**COMMERCE**

FIRST TERM

SCHEME OF WORK FOR SS2.

WEEK TOPIC

1. Revision/Public Enterprises.

* Meaning, formation and management of public enterprises.
* Sources of capital, reasons for govt. ownership of public enterprises, Advantages and disadvantages.

1. Limited Companies.

* Meaning, Types, Private, Public
* Formation legal requirement (a) memorandum of association (b) article of association.

1. Limited Companies (cont’d)

* Source of Capital

1. Shares (b) Stocks (c) Debentures (d) Retained Profits (e) Loan and Over-draft (f) Trade Credit (g) Leasing, factoring. Advantages and disadvantages.
2. Cooperative societies – Definition, history, characteristics, Types of cooperative societies, advent
3. ages and disadvantages, problems of cooperative societies, similarities and differences between cooperative society and company.
4. Commodity Exchange

* Meaning, Tradable, types: Agricultural produce, solid minerals, oil and gas, etc.

1. Requirement for trading: trading system, ware housing, clearing system, standardizing methods

Agricultural production, Agricultural product.

* Benefits of commodity exchange, encourage exploration of solid minerals, foreign exchange earing, improved agricultural output and quality.

1. Constraints to commodity trading, inadequate supply, poor storage, bad weather, middlemen, ethical issues, inadequate knowledge of the workings on commodity exchange. Differentiate between commodities and stock items traded intangible, tangible etc. method of pricing.

1. Buying and selling (Documents) procedures of buying and selling, essential documents:- letter of enquiry, invoice, credit note, debit notes, receipts, quotation, catalogue, etc.
2. Terms of Trade:

* Trade discount, cash discount, quality discount, carriage forward prompt delivery, carriage paid etc. Trade abbreviations: C.O.D, C.I.F, F.O.B, F.O.T, and E and O.E.

1. Terms of Trade cont’d.
2. Exams.
3. Exams.

**PUBLIC ENTERPRISES**

Meaning: These are special organization set up by the government

Through the act of parliament, managed and controlled by the government to perform essential services to the citizens of the county.

OR

Public enterprises/corporation are businesses owned and run by the government in the public interest.

OR

Public corporation, also known as public enterprises or statutory corporation may be defined as a large scale business organization set up, owned and financed by the government of a country mainly to provide services to the members of the public.

**FORMATION**

Public corporation are government enterprises that have commercial functions, which are normally established at the federal level, by an act of parliament which specifically creates the corporations.

The act states the objectives and aims of the corporation specifies its powers and how it is to be run and managed.

**FORMS OF PUBLIC ENTERPRISES**

1. PUBLIC UTILITIES: These are government parastatals that provide essential services to the citizens at subsidized cost. This will ensure balance between social and economic objectives e.g. water corporation.
2. POLITICAL BOARD: These are autonomous establishment which execute the policies of the government within a specific area. Example is schools management board.
3. COMMERCIAL ENTERPRISES: These are government owned bodies set up to create competitive environment and make profit from their operation. They are autonomous in structure and operation e.g. NITEL.

**SOURCES OF CAPITAL**

1. **GOVERNMENT GRANTS**: This is the major source of capital to public enterprises. They receive budgetary allocation from the government.
2. **LOAN FROM BANKS**: public corporations can obtain loan from financial institutions to expand their operation.
3. **INTEREST ON FIXED DEPOSIT:** Another source is the interest received from deposit with banks.
4. **INTERNAALLY GENERATED REVENUE:** Public enterprises also generate revenue internally, for example Lagos state university teaching hospital generate a lot of money from patients.
5. **DONATION AND GIFT:** They can also receive donation and gift from friendly countries or international institutions.

**REASONS FOR GOVERNMENT OWNERSHIP**

**OF PUPLIC ENTERPRISES**

1. **ESSENTIAL SERVICES**: Public enterprises provide services which are vital to the citizens and which should be provided without the motive of profit for the overall good of the masses.
2. **AVOIDING WASTE AND DUPLICATION**: It should be more economical run water and electricity undertakings as states monopolies because laying alternate pipes and power lines across the roads and in people’s houses would be wasteful.
3. **CAPITAL REQUIREMENTS**: The capital needed to establish most of the public utilities is so huge that it cannot easily be afforded by private persons.
4. **GOOD INFRASTRUCTURAL BASE**: A good network of roads and railways, powers, communications, etc. will lay a solid foundation for rapid economic development and progress in the country.
5. **EVEN DEVELOPMENT**: The policy of government is to encourage even development and bring about equitable distribution of the country’s wealth. To achieve these objective the key industries and organizations should be in the hands of the government.
6. **SOCIAL SERVICES**: If education and health matters are left in the hands of the government, it will be possible to establish more schools and hospitals and run them for the benefit of the rich and poor alike.
7. **SOCIAL SECURITY**: Privatization of the commanding heights of the economy amounts to mortgaging the country to private individuals who will then wield so much economic power that the country becomes a mere pawn in the hands of profit seeking businessman. A ready example today is that if the Dangote Group sneezes, the whole country shakes.
8. **NATIONAL SECURITY**: For reasons of national security, the government might decide that management and control of certain industries and organizations should be in its hands. For instance, the Army and police are under the country of the federal government.
9. **MUTUAL RESPONSIBILITY**: Government expects citizens to pay tax as responsible citizen. The citizens on their part expect the government to fund public utilizes with the tax they pay, privatizing public utilizes they removes the basis for demanding tax from citizens.

