CHAPTER ONE

What is foreign trade?

It is the buying and selling of goods and services across national frontiers.

What is the role of World Trade Organization in foreign trade?

It facilitates foreign trade by promoting globalization policies and advocating free trade where necessary.

Explain five importance/benefits of foreign trade to Malawi.

1. It makes comparative advantage possible. The country obtains what it does not produce.
2. It promotes international relations
3. It brings forex from other nations hence promotes economic growth.
4. It brings about employment
5. It assists the country to collect revenue through getting foreign exchange.

Explain four disadvantages of foreign trade.

1. It leads to the closure of domestic industries due to the presence of the multinational companies.
2. Political instability due to the changes in the one or two countries may affect many other countries.
3. Risks such as robbery may affect commodities in transit.
4. It requires huge capital due to extra costs on research, transport, insurance covers etc.

What is protectionist policy?

It is a policy adopted by governments to control the rate of foreign trade in order to protect local infant industries against multinational companies.

Explain five ways how a government can protect local infant and growing industries from multinational companies.

1. Raising tariffs on custom duties to discourage the inflow of foreign goods on the local market.
2. Setting up quotas to limit the imports.
3. Imposing safety standards through licenses that regulate imports.
4. Legislating trade policies that are stiffer to foreign investors.
5. Subsidizing local made products so that they should be cheaper than imports.

State four challenges faced by traders when doing foreign trade.

1. Language and communication- Traders may not know the language of the foreign country.
2. Lack of knowledge of the conditions of trade prevailing in a foreign country they want to do trade.
3. Currency problem since countries use different currencies. This makes business transaction in foreign trade difficult and complicated.
4. It faces high risks. There is financial loss of goods in transits.
5. It requires a lot of documentation.
6. There is high transportation costs.

What are the solutions to the challenges faced when doing foreign trade?

Problem	**Solution**

Language and communication	Using international language or employing a local agent to work as interpreter
Lack of knowledge	Conducting research before venturing into foreign trade in order to find out rules in the concerned country.
currency	Use internationally recognized and accepted currencies such as the US Dollar.
Risks	Making necessary insurance covers.
Documentation	Possessing legal documents to authenticate their travel and trading**.**
High transports costs	Use the most competitive form of transports.

What is difference between export trade and import trade

- It is the selling locally produced products to external countries.
- Major Malawi's exports are tobacco, Tea, Sugar, Coffee, Groundnuts, Cotton etc.
- Import trade means buying products or goods and services from foreign nations.
- Major Malawi's trading partners are China, United Kingdom, USA, South Africa, Japan, Germany, Netherlands etc.

What is entrepot trade

It is the export trade done by a country in another country's products.

What is the difference between balance of trade and balance of payment?

Balance of trade is the difference between total annual exports and total annual imports.

Balance of trade measures the volume of goods (visible) only the nation exports and imports in a given year. Balance of trade does not include services traded on international trade.

The total exports and imports for a nation are obtained from the Customs Department**.**

The table below shows different nations involved in foreign trade and the values of total annual exports and total annual imports are measured in kwacha.

	Total Annual Exports	Total Annual Imports
Country X	MK 190 billion	MK300 billion
Country Y	MK480 billion	MK720 billion
Country Z	MK610 billion	MK350 BILLION

Calculate the balance of trade and comment on the results.

Balance of trade = Total Annual Export- Total Annual Import

	Balance of trade
Country X	MK 190 billion −MK300 billion = −MK300billion
Country Y	MK480 billion− MK720 billion =−MK240 billion
Country Z	MK610 billion− MK350 billion = MK260 billion

Comment

The negative results or difference indicate deficit or unfavourable balance of trade while a positive balance indicates favourable balance of trade creating a surplus.

Define the balance of payment.

Balance of payment is the difference between the total value of both goods and services added together exported and imported.
It is calculated from both **current and capital accounts**. At the end of fiscal year, the total receipts and payments from both current and capital account are computed and added together giving **an over- all balance of payment** and it is a true indication of the country's economic soundness.
If the over- all balance of payment shows a credit balance, the country is said to have favourable balance economically called surplus. On the other hand, where there is a debit balance, the country has unfavourable balance of payment economically called deficit.

Formula for calculating balance of payment

1. Balance of payment – capital account
2. Balance of payment – current account
3. Over – all balance of payment

The table below shows different nations involved in foreign trade and the values of total exports of goods and services and total imports of goods and services are measured in kwacha.

	Total Annual Exports	Total Annual Imports
Country X	MK970 billion	MK950 billion
Country X	MK 790 billion	MK740 billion
Country Y	MK999 billion	MK650 billion
Country Z	MK890 billion	MK995 billion

Required

Calculate the balance of payment.

	Balance of trade
Country W	MK30 billion –MK950 billion = −MK20billion
Country X	MK790 billion−MK740 billion =−MK50 billion
Country Y	MK999 billion−MK650 billion = MK349 billion
Country Z	MK890 billion− MK995 billion = −MK105 billion

Explain how countries W and Z above can correct the unfavourable balance of payment.

1. Limit the number of import licenses.
2. Place limits on credits to reduce consumer spending
3. Limit wage increases to compel people buy home produce goods in preference to imports.
4. Increase the value of exports by encouraging firms to expand into overseas markets.

Define Trade Tem Index.

Trade Term Index is an index of the ratio of export prices and import prices.

