Using fuel tanks to transport fuel

★ Cost of transportation

The total cost of transportation is an important factor to be considered. The ultimate result of higher transportation cost is that it will increase the price of a good.

★ Capacity

Capacity is the load of goods that can be carried by a medium of transportation in one instance. A businessman should select an appropriate transportation way and a medium based on the load of goods that is expected to be transported.

Examples :-

A bigger load of goods can be transported via train than a lorry

★ Security

The medium of transportation should be able to transport the goods securely to its destination.

★ Speed

Transporting quickly is vital when transporting certain goods, raw materials as well as employees. Since fast transportation saves time, it provides an opportunity to conduct business activities efficiently.

★ Being common

A businessman should have the ability to select a medium of transportation without much difficulty or effort. If any medium of transportation is not commonly available, although it is cost effective, then attention needs to be paid to another medium that can be obtained easily.

Examples :-

Trains cannot be used as a medium of transportation at any given time since trains are available only at a certain time and on certain routes

How transportation contributes to the effectiveness of business activities

Transportation plays a significant role as a supporting service in order to conduct business activities effectively. Today, it contributes to expand the market as well. Given below are some business activities carried out using transportation services.

- ★ To obtain resources required for production

Transportation services are used to obtain raw materials, machinery and equipment safely and on time. Some resources are obtained locally as well as globally.

- ★ To deliver finished goods to the markets

Transportation services are required for distributing finished goods to various local and global markets.

- ★ To transport employees

Employees should be present at work on time in order to conduct business activities efficiently. Some businesses provide transportation facilities to their employees.

- ★ To deliver goods to the consumer

Some businesses producing goods such as furniture, electronic equipments and food and beverages etc provide delivery facilities to the consumers by delivering the purchased goods to their home.

Ways of transportation

Transportation ways are different routes and roads used for accomplishing both business and personal transportation activities. The following are some ways of transportation.

- ★ Roads
- ★ Rail ways
- ★ Water ways
- ★ Air ways

Road transportation

This means the transportation done using roads on the land. The road system has an important place within the transportation system of Sri Lanka. The transportation using roads has following advantages and disadvantages compared to other ways of transportsations.

Advantages of road transportation

- ★ Can be used up to the destination

Road transportation is the transportation way which can be used up to the destination.

- ★ Can be used at any time

Businessmen as well as individuals can use roads for transportation at any time of the day.

Disadvantages of road transportation

- ★ Delays due to traffic congestion

Delays can occur due to road traffic because of the large number of vehicles.



Figure 1.12 - A traffic congestion

- ★ Relatively a higher rate of accidents on the roads

Since some drivers do not obey road rules, there is a high risk of having road traffic accidents.

- ★ Impact on the environment

Environmental pollution occurs due to the gasses emitted and other solid wastes from vehicles.

Railway transportation

Railway transportation is the movement of goods and passengers using rail roads. Sri Lanka has a limited number of rail way lines such as Coastal Railway Line, Upcountry Railway Line, Northern and Kellani Valley Railway Line. The railway transportation has following advantages and disadvantages compared to other transportation ways.

Advantages of railway transportation

- ★ Ability to transport a heavy load of goods and passengers at once

Since rail way transportation can utilize a greater number of rail road cars. It has a high capacity to transport passengers and goods in one instance compared to road transport.

★ Special transport services for long distances

These trains provide special facilities such as observation cars, sleeping cars, air conditioned cars and restaurants etc.

★ No traffic on the railway roads

There is no traffic congestion on rail way roads since trains run according to a time table and only a limited number of trains are available.

Disadvantages of railway transportation

★ Often cannot be used up to the destination

Since rail way lines are not spread across the island cannot be used up to the destination. Therefore, another transportation medium has to be coupled with the rail way transportation.

★ Passengers cannot use rail way services at any time they require since trains run only according to a time table

★ If an accident occurs, it takes a long time to restore the rail ways

Compared to other ways break down in signal posts, rail way roads or any delays arising due to other road accidents consumes a long time to restore.

Air way transportation

Air way transportation is the movement of goods and passengers via air ways. A country use air transportation for both internal and international transportation activities.