**REASONS FOR PUBLIC ENTERPRISES**

1. Provision of essential and infrastructural facilities.
2. For security and strategic reasons.
3. Limitation of foreign control of the economy.
4. Safeguard economy and political interest.
5. Large capital requirement.
6. Generation if revenue.
7. Control of monopoly power.
8. Avoidance of wasteful duplication of resources.
9. To stabilize price.
10. Economic development.
11. Employment opportunities.
12. Increase in the standard of living.

**ADVANTAGES OF PUBLIC ENTERPRISES**

1. **LEGAL ENTITIES**: Public enterprises are separate legal entities distinct from the owners. They can sue and be sued in their names and can enter into contract on their own.
2. **REVENUE GENERATION:** The government generates a lot of revenue from its participation in public enterprises. Government can receive income from dividend rates and fees.
3. **PERPETUAL EXISTENCE:** There is continuity in public enterprises. Death or retirement of any member cannot bring the organization to an end.
4. **PROVISION OF SOCIAL AMENITIES:** They provide the public with social amenities at a reduced cost. Basic infrastructure facilities that are essential for economic development such as road and electricity are provided by public enterprises.
5. **LARGE CAPITAL FOR EXPANSION:** The government because of its large financial resources provides large capital. This will funds available for large-scale investment.
6. **PREVENTION OF WASTEFUL DUPLICATION OF SERVICES:** For instance, if two supply of pipe borne water is in the hands of individuals, there will be a lot of dams and pipes.
7. **ECONOMIES OF LARGE-SCALE PRODUCTION:** Combination of greater resources may help in securing economies of large scale production.
8. **PREVENTION OF EXPLOITATION OF CONSUMERS:** Public enterprises help to control price and ensure stability. This will prevent the exploitation of the consumers by private businessmen. Most social and essential services are provided at subsidized rate to the public.
9. **ACCOUNTABLE TO THE PUBLIC:** Another major advantage is their accountability to the general public through the submission of annual reports and statements of accounts to the National Assembly.
10. **PROVISION OF EMPLOYMENT OPPORTUNITIES:** To regulate the economy of a nation and ensure full employment of its citizens. Many public corporations provide employment for the people. The federal government is the largest employer of labour in Nigeria.

**DISADVANTAGES OF PUBLIC ENTERPRISES**

1. No privacy.
2. Delay in decision-making process.
3. High cost of production.
4. Corruption and embezzlement.
5. Danger of government interference.
6. Inefficiency.
7. Inadequacy of funds.
8. Lack of competition.
9. Not profit oriented.

ASSIGNMENT

State the reasons for government ownership of public enterprises

**LIMITED LIABILITY COMPANIES ( WEEK 2&3)**

Acompany is an artificial person which is recognized in law as a separate legal entity. It is also referred to as joint stock Company that makes profit by producing or selling goods and services. It can only act though its organs like the board of directors and shareholders.

NOTE: A company is an artificial entity recognized in law as having personality in the sense that it may be a party to the legal relationship. Examples are Zenith bank plc. Nigeria breweries plc and Flour mill plc.

**KINDS OF COMPANIES**

The following are the three kinds of companies:

1. COMPANIES LIMITED BY GUARANTEES: These are companies having the liability of its members limited by the memorandum of association to the amount they undertake to contribute to the assets of the company to meet its liability at the time of winding up.
2. UNLIMITED COMPANIES: These are companies having to limit to liability of members in the event of liquidation members will be liable to the full amount of liability e.g oil prospecting companies in the event of liquidation, members properties to be sold to offset its liabilities.
3. COMPANY LIABILITIES BY SHARES: These are companies having the liabilities of members limited by the memorandum of association to the amount of unpaid on their shares at the time of winding up.

**CHARACTERISTICS OF A LIMITED LIABILITY COMPANY**

(a). LEGAL PERSONALITY: A limited liability company has all the attribute of a person. The fundamental attribute of cooperate personality is that the company is a legal entity distinct from its members. It can sue and be sued.

(b). LIMITED LIABILITY: The liability of members is limited to the amount of shares held in the company.

(c). PERPETUAL SUCCESSION: The company can exist for a long period. The death of a member will not affect the existence of the company once registered become an entity different from the owner.

(d). SEPARATION OF OWNERSHIP FROM MANAGEMENT: Here the ownership is separated from the management. The management of a registered company is the responsibility of the board of directors, shareholders cannot interfere.

(e). REGISTRATION WITH THE CORPORATE AFFAIRS COMMISSION: A company must follow some special formalities before registration with the corporate affairs commission.

(f). PUBLICATION OF ANNUAL ACCOUNT: The financial statements should be prepared, audited and published in the dailies annually.

(g). ACCESS TO CAPITAL INVESTMENT: It is very easy for a company to raise more capital by means of subscription for members of the public.

(h). RETAINED EARNINGS: A limited liability company can plough back part of its profit and the rest will be distributed as divide end.

**TYPES OF LIMITED LIABILTY COMPANY**

A company limited by shares may be:

1. Private limited liability Company.
2. Public limited liability Company.
3. PRIVATE LIMITED LIABILIES COMPANY: A private company is formed by an association of specific number of people. It is defined by section 22 of CAMA 1990 as a company, which by its Articles limits the number of its members to fifty and restricts the right to transfer its shares. Example is Adebowale Electrical Limited.

**FEATURES OF PRIVATE COMPANY**

1. It must be stated in its memorandum to be a private company.
2. Restricts the transfers of its shares.
3. Two to fifty people are required to set it up.
4. It prohibits any invitation to the public to subscribe to its shares.
5. Appointment of directors may be done in a simple way.
6. Its shares are not quoted on the stock exchange market.
7. PUBLIC LIMITED LIABILITY COMPANY: This is any other company that does not qualify under the private company. Sections of CAMA defined it ‘as a company which allows the public to subscribe to its shares and whose shares are transferable. Examples are Total Plc and UBA Plc.