Trade Term Index = $\frac{Index\ of\ export\ prices\ x\ 100}{Index\ of\ import\ prices\ x\ 1}$

Explain the following trade terms on export

1. **Ex- works –** The consignee must pay for the cost of removing the goods from the factory or warehouse
2. **Loco –** The consignee is responsible for any expenses incurred in moving the goods from where they stand to the final destination.
3. **Franco-** The consignor meets all costs such as customs,

transport, insurance and deliver them to the consignee.

4. **F.A.T (Free Along Truck)-** All expenses of loading the goods plus any further freight charges must be met by the consignee. Free at Station (F.A.S) and Free Along Ship (F.A.S) have the same meaning.
5. **F.o.t(Free on Truck), F.O.R(Free on Rail), F.O.B(Free On Board)-** The consignors pay for all expenses until goods are loaded on a truck, rail, ship or aero plane. Any further expenses must be borne by the consignee**.**

CHAPTER TWO: TRADE DOCUMENT USED HOME & INTERNATIONAL TRADE

TRADE DOCUMENTS USED IN HOME TRADE

Explain five ways in which trade documents are important.

1. They provide information on products needed by the buyers from supplying agents.
2. The suppliers and exporters use them to politely request for the payment for the products offered.
3. They are used as proof for the payment of cash for products purchased.
4. They indicate the description of goods in terms of price, size, colour, quality, quantity, delivery terms etc.
5. They act as evidence of delivery of goods when the supplying company dispatches goods to the purchaser's premises.
6. They help the government to ascertain the level of total exports and imports per given period using these documents.

7. They help traders to keep track of the goods mainly where goods move along distance.
8. They are used to clear the goods once arrived to the destination port as they are used as evidence of title to claim those goods in question.

Explain the functions of each of the following documents used in home trade

1. Letter of inquiry

Function- It is used to seek the relevant information about the products advertised on radios, newspaper etc**.**

Contents- They contain the following information such Prices, Sizes, Quantity, Quality, Payment terms and Delivery terms, rates of discounts etc

2. Quotation

Function – It is a document sent by the supplier to the buyer to in response to the letter of inquiry to give details of goodsasked for.

Contents of the quotation- It contains the following information

a. Prices
b. Payment/delivery terms
c. Rates of discounts
d. Tax charges etc.

3. Catalogue

It is a booklet or a pamphlet that contains illustrations of goods in stock and are mostly used by mail order retailers or wholesalers.

Function- It used to advertise the goods on offer.

Items/contents of a catalogue

It contains the following information

a. Pictures of goods
b. Sizes
c. Colour
d. Addresses
e. Purchase procedures
f. Delivery terms
g. Discounts
h. Payment terms

Explain any three advantages of a catalogue over a price list.

- It shows pictures of goods
- It shows sizes of goods
- It shows the colour of the goods

4. Price list

It is a document sent by the supplier to the buyer stating the prices that they are prepared to sell their goods. It also contains the information such as

a. Prices
b. Payment/delivery terms
c. Rates of discounts
d. Tax charges etc.

What is the difference between the price list and a quotation?

The price list may include other goods not mentioned on the letter of inquiry while the quotation gives the information on the goods mentioned on the letter of inquiry.

Explain the importance of price list.

5. list

It is sent by the supplier to the buyer stating the prices that they are prepared to sell their goods.

State three differences between a quotation and catalogue.

1. A catalogue circulates among general customers while a quotation is specifically prepared for a particular buyer**.**

2. A catalogue has pictures of goods in colour while not a quotation.

3. A catalogue illustrates general merchandise while a quotation lists goods inquired for.

4. An order

An order

It is a document sent by the buyer to the seller asking for the supply of the goods identified on it. It is sent after comparing various quotations, catalogue, price lists etc.

Purpose- to ask for the supply of the goods identified on it.

Factors to be considered when choosing the suitable supplier

a. Competitive prices

b. Attractive delivery/payment terms

c. Past trading experience

d. Ability to meet supplier's specification.

Examination Question

Margareta of Zatonse Limited, P O. Box 5 Chigwere, wants to purchase items from XYZ Manufacturers, P. O. Box 13160, Kaduna.

He wants the goods to reach him in two weeks' time. The items are as follows:

- 10 cartons of soap @ K2, 000 per carton
- 100 5-liitre bottles of cooking oil @ K5, 000 per bottle
- 50 crates of soft drinks @ K4, 000 per crate.

Use this information to prepare an order.

An order

Zatonse Limited
P O. Box 5
Chigwere

20th May,2019

The Sales Manager
XYZ Manufacturers
P. O. Box 13160
Kaduna

code	Description	Quantity	Unit Price(K)
001	Cartons of soap	10	K2,000
002	5-liitre bottles of cooking oil	100	K5,000
003	Crates of soft drinks	50	K4,000

Delivery within two weeks upon receiving and order.

Margareta

Exercise

Linjidzi Company Ltd of Private Bag A1, Mbombe would like to buy the following goods from Lekeni Properties of P 0 Box 130, Chitemwa.

10 cartons of soap at K350.00 per carton

10 litres of cooking oil at K310.00 per litre

15 bags of beans at K1600.00 per litre

21 packets of sweets at K75.00 per packet

Prepare an order form which Linjidzi would send to Lekeni Properties.

5. Status inquiry

It is a trade document sent by the supplier to the buyers' bank or former supplier to establish financial status the buyer and to know how much credit is to be extended to the buyer.

Functions of the status inquiry

a. The supplier uses it in order to establish the financial status of the buyer
b. The supplier wants to know how much credit can be extended to the buyer.
c. It assists the supplier on the decision making to sell the goods or not.