The air way transportation has following advantages and disadvantages in comparison to other transportation ways.

Advantages of air way transportation

★ Comparatively high speed

It is suitable for transporting perishable goods. In addition, any individual such as businessmen, government officials often use air transportation when they want to go abroad for urgent matters.

★ Higher comfort for passengers

Passengers are facilitated with comfortable seats, television and internet facilities while traveling.

★ Facilitate international trade

Facilitates in obtaining required raw materials and finished goods for businesses and distributing local goods to global markets.

Disadvantages of air way transportation

★ High cost for transportation

Air way transportation cost is comparatively higher than the cost of other transportation ways.

★ Severity of an accident is high

If an accident occurs on the air ways, the severity of the damage is high.



Figure 1.13 - A scenery of an air crash

★ Cannot transport heavy goods

Often it cannot be used for transporting heavy goods.

Water ways transportation

This is the transportation done using water ways such as oceans, rivers and canals etc. Water ways transportation can be used for both internal as well as international transportation activities of a country. Our country uses ocean transportation more commonly. The water ways transportation has following advantages and disadvantages compared to other transportation ways.

Advantages of water ways transportation

★ Can transport a large quantity of goods and passengers in one instance

Transportation mediums such as ships and rafts can transport a load of goods and passengers at once.



Figure 1.14 - A cargo ship

★ Comparatively lower cost of transportation

Cost of transportation is lower when compared to air way transportation.

★ Facilitate international trade

The development of ocean transportation has facilitated the growth of international trade.

★ Can transport heavy goods

Ships can transport heavy goods in large quantities compared to air ways transportation.

Disadvantages of water ways transportation

- ★ Time consuming for transporting goods
Since the speed of ships is low, it consumes a long time to transport to distant destination.
- ★ Inability to reach every destination
As certain countries and certain areas in the world are not connected to an ocean, this transportation method cannot be used.



Activity 09

The following are examples for some events related to the transportation sector in Sri Lanka. Name the relevant element of transportation for each event.

01. Expanding the Colombo harbor
02. Reducing the prices of diesel, petrol and kerosene
03. Planning to develop a new road between Matara – Katharagama
04. Ceylon Transportation Board importing 200 small buses in order to use in the transportation in rural areas
05. Introducing a new solar power system to obtain power to run vehicles
06. Building two new rail way stations with all the facilities
07. A company buying three new air planes
08. Repairing the damaged roads in rural areas by using concrete



Activity 10

The following are four incidents using transportation services.

- Distributing dry food for people suffering from floods in the Eastern area
- Importing ten train engines to Sri Lanka from China
- Going to Colombo from Galle for an emergency
- Bringing a load of salt to Colombo from Jaffna

01. State different transportation ways that can be used for each instance in the activity above.
02. State two mediums running in each transportation way above.
03. Select the most appropriate transportation medium for each activity and explain the reasons for selecting that medium.

Chapter 02

Management

This chapter discusses the followings.

2.1 Introduction to management

2.2 Functions of management

Planning

Organizing

Leading

Controlling



2.1 Introduction to management

Current economic and social development has resulted a great number of businesses that fulfill the expanding human needs and wants. These businesses operate with an expectation of achieving specific objectives while satisfying human needs and wants.

Although there are large number of businesses, all businesses are not operated successfully. There are situations where some businesses are closed down due to their unsuccessful business operations. The success or failure of a business depends on the extent to which a business achieves its objectives. If a business is to achieve its expected objectives it has to use its resources productively.

In general, the nature of the resources are that they are limited compared to the unlimited human wants. Businesses also face this limitedness of resources. Since the resources such as labour, raw materials, cash etc owned by a business are limited, business should have the ability to utilize such resources to obtain the maximum benefit while minimizing the wastage.

Therefore, a business should always employ methods which enables it to use limited resources in an effective manner. It means that a business should aim at obtaining a higher level of output with limited resources. In a business this objective is achieved through management.

Management is the process of planning, organizing, leading and controlling the resources owned by a business in order to achieve objectives of a business efficiently and effectively.



Effectiveness means using resources to achieve the expected objectives and efficiency means using resources to obtain the maximum output from minimum resources.