**FEATURES OF A PUBLIC COMPANY**

1. The word “public” must be stated in the memorandum.
2. Does not restrict the right to transfer its shares.
3. It must be formed by at least seven people but no limit to number of shareholders.
4. It can place invitation to the public to subscribe for any shares of the company.
5. It must publish its annual accounts.
6. Its shares are quoted on the stock market.

**FORMATION AND REGISTRATION PROCEDURES**

There is more formality attached to the formation and operation of a company than to other business units. In turning a company, the promoters will follow the companies and Allied Matters Decree of 1990.

**CONDITIONS FOR INCORPORATION OF LIMITED LIABILITY COMPANY UNDER CAMA 1990**

PROMOTER: This is a person who carries out the necessary preliminary work in the formation of a company.

**PREPARATIONS OF MEMORANDUM OF ASSOCIATION**

Memorandum of Association is the constitution of a company, which governs the relationship of a company with the outside world. It contains the regulations of the company in connection with its dealing with the outside world.

**CONTENTS OF MEMORANDUM OF ASSOCIATION**

1. NAME OF THE COMPANY: The name of the company will be stated and followed by the word ‘limited’ or ‘ltd’.
2. THE OBJECTS OF THE COMPANY: It will set out the object of the company. The reason for the formation and the kind of business to be embarked upon should be stated.
3. LIMITED LIABILITY: It will be expressly stated that the liability of numbers will be limited to the amount invested.
4. AMOUNT OF AUTHORIZED CAPITAL: The memorandum will state the total value of nominal capital which the company is registered.
5. STATUS OF THE COMPANY: It will state the states of the company whether a private or public.
6. REGISTERED OFFICE: The registered office of the company should be stated i.e, the head office address.

**PREPARATION OF ARTICLES OF ASSOCIATION**

This is a document, which prescribes the rules and regulations governing the internal working of the company. It contains the internal rules for conducting the business of the company. It may be altered with the agreement of majority shareholders.

**CONTENTS OF ARTICLES OF ASSOCIATION**

1. Right of shareholders.
2. Remuneration of auditors.
3. Conduct of general meeting.
4. Names and powers of directors.
5. Appointment of directors.
6. Transfer and forfeiture of shares.
7. Auditing of accounts.
8. Payment of dividends.

**SOURCES OF FINANCE**

1. Bank overdraft.
2. Commercial paper.
3. Trade credits.
4. Factory.
5. Bill discounting.
6. Bank Loan.
7. Hire purchase.
8. Venture capital.
9. Equipment leasing.
10. Issues of debenture stocks.
11. Retained earnings.
12. Fresh issue of shares.

**DISADVANTAGE OF LIMITED LIABILTY COMPANY**

1. Lack of privacy in financial reporting.
2. Slow decision-making process.
3. Separation of ownership from management.
4. Subject to many legal restriction.
5. High taxation.

F. Requirement of too much documentation.

G. Conflict of interest between shareholder and directors.

H. High cost of preliminary expenses.

I. Inflexibility in business operation.

**KEY TERMS**

**CERTIFICATE OF INCORPORATION**

This is a document by the register of companies after all necessary documents have been drawn and submitted. This gives the company legal existence once a company is incorporated, it has legal status that is it has become a person in the eyes of the law and is distinct form its shareholders. The company is said to have separate legal personality.

**CERTIFICATE OF TRADING**

This is a certificate given to a company to commence trading after it has been issued with the certificate of incorporation public liability companies can only commence operation after it has received the certificate of trading. Private companies can commence operation immediately it is issued with the certificate of incorporation.

ASSIGNMENT

1. State the content of article of association
2. Differentiate between certificate of incorporation and certificate of trading

**CO-OPRATIVE SOCIETY (WEEK4)**

DEFINITIONS.

1. A cooperative society is any group found by individuals with common interest who contribute money in form of capital to promote the business interest of members.
2. A cooperative society is a form of voluntary self-help business organization in which individuals, sole proprietors, traders or producers unite to foster their good and individual business interest.

**FEATURES OF CO-OPERATIVE SOCIETY**

A cooperative society have the following characteristics:

1. Democracy each member has only vote regardless of contribution made to the society.
2. Profit distribution is based on patronage. Any surplus is distributed among members according to the purchase made. i.e amount of goods purchased.
3. Private ownership: It is owned by private individuals, that is, it is not owned by the government.
4. Promotion of member’s interest: It is set up by the people with common interest in order to promote their business interest and for the provision of other welfare benefits.
5. Open and voluntary membership: Any person can be a member thus membership is open to everybody who is interested in becoming a member. There is no restriction of membership.
6. Perpetual existence: A cooperative society is similar to a limited liability company, as it can exist in perpetuity.
7. Registered under cooperative law: Most cooperative societies are registered under the cooperative law.
8. Limited liability: The liability of members is limited to the amount contributed to the society.
9. Control and managed by the committee: A committee is set up by the members to manage and control the affairs of the society.