Types of status inquiry

a. **Trade Reference-** It is information about the buyer obtained by the supplier from the former supplier of the buyer who had had previous trade dealings with the buyer in question and is able to know him better.

b. **Status inquiry agencies-** This information about the buyer is obtained by the supplier from some trade organizations.

c. **Bankers reference status inquiry-** the suppler obtains this document containing information about the buyer from the buyer's bank.

Banker's reference status inquiry may be given in two quotations namely

- Buyer 'MK3000,000 CAAOT"

The abbreviation CCAOT stands for Current At Any Other Time.

Example

Suppose that Mr. Phiri would like to buy goods worth MK300,000 from Candlex Ltd and the banker's reference status inquiry is quoted Mr. Phiri "MK300,000 CAAOT. What does it mean?

This means that Mr. Phiri is liquid enough to pay Candlex Ltd the sum of MK300,000 current or any other time. In this case the banker has given a guarantee to Candlex to sell the goods to Mr. Phiri.

- Buyer "Not good for MK300,000 CAAOT.

Suppose that Mr. Phiri would like to buy goods worth MK300,000 from Candlex Ltd and the banker's reference status inquiry is quoted Mr. Phiri not good for "MK300,000 CAAOT. What does it mean?

This means that Mr. Phiri is not able to pay the sum of MK300,000 current or any other time. In this way the banker has discredited him.

Explain two sources where a seller can access the financial status of the buyer.

1. **Trade Reference-** It is information about the buyer obtained by the supplier from the former supplier of the buyer who had had previous trade dealings with the buyer in question and is able to know him better**.**
2. **Status inquiry agencies-** This information about the buyer is obtained by the supplier from some trade organizations.
3. **Bankers reference status inquiry-** the suppler obtains this document containing information about the buyer from the buyer's bank.

6. Delivery note

It is a document sent by the supplier to the buyer through the driver of the delivery vehicle to act as a proof of the delivery of the goods once signed by the buyer. The vehicle must belong to the supplier.

Contents of delivery note

a. List of goods delivered
b. Description of goods
c. Address of the supplier and buyer
d. Quantity of the goods delivered.
e. Delivery vehicle number

What do the following quotations or teems written by the supplier on the delivery note?

a. **Carriage paid-** It tells the buyer that the cost of carriage of goods has already been met by the supplier. Therefore, the invoice total will only bear the cost of the goods ordered.

b. **Carriage forward-** This tells the buyer that he has to make out payment to meet delivery expenses since the supplier does not offer delivery services.

c. **Not examined-** This is written by the buyer informing the supplier that the goods were not physically checked and cross-checked upon delivery. This is done to reserve the buyer's claim for faulty or missed goods or wrong type of goods.

Functions of delivery note

a. It lists the goods which the driver has been sent to deliver to the buyer's premises.

b. The buyer uses it on arrival to cross check the goods in the delivery van in order to identify packing/loading errors if any.

c. The buyer uses it to cross check the goods listed on the delivery note in order to ensure that the ordered goods are the ones delivered.

d. The buyer or buyer's representative is asked to sign the delivery note as evidence of receipt of goods.

e. The supplier uses the signed delivery note as the basis for the preparation of an invoice.

7. Consignment note/the Way bill

- It is a document prepared by the transporter and used by the supplier where he has hired the vehicles to deliver the goods to the buyer's premises. The buyer signs the consignment note as proof of receipts of goods.

Function of the consignment note

- To act as a proof of the receipts of the goods.

Contents of the consignment note

- List of goods delivered
- Description of goods
- Address of the supplier and buyer
- Quantity of the goods delivered.
- Delivery vehicle number

What are the differences between a delivery note and a consignment note?

a. A consignment note represents a contract for the carriage of goods between the supplier and a transporter while note a delivery note.
b. A consignment note is prepared by the transport agent while a supplier prepares a delivery note.
c. A consignment note is used when a supplier hires a vehicle to deliver the goods while delivery note is used when the supplier uses his own vehicle.

Mention any two features of a consignment note.

- It is a document prepared by the transporter and used by the supplier where he has hired the vehicles to deliver the goods to the buyer's premises.
- It acts as a proof of the receipts of the goods.
- It represents a contract for the carriage of goods between the supplier and a transporter while note a delivery note.

d. It is prepared by the transport agent.

e. It is used when a supplier hires a vehicle to deliver the goods

8. Advice note

- An advice note is a trade document prepared by the supplier and sends it to the buyer to inform him/her that the goods are on the transits. It is sent ahead of the delivery of the goods.
- It takes the forms of fax, telegram, a phone call or a written form

Functions of the advice note

a. To warn the buyer to make necessary storage arrangements.

b. To indicate to the buyer that the preparations for payment may commence.

c. To enable the buyer or supplier to track down the goods in case they do not arrive at the specified time.

9. Pro- forma invoice

- It is a trade document that is issued by the seller asking for advance payment before the goods are delivered to the buyer or when the goods are sent for inspection and approval where the buyer is not sure of the quality of the goods shipped.
- The buyer does not want to sell goods on credit.

Functions of the pro-forma invoice

a. To serve as a formal quotation

b. To serve as a polite request for payment in advance for customers not known to the seller.

c. To cover for the goods sent on approval and inspection.

d. Where tractions involve international trade for custom duty.

State four situations in which a seller can send a proforma invoice to a buyer.

- When serving it as a formal quotation
- When making a polite request for payment in advance for customers not known to the seller.
- When the seller wants to cover for the goods sent on approval and inspection.
- Where tractions involve international trade for custom duty.