2.2 Management processes

Management is a continuous process which consists of four main processes or management functions. They are,

01. Planning
02. Organizing
03. Leading
04. Controlling



Figure 2.1

Each process of management can be introduced as follows.

Planning

Planning is the process of determining the objectives of a business and determining the activities to achieve these objectives.

Example :-

A business constructing and selling houses plans to earn a profit by selling quality houses to its consumers



Figure 2.2

In order to achieve this objective, the following activities can be planned.

- * Determining how the construction and selling will be carried out
- * Determining the required resources and employees
- * Determining how to obtain the required resources

Organizing

Organizing is the process of distributing required resources, job roles and tasks in order to implement the planned activities, to achieve the objectives of a business.

In order to implement the plan mentioned in the above example, the activities can be organized as follows.

- * Appointing managers responsible for construction and sales activities of the business
- * Allocating employees for each section and required resources to both managers and employees



Figure 2.3

Leading

Leading is the process of directing human resources appropriately when implementing the planned process. They should be led by giving the required information and instructions and motivating them to do the relevant activities.

The leading process of the above mentioned example can be implemented as follows.

- * Production manager and sales manager providing the required information and instructions to their employees
- * Motivating employees to do their jobs appropriately by maintaining good professional relationships with them

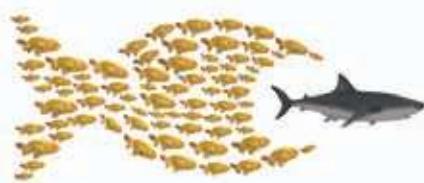


Figure 2.4

Controlling

Controlling is the process of finding out whether the business activities are implemented as planned and if not, identifying errors and taking necessary measures to correct them.

The controlling process of the above mentioned example can be done as follows.

- * Finding out whether houses are constructed with the expected quality
- * Finding out whether those houses have been sold as planned
- * If construction and selling have not been carried out as planned finding out reasons for that
- * Planning necessary measures to avoid such errors



Activity 01

Following statements are regarding the management process. If each statement is ‘true’ put ‘✓’ or if ‘false’ put ‘✗’.

No.	Statement	✓ / ✗
01	A business needs management to obtain maximum benefits from limited resources.	
02	Every business operates in order to achieve a specific objective or several objectives.	
03	In developed countries in the world, resources available for satisfying human needs are unlimited.	
04	Management is a continuous process of consisting of several functions.	
05	The planning process includes determining objectives of a business as well as determining ways for achieving the objectives.	
07	Organizing consists of activities related to delegating tasks to achieve planned activities, appointing individuals for those tasks and delegating responsibilities and duties for them.	
08	Leading means managers guiding their employees on the tasks that they have to perform.	
09	Controlling means finding whether the activities have been implemented as planned and if not, finding reasons for that and re-planning to correct them.	



Activity 02

The Commerce Society of Kawanthissa Central College has conducted the Commerce Day successfully. Several activities of the adopted process for the event are given below.

- ★ Determining a theme for the Commerce Day
- ★ Determining a date, time and venue
- ★ Determining the activities to be done for the Commerce Day
- ★ Appointing committees depending on the activities
- ★ Appointing leaders for the committees
- ★ Nominating members for committees
- ★ Determining how to obtain the required funds and resources
- ★ Allocating funds and resources to the committees.
- ★ Committee leaders providing the required instructions for their members
- ★ Committee leaders employing their members in the respective activities
- ★ Finding out whether each committee functions accordingly.
- ★ Finding out whether there would be any draw back that would occur on the Commerce Day and taking necessary measure to overcome them
- ★ At the end of the Commerce Day, preparing a report analyzing the reasons for the success and draw backs