**TYPES OF COOPERATIVE SOCIETY**

1. Retail cooperative society: This is established and managed by a voluntary group of retailers in order to make goods readily are valuable to members at reduced price. The members pool their resources together in order to purchase in back and then sell the goods at reduced price to members.
2. Producers cooperative society: This is an association of producers of similar goods who have come together to promote the production, marketing and sales of their product. They enjoy large scale buying of raw materials and equipment at reduced price. Members are taught new techniques of production they combine the factors of production to produce goods at reduced prices.
3. Wholesalers’ cooperative society: This is made up of wholesalers who pool their resources together to purchase goods in large quantities to the retailers, wholesalers cooperative society buys in bulk at reasonable price from the manufacturers.
4. Consumer Cooperative society: This is formed by consumers who pool their resources together to enable them buy goods directly from the producer at cheaper price. This form of corporative society deals mostly in consumer goods.
5. Credit and thrift society: This is a society in which members make contribution to a fund and out of which they apply for loan. The interest changed on the loan is usually very low.it save the problem of getting loan from the bank at higher interest rate.
6. Multipurpose cooperative society: This is a cooperative movement, which combines all the function of all societies. They engage in different form of ventures that members consider profitable and is of interest to the society and members.it engage in any business that a cooperative can do without changing its law. This ensure greater profitability to the society.

ADVANTAGES OF COOPERATIVE SOCIETY

1. Profit is exempted from tax.
2. Operation on democratic basis.
3. Provision of loan facilities to members.
4. Educating members.
5. Range scale production.
6. Low cost advertising.
7. Encourage joint marketing of products.
8. Encouragement of savings habit.
9. Collective use of factors of production.
10. Pooling of resources for invest.

DISADVATAGES OF COOPERATIVE SOCIETY

1. Misappropriation of fund.
2. Inefficient management.
3. Low returns on investment.
4. Problems in loan recovery.
5. Insufficient capital.
6. High level of illiteracy.
7. Unnecessary government interference

**GENERAL PROBLEMS FACING COOPERATIVE SOCIETIES**

1. There is stiff competition from low-cost traders.
2. In the rural areas especially, bad roads and inefficient transport services, or at times the lack of it, make consumer cooperative shops inaccessible to many members.
3. Retail cooperatives thrive better among Industrial population with high purchasing power but this limited in Nigeria.
4. Long-scale retail trading needs considerable capital and financing to be successful but capital is short supply in Nigeria.
5. Members do have financial problems and not every member is in a position to get a loan through the society.
6. Due to crop failure or an act of good, the harvest may be too poor for the farmer to repay loans and compensate for effort.
7. Owing to the nature of their business, procedure or farmers.

Cooperative society attract mostly illustrates and school drop-out.

1. Diversification makes specialization difficult especially for amateur people. They become a jack of all trades and master of more.
2. Members can use their loans for purpose other than those for which they were obtained.
3. Loan are hard to refund, especially if the project for which the loan was taken fail to yield returns.

**SIMILARITIES BETWEEN COOPERATIVE SOCIETY AND COMPANY**

1. Legal Entity: Both have separate legal personality distinct from their members
2. Limited Liability: The liability of members is limited to the amount of money contributed by members and shareholders.
3. Registration: Both are registered before commencement of operations. A company will be registered under company and Allied Matters and a cooperative society under cooperative law.
4. Annual general meeting: They normally hold annual general meeting to discuss about the organization and to present the financial statements.
5. Preparation of financial statements: Both are mandated to prepare financial statements and submit to the relevant government agencies.
6. Distribution of dividends: All members are entitled to dividends.

**DIFFERENCES BETWEEN CO-OPERATIVE SOCIETY AND COMPANY**

|  |  |
| --- | --- |
| SOCIETY | COMPANY |
| 1. The primary aim is to cater for member’s welfare. | The primary aim is to maximize profit. |
| 1. Profit of cooperative is not subject to income tax. | Profit is subject to income tax. |
| 1. Sharing of profit is based on patronage. | Profit sharing is based on share-holding. |
| 1. Members contribute capital of society. | Source of finance is from share capital. |
| 1. It is registered under cooperative laws. | It is registered under company and Allied matters. |
| 1. There is payment of registration fees by members. | There is no payment of registration fees by members. |
| 1. It is controlled and managed by elected committee. | Management is by the board of directors. |

**ASSIGNMENT**

1. **Explain the advantages of cooperative society**
2. **Explain any three types of cooperative society**

**COMMODITY EXCHANGE**

DEFINITION

1. Commodity can be defined as food or other agricultural products such as wheat or cocoa and natural resources such as oil, or gas and metal such as gold or silver. It can also be standardized goods which are traded in bulk and whose units are interchangeable. They are mostly output of the primary sector that is, agricultural and mining. Commodities are traded in an exchange called commodity exchange.

**TYPES OF TRADABLE COMMODITIES**

1. Agricultural produce: These include cash and food crops. The following are some of the commodities traded on the exchange.
2. Soya beans
3. Millet
4. Sorghum
5. Maize
6. Cowpea
7. Groundnut
8. Palm produce
9. Coffee.
10. Cocoa
11. Ginger
12. Cotton
13. Sugar
14. Cattle
15. Oil and gas: These include crude oil, natural gas, propane, gasoline, purified, terepthalic, acid, and heating oil.
16. Financial Instrument: These are currencies, bonds, and other tradable instrument like swap.
17. Solid Minerals: Precious metals are also traded on the exchange. These commodities include gold, copper, platinum, silver, lead, zinc, tin, aluminum, and nickel.

**COMMODITY EXCHANGE (WEEK5,6&7)**

This is a formal market where regulated and standardized raw materials or primary commodities are bought and sold. It is an organized market where ownership titles to commodities are traded by its members through physical or virtual means. Simply put, it is a self regulatory organization which provides physical facilities for trading commodities, options and future according to rules and regulation governing the market.