Give three uses of pro-forma invoice in trade.

- To serve as a formal quotation
- To serve as a polite request for payment in advance for customers not known to the seller.
- To cover for the goods sent on approval and inspection.

10. An invoice

- It is a commercial document sent by the seller to a buyer asking for payment of the dispatched goods.
- In other words, it is a bill of goods sent on credit to the buyer.

Contents of an invoice

- Quantity of the goods
- Quality of the goods
- Description of the goods
- Unit price
- Terms of payment
- Surtax if any
- Names and addresses of the seller and the buyer

- At the bottom of the invoice, the quotation "E & OE. This means that Errors and Omissions Expected. "E & OE preserves the right of the supplier to collect invoice errors that may arise due to miscalculation or missing out of some figures.

Give one use of an invoice in trade.

It is sent by the seller to a buyer asking for payment of the dispatched goods. It is a bill of goods sent on credit to the buyer.

QUESTION

On 1st February, 2019, German Shonga Ltd of P.O. Box 30, Tsangano sold the following goods on credit to Wachepa & Sons Ltd of P.O.Box 43, Phalombe.

3 pairs of football boots at K13, 000 per pair.

15 balls at K15, 000 per ball

4 bags at K3, 000 per bag

Trade discount is given at the rate of 33 $\frac{1}{3}$ % and Value added Tax (VAT) is calculated at 16.5%.

Prepare the sales Invoice to be sent to Wachepa & Sons Ltd. The Invoice number is 10586.

11. Credit note

- It is a document that is sent by the seller to the buyer to correct a mistake of an overcharge on the invoice. It is used to reduce the amount charged on the invoice.

It is used under the following conditions or circumstances

a. The damaged goods returned to the supplier have not been replaced

b. Goods have been overcharged on the invoice.

c. Packing cases which have been charged together with the goods have been returned

Credit note is normally printed in **RED INK** to differentiate it from other documents for it shows opposite flow of money from the seller to the buyer.

12. Debit note

- It is the document that is sent either by the seller or the buyer to correct the error of undercharge on invoice of the goods already dispatched.
- The seller sends this document to the buyer to increase the amount charged on the invoice while the buyer send a debit note to the seller when he discovers that he has been overcharged and that the seller has to reduce the amount due.
- The undercharge may either be due to clerical error or that some items included are skipped.
- A debit note is also called **"supplementary invoice"** because it accompanies a covering letter of explanation that the original invoice amount has been increased.

13. The receipt

It is a document sent by the seller to the buyer to serve as evidence of payment for the goods or services rendered.

Explain any three uses of a receipt.

a. It serves as evidence of payment for the goods or services rendered

b. It safeguards the buyer against double claim for the goods/services already paid for.

c. It safeguards the seller from already collected item through double claim.

d. It provides a proper future reference for the past transactions made.

e. It forms a very good basis for source document as far as bookkeeping.

14. Statement of account.

- A statement of account is a trade document that summarizes all business transactions that have occurred between a buyer and a seller for a particular period.
- It contains the following characteristics
  a. Contains names and addresses of the two parties
  b. Indicates relevant transaction reference
  c. It shows clearly whether transaction was credit or debit.
  d. Balance column is drawn to check the business position
  e. Dates and terms of trade are indicated

Explain the use of a "statement of account" in trade.

- A statement of account is a trade document that summarizes all business transactions that have occurred between a buyer and a seller for a particular period.

Explain the importance of each of the following trade document.

a. consignment note

It acts as a proof of the receipts of the goods

b. Advice note

- It used to warn the buyer to make necessary storage arrangements.
- It is used to indicate to the buyer that he/she must start making preparations for payment.
- It enables the buyer or supplier to track down the goods in case they do not arrive at the specified time.

c. Pro- forma invoice

- It serves as a formal quotation
- It serves as a polite request for payment in advance for customers not known to the seller.
- It used to cover for the goods sent on approval and inspection.
- It used where tractions involve international trade for custom duty.

d. An invoice

- It is sent by the seller to a buyer asking for payment of the dispatched goods. In other words, it shows the bill of goods sent on credit to the buyer.

e. Credit note

- It is sent by the seller to the buyer to correct a mistake of an overcharge on the invoice. Hence it is used to reduce the amount charged on the invoice.

f. Debit note

- It is used to correct the error of undercharge on invoice of the goods already dispatched.
- It is used by the seller to increase the amount charged on the

invoice

- It is used by the buyer to reduce the amount due when discovers that he has been overcharged and that the seller has to reduce the amount due.

g. a receipt

- It serves as evidence of payment for the goods or services rendered
- It safeguards the buyer against double claim for the goods/services already paid for.
- It safeguards the seller from already collected item through double claim.
- It provides a proper future reference for the past transactions made.
- It forms a very good basis for source document as far as bookkeeping.

h. A statement of account

It summarizes all business transactions that have occurred between a buyer and a seller for a particular period.

EXAMPLE

The table below shows business transactions for the month of May, 2018

DATE	BUSINESS TRANSACTIONS	AMOUNT
1	Balance b/d	K700,000
10	Goods supplied	K500,000
16	Goods returned	K50,000

20	Cheques payment	K900,000
25	Goods supplied	K200,000
26	Cash payment	K150,000
29	Dishonouredcheque	K80,000
30	Cheque payment	K300,000

Required

Prepare the statement of account for the month of May, 2018.