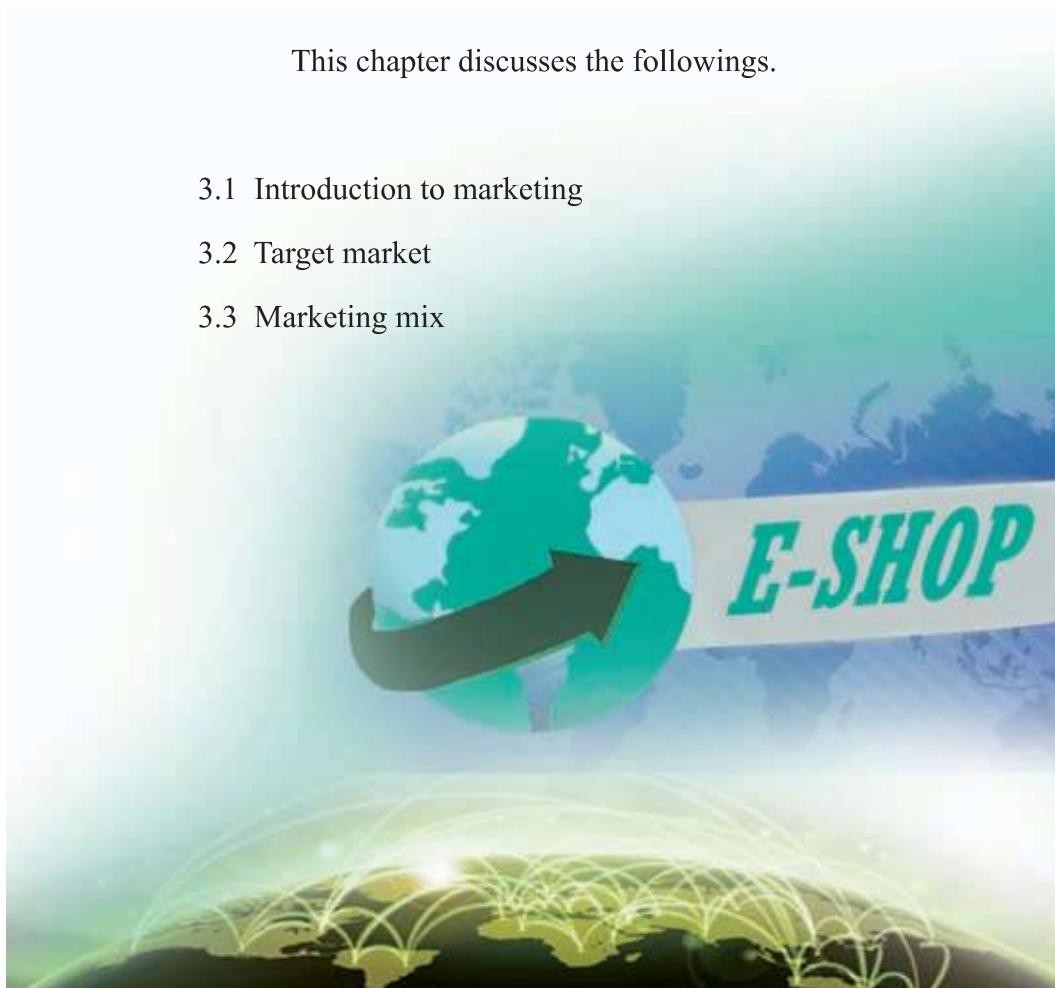
Categorize each activity given above under each process of the management.

Chapter 03

Marketing

This chapter discusses the followings.

- 3.1 Introduction to marketing
- 3.2 Target market
- 3.3 Marketing mix



3.1 Introduction to marketing

As a consumer, you expect a business to supply quality goods and services at a reasonable price in order to satisfy your needs and wants. A business performs various activities in order to provide this expected service and marketing is one of those activities. Accordingly, marketing is a process which links the process of supplying required goods and services to fulfill consumer needs and wants.

Marketing consists of activities from the manufacturing of goods until they are distributed to the consumers as well as services provided after sales.

Accordingly, the marketing concept can be simply explained as follows.

Marketing is the process of creating and offering a valuable product to satisfy human needs and wants.

The activities belong to marketing are,

- * Creating a good or service that can better satisfy a human need or a want
- * Introducing the designed good or service to the consumers in an attractive manner
- * Marking a reasonable price
- * Distributing a good or service to the consumer in the most simple and appropriate way
- * Finding out consumer feedback regarding the good or service and providing after sales services



Figure 3.1

Marketing is an important concept for businesses because a business will be successful through satisfying consumer needs and wants. Marketing is essential for a business in order to attract new customers as well as to retain the existing customers with the business.