Commodities exchange resembles the stock exchange market but the kind of product traded differs. It includes both spot market and forward market.

**REQUIREMENT FOR TRADING**

1. Grading System: There should be a system which provides grading and official certification of the quality, size and weight of commodity. This system is based on standard developed for each product. Grading product provides means of measuring the level of quality and value for commodities. There should be enforceable and trade friendly weight and grading.
2. Clearing System: A clearing and settlement system that ensures payment to sellers as well as minimizes over exposure of counter parties is essential. This ensures that payment is guaranteed when deliveries are made. Financial institutions are members of the clearing system.
3. Warehousing System: Warehousing is the act of keeping goods in the warehouse until delivery.
4. Standardization: Commodity standardization provides means of measuring quality of products. It provides a basis for domestic and international trade and promotes efficiency in marketing and procurement. It has to do with ensuring that all similar commodities have same features and acceptable level of quantity.
5. Information requirement: Another basic requirement is provision of reliable and timely market information on prices supply and demand, import and export.

**METHODS OF TRADING**

The method may be by open outcry or electronics.

1. Open Outcry: This is also referred to as the manual system. The method of communication among the participants is through shouting and using of hand signals to transfer information about buying and selling orders on the floor (called pit). Here, trade is conducted verbally with all offers and trades done out loud so that competitors on both sides of the market can follow what is happening. Simply put bidding and offer are made through outcry to the hearing of everybody on the floor.
2. Electronics System: This is trading in commodities through the use of computer networks. The networks transmit data and information on offers and trade.

**TYPES OF COMMODITY MARKET**

1. Spot: This is the buying and selling of commodities for settlement (payment and delivery) on the spot date. The settlement price is called spot price. Here transactions are conducted on cash and carry basis. The participants buy and sell commodity at agreed current price ad delivery takes place immediately.
2. Future: This is a contract to buy and sell commodity on a future date at a price decided when the contract is made. It is a standardize contract between two parties to buy and sell a specified commodity of standardized quantity for a price agreed upon today while delivery and payment accrued at a specified future date. It is to protect against future change in price of commodities. On the said date, the buyer pays the specified sum regardless of whether the real price has fallen or risen. It is used to reduce risk.
3. Option: This is a contract giving the holder the right but not the obligation to trade in a commodity on some future date at a pre-agreed price. It gives the holder the right to sell or buy a certain commodity at a set price at a specified date.
4. Forward: This is a non-standardized contract between two parties to sell and buy at a specified future time at a price agreed upon today. Here, price is agreed for commodity to be delivered at a future date. It is used for hedging and to reduce risk.

**BENEFITS OF COMMODITY EXCHANGE**

1. Investment mobilization: The establishment of exchange market will ensure a link between production process and demand and with direct participation of financial institutions and investment this can help to mobilize fund for production in order to meet demand.
2. Increase in agricultural production: High demand for agricultural commodities can encourage increase in agricultural output and quality.
3. Adequate returns and income: This market helps to guarantee returns on investment. A prudent investor can take advantage of the potential in investing in commodities.
4. Basis for risk management: It affords the participants to hedge against the expected price fluctuation of their commodities. Investors can balance their portfolio in such a way as to reduce risk instrument like future and option are useful for hedging.
5. Stabilization on agricultural product pricing: It reduces price volatility and its attendant effect to the barest minimum. It is a forum for facilitating efficient pricing.
6. Encourage exploration of solid minerals: It encourages investment in the exploration of solid minerals like gold, silver and aluminum. Once investors are sure of adequate returns then they will invest in commodities.
7. Foreign exchange earning: A well organized and efficient commodity market will attract foreign investment. This will increase the earning capacity of the participants. The farmer’s export price and incomes are also increased.
8. Improvement in collection and dissemination of market information: Exchange trading improves collection and dissemination of market information to all players. Prices on the exchange are set through transparent process. There is tree flow of information among contracting parties.
9. Guaranteed delivery: The guarantee of delivery by the exchange reduces the risk of non-performance of trade contracts by the participants.
10. Means of exchange of commodities: The system is a means by which sellers and buyers are bought together to transact commodities.
11. Access to finance: There is increase availability of inventory finance. This will enable exporters to stockpile goods thereby assuring regular supply and delivery of commodities.
12. Provides transparency in transactions: It represents a transparent and reliable means by which lenders can liquidate collaterized commodities in the event of default by the owner.

**CONSTRAINTS FACING COMMODITY EXCHANGE**

1. Inadequate supply.
2. Poor storage.
3. Lack of formal quality/grading standards.
4. Bad weather.
5. Middlemen.
6. Inadequate knowledge of commodity exchange.
7. Price volatilities.

**DIFFERENCES BETWEEN COMMODITY AND STOCK**

|  |  |  |
| --- | --- | --- |
| S/N | COMMODITY | STOCK |
| 1 | Ownership of raw unprocessed goods. | Ownership of company. |
| 2 | They are tangible items. | They are intangible items. |
| 3 | They are not entitled to dividend. | They are entitled to dividend. |
| 4 | They are non-financial instruments. | They are financial instruments. |
| 5 | Trading is on price fluctuation. | Trading is simply on performance of the company and prevailing conditions in the market. |
| 6 | Most commodities are not bought or held in a portfolio because some are perishable. | They are bought and held in a portfolio. |

**BUYING AND SELLING DOCUMENTS (WEEK8,9)**

**Documents used in buying and selling of goods.**

When business transactions occur, certain documents are drawn up and passed from one person to another. These documents are used to effect transactions between buyers and sellers. The documents are explained below;

1. TRADE JOURNAL:This is a publication devoted to a particular branch of retail and wholesale trade. It contains articles on matters of interest to those in the trade.