Statement of account of the month of May, 2018

Date (May, 2018)	Descriptions	Debit	Credit	Balance
1	Balance b/d			K700,000
10	Sales	K500,000		K1,200,000
16	Returns		K50,000	K1,150,000
20	Bank		K900,000	K250,000
25	Sales	K200,000		K450,000
26	Cash		K150,000	K300,000
29	Dishonoured cheque	K80,000		K380,000
30	Bank		K300,000	K80,000

Notes:

1. Items that increase the balance are debited.
2. Items that reduce the balance are credited
3. The balance column shows current balance for every transaction.

FOREIGN TRADE DOCUMENTS

Define the following trade documents

a. "Indent"

These are orders received by the agent of the overseas buyers to provide complete details of goods required, method of package, means of forwarding, insurance attached to the goods etc.

Explain two types of "indents"

a. Open indent

It is the indent that does not specify the source of the goods where they are obtained from, the mode of packaging etc.

b. Closed indent

This is the indent that states the information about the source, type and brand of the goods required**.**

b. "Export invoice"

It is the document issued by the supplier to the importer providing information regarding goods sent.

It contains information such as marks and numbers of the packages, name of the carrying vessel, price list, weight and value of goods and any expenses incurred.

c. "Consular invoice/certificate invoice

It is a document used where imported goods are charged ad valorem tax. It provides the officials where goods are to be landed with reliable information on which they can access duty without actually examining the contents of the cases in detail. This speeds up delivery of goods to the consignee.

Explain the importance of consular invoice in trade

It provides the officials where goods are to be landed with reliable information on which they can access duty without actually examining the contents of the cases in detail. This speeds up delivery of goods to the consignee.

d. "Certificate of origin"

This certificate serves as confirmation of the imported goods that indeed they come from the exporting country so named.
It establishes to the importing country the true origin of the goods so that preferential duty is effected on them or not.

e. "Packing note/packing list"

This is the document that notify the customer that the goods are on the way so that he must check for them upon arrival or make queries if delayed. It lists down all goods, their weight, quality and their marks.

State two uses of a packing note in international trade.

a. It notifies the customer that the goods are on the way so that he must check for them upon arrival or make queries if delayed.
b. It lists down all goods, their weight, quality and their marks.

c. "Mate's note"

It is the receipt issued by the ship's mate to the consignor/exporter when the cargo has been delivered direct to the ship on board.
The consignor exchanges the note at the office of the shipping company for the bill of lading which is given to the consignee/importer to be used to clear goods at the port of discharge.

d. “Bill of lading”

It is the document used when the goods are shipped from one port to the other and it serves the following functions:

a. It is a receipt for the goods ship
b. It is document of tittle
c. It serves as an evidence of business contract between the shipper and the exporter or importer depending on the shipping arrangement.

Contents of the bill of lading include

a. Name of the ship used
b. Details of the goods sent
c. Port of departure and destination
d. Names of consignor and consignee
e. Bill reference number.

A bill of lading can be described as **a clean bill or a dirty bill.**

A **clean bill** does not contain faults/notes on the damaged goods and a **dirty bill** contains notes on the damaged goods.

The following are the two major types of bill of lading

a. Through bill

This bill of lading makes the ship owner pay for transport costs more especially when more than one means of transport systems are used.

b. Grouped bill

This is used when several importers use one vessel for different cargo and is done to save transport costs by the concerned parties.

State the particulars that appear on a bill of lading.

- Name of the ship used
- Details of the goods sent
- Port of departure and destination
- Names of consignor and consignee
- Bill reference number.

Describe three uses of a bill of lading.

1. It is a receipt for the goods ship
2. It is document of tittle
3. It serves as an evidence of business contract between the shipper and the exporter or importer depending on the shipping arrangement.

e. "Airway bill"

It is a document that is used to transport goods by air.

f. "Bill of entry"

It is the document that describes the goods and states clearly the value and destination. It is submitted custom officials to physically check goods and their declaration and if all is in order, then permission is given for the export or import of the concerned goods.

g. "Import/export license"

This document is given to individuals permitting them to either import or export within their limits. The restriction is to control movement of products to and from countries.

h. "Bill of exchange"

It is the document written by the seller and signed by the buyer promising or acknowledging the buyer will pay for the amount indicated.

It is used when the seller is dealing with the buyer for the first time and is not sure of the financial capabilities of the buyer.

A bill of Exchange is one way of showing that the buyer is prepared to pay for goods.

CHAPTER THREE- BUSINESS ORGANISATIONS

CO-OPERRATIVE SOCIETY

What are co-operative societies/Non- Profit Making organizations?

Co-operative Societies are non –profit making business unit which are owned and managed by a group of people with a common goal and working as a team.

State the examples of co-operative societies/ Non- Profit making organizations.

These are

1. Co-operative Insurance Societies
2. Co-operative Bank Societies Mutual e.g. MUSCO, SACCOs, NABW
3. Co-operative Wholesale Society
4. Co-operative Retail Society

Discuss the principles/characteristics of the co-operative societies/Non- Profit making organizations?

1. **Formation-** They are formed by a group of people in a private

sector who contributes a small sum of money as capital.

2. **Ownership-** They are owned by the members who are also the customers of the societies.
3. **Control-** They are controlled by the management committee who takes care the daily running of the co-operative societies. They employ a paid CEO to implement the policies of the co-operative society.
4. **Capital**- It is contributed by the members through buying the shares.
5. **Distribution of profit-** They are distributed to the members according to the number of shares held.
6. **Membership-** It is voluntary so long as they are 18 years and over.
7. **Legal requirements- They** are required to register with the Registrar of Co-operative Societies. When the co-operative is registered with this Act, the members enjoy limited liability because it becomes a separate legal entity.
8. **Democratic control –** All the posts such as chairperson. Secretary and treasurer are filled by voting. Every member has only one vote.