**USES OF TRADE JOURNAL**

1. It contains information on matters of interest to those in the trade.
2. It shows information about price and other matters.
3. LETTER OF INQUIRY: This is a document sent by the buyer to the supply to find out about the availability of goods, the prices, terms of payment and delivery. Letter of enquiry is considered as the first step to be taken by the prospective buyer. It is a request to the supply to provide information about the product.

**LETTER OF ENQUIRY**

Alex Bookshop,

No. 6, Baale Street,

Ajegunle,

10th of August, 2007

Ambra Bookshop

Iyana Ipaja, Lagos.

Dear Ma,

We require 500 pieces of Sharp Calculating Machines urgently. Please send to us quotation for the above items stating the terms of trade.

Yours faithfully,

Manager.

1. QUOTATIONS: A quotation is a statement of the current price and terms of trade of a product or service. Usually a quotation is an answer to an inquiry and therefore, it is applicable to that specific transaction only.

**CONTENTS OF QUOTATION**

1. The current price of the goods to be sold.
2. Discounts available.
3. Costs and date of delivery.
4. Terms of payment.

**USES OF QUOTATION**

1. It is used as a reply to an enquiry.
2. Shows the current price.
3. It shows the terms of trade.

**A QUOTATION**

Ambro Bookshop

No. 3212 Iyana Ipaja, Lagos.

20th August, 2007

Alex Bookshop,

Baale, Ajegunle.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| S/N | Description | Qty | Unit Price | Price |
| 1. | Sharp Calculating Machine | 500 | 50 | 25,000 |

Delivery – Within 21 days

Terms – 5% cash discount

2½%

Within 30 days

Trade discount 10% from order.

1. CATALOGUES AND PRICE LIST: A catalogue is a document used for pictorial representation of goods available for sale. It contains the photographs, features and price of goods. The booklet enables a prospective buyer to study the samples.

PRICE LIST: This sent by the seller to the buyer to give information about the current prices of goods.

USES OF CATALOGUES AND PRICE LIST

1. Catalogues can be used as a reply to an enquiry.
2. Provides information about the picture or photograph of goods.
3. They give the current price of products.
4. Price lists can be used by retailers to wholesalers.
5. Catalogues help to advertise the products.
6. They assist the customers to make choices.
7. ORDER: This is a document which states the quantity of goods required and all necessary details about the package of the goods. An order will be placed when the buyer is satisfied about the conditions attached to the transactions. The seller can supply it or the buyer can use his printed order form. When it is accepted, a legal contract exists between the buyer and the seller.

CONTENTS OF AN ORDER

1. Addresses of both parties to the transactions.
2. Quantity of goods needed.
3. Description of goods.
4. Price of each item.

USES OF AN ORDER

1. It is used to make a purchase.
2. Shows the quantity of goods to be purchased.
3. Acceptance signifies beginning of a contract.

AN ORDER

Alex Bookshop

No. 6, Baale Street,

Ajegunle.

25th August, 2007.

Ambra Bookshop,

Iyana Ipaja.

Please supply the following,

|  |  |  |  |
| --- | --- | --- | --- |
| Quantity | Description | Unit Price | Total |
| 500 | Sharp Calculating Machine | 50 | 25,000 |

1. INVOICE: This is sent by the seller to the buyer showing the full details of goods sold such as quantity, description, price, discount and the total amount to be paid. It shows a comprehensive summary of a transaction, it is issued along with the goods.

CONTENTS OF AN INVOICE

1. Name of the seller.
2. Address of the seller.
3. Customer order number.
4. Description of goods bought.
5. The actual amount.
6. The price of the goods.
7. Discount given.
8. Quantity of goods purchased.
9. Abbreviation E & OE (Error & Omission) Excepted.

USES OF AN INVOICE

1. Shows details of goods sold.
2. It serves as a receipt.
3. Used to prepare purchases and sales journal.
4. Evidence of credit sales.
5. Shows time of delivery and payment.

AN INVOICE

Ambra Bookshop

Iyana Ipaja

29th August, 2007.

Sold to Alex Bookshop

Baale, Ajegunle.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| S/N | Description | Qty | Unit Price | Total |
| 1 | Sharp Calculating Machine | 500 | 50 | 25,000 |

Terms 2% cash discount within 21 days.

5% Trade discount within 1½% month.

Net 2 months

E & OE

TERMS UNDER INVOICE

1. E & OE: Error and Omission Excepted. This means that the supplier has the right to make necessary corrections, if it is discovered later that there are errors, mistakes or omission, in the invoice.
2. Net 3 Months: This simply means that there will be no discount after three months. The buyer would pay the total amount after three months.
3. 5% Trade Discount: This implies that 5% trade discount would be given to the customer when buys in large quantity. It is the reduction of the catalogue price to induce customers to buy more goods because he will pay less.
4. 2% Cash Discount: This means that a 2% cash discount would be allowed on settlement of account if buyers pay cash within a specified period. It reduces the amount to be paid.

PROFORMA INVOICE

This is a commercial document, which serves as a polite request for payment when a supplier is not willing to allow his customer credit and it is also used when goods are sent on approval. It is like the ordinary invoice except the expression “proforma” will be written across it.

USES OF PROFORMA INVOICE

1. It is used when goods are sent on approval.
2. Serves as quotation.
3. It is a reply to a letter of enquiry.
4. Polite way of refusing credit.
5. Gives the agent the idea of the price at which to sell the goods.
6. As a polite request for payment before goods are delivered.

DIFFERENCE BETWEEN INVOICE AND PROFORMA INVOICE

|  |  |  |
| --- | --- | --- |
| S/N | INVOICE | PROFORMA INVOICE |
| a. | It is sent with the goods. | It can be sent without the goods. |
| b. | Used as evidence of credit sale. | Used when the seller does not want to sell on credit. |
| c. | Used to confirm sale. | Used when the buyer needs information the seller on terms of sale. |

ADVICE NOTE.

This is a document sent to buyer to inform him that the goods ordered have been dispatched. It is basically to give information that the goods are on their way to the customer so that he can receive them. It is normally sent ahead of the goods.

USES OF ADVICE NOTE.

1. To inform the buyer about the dispatch of the goods.
2. To show the mode of transport used.
3. To show the likely time of arrival.
4. To inform the buyer about the quantity and the type of goods to expect.

DELIVERY NOTE: This is a document sent by the seller to the buyer for signature when goods are delivered to him and it will serve as evidence that delivery has been made.

Delivery note is used when goods are transported by the seller’s means of transportation. It will show details of all the goods being delivered so that the goods when finally arrived can be checked against goods listed on the delivery note.

USES OF DELIVERY NOTE.

1. Evidence of delivery.
2. To confirm arrival of goods.
3. It is used when goods are transported by the seller’s means of transportation.

DELIVERY NOTE

Ambra Bookshop,

Iyana Ipaja.

Date……………..

Alex Bookshop,

Baale, Ajegunle.

Please receive your order.

|  |  |  |
| --- | --- | --- |
| S/N | Description | Qty |
| 1. | Sharp Calculating Machines. Received the goods in good condition. | 500 |

Received by ………………………………..

Signature & Stamp

Issued by ………………………………..

Signature & Stamp

CONSIGNMENT NOTE

This is a document made out by sender of goods, handed over to the carrier and countersigned by the consignee on delivery as proof that delivery has been. When goods are transported by an independent carrier a consignment note is to be delivered. It shows details of goods sent.

USES OF CONSIGNMENT NOTE

1. It is used when the seller engages an independent transporter.
2. It shows details of goods sent.
3. It states whether freight has been paid or not.
4. Evidence of delivery when daily signed by consignee.

DEBIT NOTE

This is a document sent by the seller to the buyer to correct an under change in his account or when goods are not changed on invoice.

USES OF DEBIT NOTE

1. To correct an under-change of invoice.
2. Used to correct omission in the invoice.
3. Used when some items dispatched has not been recorded in the original invoice.
4. It informs the buyer that his account has been debited.
5. Used as a supplementary invoice.

CREDIT NOTE

This is a document issued by one party to a transaction to the other to inform him that his account has been credited with the amount arising as a result of inadvertent over-change or goods charged have been returned. It is usually printed in red.

USES OF CREDIT NOTE

1. To inform the buyer that his account has been debited.
2. To correct an over-charge.
3. Used when goods returned have been charged.
4. Sent when the seller has decided to give allowance to the buyer.
5. Used to show overpayment by the buyer.

CREDIT NOTE

Alaba Enterprise,

Agege.

1st Jan. 2006.

Garvick Bookshop

Ojora Ajegunle

Lagos.

|  |  |  |
| --- | --- | --- |
| DATE | PARTICULARS | AMOUNT |
| 29th December, 2005 | 10 Pieces of Casio Calculating Machine | 15,000 |
| Less 10% discount |  | 1,500 |

RECEIPT

This is an acknowledgement of receipt of money from the buyer by the seller. It is a document which confirms that payment has been made.

CONTENTS OF RECEIPT

1. Name of the buyer.
2. Quantity of goods bought.
3. Total amount paid in words and figures.
4. Signature of the sellers and buyers.

USES OF RECEIPT

1. Bonifide title to ownership of property.
2. Confirmation of payment.
3. Used in auditing processes.
4. Sources of information for cash book.
5. States the total amount received.
6. Shows date in which payment is made.

RECEIPT

THE INSTITUTE OF CHARTERED ACCOUNTANTS OF NIGERIA

OFFICIAL RECEIPT

Date: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_ Ms: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Name: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Amount in words: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Purpose: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Cash/Cheque: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Cashier’s signature: \_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_\_

Serial No: ICAN RB01

STATEMENT OF ACCOUNTS: This is a document showing the state of one person’s account with another. It summarizes recent invoices, payments and shows the amount owed at the end of the period to which the statement applies. The seller regularly sends it to the buyer showing detail transactions between them and the amount paid and the outstanding one.

USES OF STATEMENT OF ACCOUNTS

1. It shows charges commission and interest passed to a customer’s account.
2. It shows the terms of payment for amount due.
3. It shows the unpaid balance.
4. It shows the amount of purchase made.
5. It enables a customer to have a thorough check of what he has purchased.
6. It gives the customer an idea as to his financial standing at a given period.

Statement of accounts for the month of July.

System Bookshop,

Baale, Ajegunle.

10th July 2006.

Olayemi Enterprise

Iyana Ipaja

Lagos.

|  |  |  |  |  |
| --- | --- | --- | --- | --- |
| Date | Details | Debits | Credit | Balance |
|  |  | # | # | # |
| July 1 | Bal. b/f |  |  | 10,000 |
| July 3 | Rulers | 1, 000 |  | 11,000 |
| July 4 | Big notes | 2,000 |  | 13,000 |
|  |  |  |  |  |
| July 6 | Cash |  | 6,000 | 7,000 |
| July 10 | Cash |  | 500 | 6,500 |

Accountant.