What are the reasons for the formation of co-operative societies?

1. To provide goods and services at a reasonable price since they do not have profit motive.
2. To equip the participant with knowledge and experience of some kind

3. To keep the participants busy with some other activity instead of being involved in immoral behavior.
4. To improve the living standards of both the members and the whole nation at large.
5. To reduce trade monopoly
6. To find market for farm produce where the society deals with agricultural products.
7. To reduce the chain of product distribution.

Mention three forms of co-operative societies and state their functions.

1. **Consumer/retail co-operative societies**
   These are mainly involved in the buying in bulk and retailing of goods.
2. **Producer/agricultural co-operative/marketing societies**
   These specialize in the production and sale of goods. They manufacture a wide range of products, processes foods and run firms.
3. **Communal /service provider co-operative societies**
   These are involved in various financial services such as MUSCO, NABW and various SACCOs.

State the advantages of co-operative societies.

1. Goods and services are provided at very cheap price as their motive is not for profit making.
2. They offer short term loans to members or non- members at some interest.
3. Members enjoy a sense of loyalty where business is stable.

4. Members enjoy limited liability
5. They are characterized by democratic control
6. Members share and gain skills and experience from each other.

State the disadvantages of co-operative societies.

1. Capital shortage – Lending institutions s are reluctant to offer loans to co-operative societies because of not being profit oriented.
2. There is corruption in the business which may distort the normal business activities.
3. There is always loss of trust among members.
4. There is often a clash in democratic principles because decision have to be made unanimously
5. The management is left in the hands of few incompetent individuals leading to shortage of goods and accruing losses.

CHAPTER THREE- BUSINESS FINANCE

NON BANK FINANCIAL INSTITUTIONS

Describe non-bank financial institutions and give examples.

These are organizations that administer finance but are not registered as banks with the Banking Act.

Examples of Non- bank financial institutions operating in Malawi are

a. Malawi Stock Exchange (MSE)
b. Leasing and Finance Company
c. Acceptance Houses
d. Discount Houses

Explain two roles of non-bank financial institutions.

1. **They provide hire purchase services** in the asset such as motor vehicles, equipment, plant and machinery, washing machines etc.
2. They provide credit sale services in fixed assets not in perishable goods.
3. **They provide leasing services.** Examples of the organizations that provide leasing services are Gestetner, National Finance Company, Ministry of Lands and Physical Planning, Private Vehicle Hire Organization etc.
4. **They provide loans to the businesses** e.g. Malawi Rural Finance Company and credit financial institutions such as MUSO, SACCO, NABW, FINCA etc.
5. **They provide financial securities** e.g. Malawi Stock Exchange. The main role of the Stock Exchange is to put those who wish to sell shares or stocks in touch with those who wish to buy them.

   Examples of the company under Stock Exchange are National Bank, Old Mutual, TNM etc.

   Malawi Stock Exchange is a highly organized financial market where shares and stocks are traded.
6. **They offer trade credit facilities**. Trade credit is often interest free and may also attract cash discounts for prompt payment.
7. **They offer discounting and acceptance services.** These services are offered by Continental Discount Houses and the

First Discount House in Malawi. The main role of the Discount House is to retire financial securities that bear future maturity dates. When the holder of such securities needs immediate cash, they can present them to these discount houses and exchange them for cash. The discount houses charge interest for discounting any financial security in order to serve as their profit.

Examples of securities that can be offered for discounting are Bills of Exchange, Treasury Bills, Certificates of Deposits etc.

8. **They provide mortgage loans/bonds**. Mortgage bonds are loans made to business organizations as one way of sourcing business finance. They are offered by Building Societies and require collateral security of up to 60% or 70% of the property value. The collateral security only works where the property for collateral has necessary insurance covers and legal title deeds.
9. **They provide factoring service**. Under this role, trade debts which are due to a firm are sold to a factoring company (factor). This factoring company provides immediate cash to a firm and takes charge of the firm's account and documents of title. Suppose company A sells goods worth K800, 000 to company B. This company B sends the invoice to company C (factor) of the value K800, 000. Then Company C can factor the invoice by paying to company A. A, say, 80% of the invoice total (K640, 000). The 20% is the profit by company C on the bridging finance to company A. Invoice factoring is also called **bridging finance**.

Advantages of factoring

a. **A factoree is completely protected against bad debtors.**
b. A factoree can easily plan a head due to the knowledge of money for capital.
c. A factoree gets immediate cash within 24 hours of the commencement of invoice factoring.
d. A business that has opportunities of invoice factoring wins more markets share because it continues to sell on credit.

Disadvantages of factoring

a. Potential customers may be scared away mainly when the factor asks payment harshly.
b. Some factors charge high interests for invoice factoring, hence, the factoree may incur losses.
c. The factoring company runs a risk of losing money in case the buying company defaults payment since they cannot claim back money already paid to the factoree.

Explain the advantages of factoring to an entrepreneur.

- A factoree is completely protected against bad debtors.
- A factoree can easily plan a head due to the knowledge of money for capital.
- A factoree gets immediate cash within 24 hours of the commencement of invoice factoring.
- A business that has opportunities of invoice factoring wins more markets share because it continues to sell on credit.

Explain the roles of lending institution.

1. **They provide hire purchase services** in the asset such as motor vehicles, equipment, plant and machinery, washing machines etc.

   They provide credit sale services in fixed assets not in perishable goods.
2. **They provide leasing services.** Examples of the organizations that provide leasing services are Gestetner, National Finance Company, Ministry of Lands and Physical Planning, Private Vehicle Hire Organization etc.
3. **They provide loans to the businesses** e.g. Malawi Rural Finance Company and credit financial institutions such as MUSO, SACCO, NABW, FINCA etc.
4. **They provide financial securities** e.g. Malawi Stock Exchange. The main role of the Stock Exchange is to put those who wish to sell shares or stocks in touch with those who wish to buy them.

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Define the following terms

a. Hire purchase Hire purchase is a trade arrangement where one party buys an item by making monthly payment s called instalments and the buyer does not become the owner of the property until all the instalments have been paid completely. The buyer gets an item without paying any deposit. It is suitable in fixed assets such as motor vehicles, equipment's etc. Supreme and carnival Furniture shops is an example of the organization that provide hire purchase services. **b. Credit sale Agreement** Under credit sale agreement, the buyer/debtor buys an item and pays for it in several monthly instalments after paying an initial deposit of not less than 25% and get possession of the item.

State four differences between hire purchase and credit sale agreement.

HIRE PURCHASE	CREDIT SALE AGREEMENT
The debtor can pay a deposit or not	A debtor is required to pay a deposit.
The debtor assumes ownership/title of the item after completing all instalments	The Debtor assumes title/ownership immediately after paying an initial deposit.
An item cannot be used as collateral	An item ca be used as collateral to obtain a loan

The defaulter is repossessed the item	The defaulter can be sued in court.

State the advantages of hire purchase and credit sale agreement to the buyer/hirer.

1. Supplier guarantee to repair the item when faults are detected within the specified time 2. Debtors are able to buy items and pays for them while using them. 3. Business are able to purchase durable and expensive items which could not be bought by cash. 4. Item bought are of high quality and original. **5.** The buyer has more time to test the property before finishing the payment, otherwise , they lodge complaints for any misfits.

State the advantages of hire purchase and credit sale agreement to the seller/ creditor.

1. They are able to sell more on credit terms because people can afford easy payment terms. 2. They make huge profits because of extra charges such as interests. 3. They are relieved from huge storage costs due to high stock turn. **4.** They win more market share because of their flexible credit terms.

State the disadvantages of hire purchase and credit sale agreement to the buyer/hirer.

1. They restrict buyer's choice to shops that offer items on hire

purchase or credit once they make it

2. The item becomes more expensive than cash due to extra costs on travelling and absence of cash discounts.
3. Where the debtor defaults, they can be sued or have items repossessed.
4. The item cannot be used as collateral in hire purchase.
5. The previous installments are forfeited in case of the hire purchase when the debtor defaults and the item is repossessed.

State the disadvantages of hire purchase and credit sale agreement to the seller/creditor.

1. The creditor may not be paid in full because some debtors may disappear without leaving any traces.
2. The creditor incurs more costs on legal actions taking the defaulter to court.
3. They require very large amount of capital to keep the business going.
4. The creditor is in danger of the risk of creating negative opinion in the minds of potential customers when they are dragged to court for failure to settle debts.

Define the term leasing.

Leasing is a form of the hire under which the business has the use of the property for an agreed period but the property dos not belong to the hirer.

In other words, leasing is the hiring of an item/asset for a specified period of time without necessarily owning it.

Maintenance of the fixed asset is done by the leasing company.

The leasing company is called the **lessor** while the business leasing out the asset is called **Lessee.**

Characteristics of leasing

Characteristics of leasing include

1. Involves mainly with assets
2. Repayments are made by instalments
3. Repayment period is determined by the working life of the asset.
4. Business can start using the asset upon having made intial instalment.
5. Lease contract is renewable.

Examples of companies in Malawi that offer leasing services

1. Leasing and Finance Company
2. National Finance Company
3. AVIS

State five advantages of leasing.

1. The lessor may extend the leasing contract once it expires.
2. It is the best option where the business is not willing to commit large capital sums to buy assets.
3. It is suitable where technology changes rapidly and that a business needs to update its equipment regularly.
4. The leasing arrangement has tax advantages to both the lessee and the lessor.
5. Repairs and maintenance of the asset under the leasing agreement remains the responsibility of the lessor.

Disadvantage of leasing

The lessee does not own the asset. It remains the property of the lessor.

Explain the difference between "leasing" and "hire purchase"

Define the term leasing.

Leasing is a form of the hire under which the business has the use of the property for an agreed period but the property does not belong to the hirer.

Hire purchase is a trade arrangement where one party buys an item by making monthly payment s called instalments and the buyer does not become the owner of the property until all the instalments have been paid completely. The buyer gets an item without paying any deposit. It is suitable in fixed assets such as motor vehicles, equipment's etc.

CHAPTER FOUR – PRODUCTION

Define the term production

Production refers to the whole process that involves the transformation of raw materials into effective and efficient creation of goods and services.

Explain the various steps of the production process.

1. **Innovation**

   This involves generating new ideas for new designs, initiating quality improvements to products and discovery of new technologies, products and process of production.

2. **Planning**

   This is the development of a detailed statement expressed in objective terms establishing the standards of performance to be achieves.

3. **Budget**

After planning, the budget is prepared in line with the requirements of the plan. The budget takes into account all necessary costs on research, raw materials, capital goods, production, administration, marketing and selling.