ASSIGNMENT

1. Differentiate between commodity and stock
2. State the benefit of commodity exchange

TERMS OF TRADE (WEEK10)

SPECIAL TRADE TERMS AND MEANS OF PAYMENT TERMS OF QUOTING PRICE.

1. CIF (Cost, Insurance and Freight): A price quoted CIF simply means that it includes the cost of goods insurance, carriage to the port of destination but exclude delivery from the dock to the purchaser’s premises. The importer is responsible for other charges.
2. FOB (Free on Board): It simply means the cost of goods and the expenses incurred for putting goods on board a ship are included. That is all the expenses incurred until the goods have been placed on a ship are borne by the seller while the buyer is responsible for the cost of unloading the goods.
3. FOR (Free on rail): This price quotation is used when rail transport is used. It means that the seller bears all the charges including leading the goods on rail. The buyer has to pay subsequent charges.
4. FREE Dock: This is an exporter’s price quotation, which includes the cost of the goods but transport charges only is for the docks from which the goods are to be shipped.
5. C.F (Cost and Freight): “Cost and freight” means that the price quoted covers carriage of the goods to the importer’s destination but excludes payment for insurance.
6. F.A.S. (Free Alongside Ship): This means that the price quoted includes all charges involved in conveying the goods to the ship but does not include cost of loading the goods onto the ship.
7. Free On Quay (F.O.Q): This means that the price quoted includes all charges and expenses involved in delivering the goods to the quay. The buyer takes responsibility for loading onto the ship.
8. FRANCO: “Franco” means that the price quoted covers all charges involved in carrying the goods up to the warehouse of the importer.
9. Ex-Ship: “Ex-Ship” is a term of sale which indicates that the seller is the one who bears the cost of carriage until the goods have been properly unloaded from the ship at the port of destination.
10. Carriage Forward: A price which is quoted “Carriage Forward” represents only the cost of the goods to which the cost of transportation will be added at a later date. This applies in a situation when the seller cannot estimate the cost of transport, but he will nevertheless deliver the goods to the destination of the buyer and add transport later.
11. Cash On Delivery (C.O.D): “Cash on delivery” means that the buyer may not be allowed to take possession of the goods until he has made payment for them. This term of sale is used in order to sustain the seller’s right to repossess the goods even if the goods are in the possession of the buyer or his agent.

DISCOUNT: This can be defined as an amount of money that is taken off the price of a product in order to encourage bulk purchases and immediate payment.

REASONS FOR GRANTING DISCOUNTS

1. To encourage bulk purchases.
2. Helps to avoid the risk of bad debts.
3. To encourage prompt payment.
4. Discount attracts customers.
5. It avoids tying down of capital.
6. To provide for the retailer’s profit.

TYPES OF DISCOUNT

1. Trade Discount: This is an allowance given by the manufacturer or wholesalers to retailers in form of deduction from catalogue price of goods supplied to cover the retailer’s margin.

Feature of Trade Discount

1. Allowed for quantity purchases.
2. Appears in the day book alone.
3. Allowance off the invoice price.
4. It must be deducted before cash discount.
5. Cash Discount: This is a percentage allowance for prompt payment of an account or for payment within a specified period of time.

Features of Cash Discount.

1. It is conditional.
2. Appears in the accounting records.
3. It ensures prompt payment.
4. It is deducted after trade discount has been deducted.
5. Quantity Discount: This type of is discount given to buyers who purchase goods in large quantity in a single delivery. Most quantity discount arrangements apply to either single order or single delivery. Quantity discount are deductions from the list price by a seller to encourage customers to buy in large quantity or to make most of their demand from him.

Features of quantity discount.

1. It is given to buyers who buy in large quantity.
2. It applies to a single order.
3. It is an additional way of reducing price.
4. It is based on the size of the purchases.
5. Seasonal Discount: It is a discount given to customer who places an order during the slack season. This discount may be offered to stimulate sales at special times of the year e.g off-peak period.

Features of Seasonal Discount

1. It is offered at special time of the year.
2. It is offered to stimulate sales.

Items of Payment.

1. Prompt cash.
2. Cash on delivery.
3. Cash with order.
4. Spot cash.
5. Monthly account.

Means of Payment.

* 1. Cheque.
  2. Bank drafts.
  3. Standing order.
  4. Credit transfer.
  5. Credit cards
  6. Direct debits.

Post Office System Of Payment

1. Postage Stamps: This is used in paying small amount on items being bought such as in sending for samples. It is a means by which small sum can be sent by post.
2. Postal Order: This is another means of payment. It is not a negotiable instrument. There are different denominations. It is useful for the transmission of small sums of money by post. It can be cashed at the post if it is not crossed. The commission charged is called poundage.
3. Money Order: This is a means of payment provided by the post office for people wishing to transmit sums of money to obtain money order, it is necessary to complete a form at a post office giving particulars of the sender and the payee. It is useful when the sender had no current account.
4. Telegraphic Money Order: A means by which a sum of money can be sent from one place to another without wasting time. Here, the issuing officer sends a telegram to the payee’s post office, the payee having to give proof of his identity before being paid.
5. Postal Giro: This is a means of making monetary transfers provided by the post-office as an alternative to postal order or money order. Accounts will be opened with the post office. Debts between accounts holders can be settled by transfers from one account to another and no interest is paid.

ASSIGNMENT

1. State the reason for granting discount
2. Explain the type of discount