4. **Resources mobilization**

This involves identifying resources which are to be high quality in order to produce high quality finished products/goods. It also involves identifying financial resources, physical resources and human resources to carry out the production.

5. **Actual production**

This is a stage whereby actual production is set to start. It is the development stage where ideas, resources are all applied into the process of production and it requires extensive monitoring and control. The purpose of control is to constantly, check and identify the performance in order to alert the appropriate manager in time for remedial action.

6. **Distribution stage**

This is the stage when the manufactured goods are physically moved to the market places. It helps to create space for other fresh batch of finished goods hence makes production to be a continuous process.

7. **Utilization/accomplishment stage**

This is a last production step and involves individuals, households, companies and nations that use the goods.

QUALITY

Define the tem quality.

Quality refers to the degree of how the product satisfies the consumers.

Examples of organizations and Acts that promote quality of products in Malawi

1. Malawi Bureau of Standards
2. Weights and Measures Act
3. Consumers Association of Malawi- is Civil Society organization

What are three basic principles of quality?

1. **Standardization**

   This involves determining the best sizes, types and qualities.

2. **Simplification**

   It involves efforts of making production process less complicated.

3. **Specialization**

   This is where a company carries only one part of the total production process or concentrates on a narrow range of products.

Techniques of controlling quality used by different manufacturers

1. **Use of control charts**

   These are graphs that are used to indicate when a process is in within control or out of control.

2. **Automation**

   These are devices that are installed to detect or reveal that faults or defections have occurred, that need attention.

3. **Poka-Yoka**

   It is a device that is designed to prevent repetition of the faults. It is programmed to eliminate the faults.

4. **Source inspection**

   This technique is designed to inspect machines first before production starts. This helps worn out parts are replaced and defective raw materials are not used.

5. **Self-Checking**

   This principle requires that individual worker must be alert to monitor and check his/her own output.

QUALITY CONTROL

Define the term quality control.

Quality control refers to all the planned activities within the factory fence of production aiming at producing high quality products that fit for the intended use.

Differentiate the term quality from control.

- **Quality** refers to the degree of how the product satisfies the consumers.
- **Control** refers to the whole process that ensures or verifies whether everything occurs in conformity with the plan adopted. It involves measurements, setting up yardsticks, comparisons and tackling deviations.

Describe three methods of measuring/ensuring quality control.

1. **Inspection**

   This method involves identifying failures and perhaps rectifying them. This method is made to prevent faults and elimination of short falls.

2. **Quality Assurance**

   This method considers the quality of supplies, nature of customers, training personnel and engaging internal or external auditors. Where auditors are engaged, they are called Quality Assurance Officers whose duties are to examining production process and report defects to the bosses.

3. **Total Quality Management**

   This involves the whole companies getting organized, in every department, every activity, and every single person at every level.

Explain the importance of quality control.

1. Companies' faults are minimized, hence, it can lead to economies of scale.
2. The companies generate more revenue because high quality products are offered.
3. It is an opportunity to professional workers who are efficient operators because they get jobs in such industries, thereby reducing unemployment.
4. Customers get up to date products that are hazardous to their health or that do not cause injury to people.
5. It makes it possible that companies stick to their designed

specifications, hence reducing scrap, returns inwards and customer complaints.

Explain the problems or disadvantages of quality control.

1. Some workers who are inefficient are at risk of losing jobs.
2. It has led to increased dishonesty on product marks such as forging out some names and stick them on their fake products in the name of quality.
3. Some inefficient operators may hide faults before auditors for fear of being dismissed. This weakens the whole production process.
4. Setting up quality control standards is very expensive and may demand huge capital investment.

STOCK/INVENTORY CONTROL

Define the term stock/inventory.

It refers to the goods kept by an organization either for manufacturing process or for resale.

Forms of various stock/inventory

- Forms of stock/inventory include raw materials, fuels, components, work in progress and finished goods.
- Raw materials, fuel and components are bought from outside suppliers.
- Work in progress means products in the course of being manufactured but not yet completed.
- Finished goods stock comprises products that have been fully

processed.

Explain the following terms in connection to stock control.

a. Stocktaking

Stocktaking is the process of ensuring that right levels of stock are maintained at all times. It is carried out to establish Re-order levels and Re-order quantities.

b. Stock levels

Stock levels refer to the amount of inventory and organization holds.

c. Optimum stock levels/buffer stock/safety stock

This refers to the maximum amount of stock the business has decided to keep at any one time. It is held to cover unforeseen rises in demand or breaks in supply.

d. Re-order level

This is the lever of stock at which the business orders new stock.

e. Re-order Quality

This is the stock that is ordered when new order is placed. When reorder quantity is added to a minimum stock level, a maximum stock level is obtained.

f. Lead time

It the time between the order being placed and the date it arrives in stock

g. Economic order quantity

It describes the level of stock which minimizes costs.

Explain the following methods of inventory valuation.

a. F.I.F.O (First in First Out)

This means the first items in the inventory to be received are the first ones to be issued.

b. L.I.F.O(Last in First Out)

This method demands that the last items to be purchased are issued out first.

c. AVCO

This methods states that the average cost of each receipt of goods is re- calculated and it follows that all issues are going to be valued at this average cost until another receipt of goods is effected.

Example

F.I.F.O method

Shire Investments ask its cost accountant to supply stock information for inventory valuation. The following information is supplied.

Stock record January- December

Purchases	issues
2014 K Jan 10 at K30 each 300 May 15 at K40 each 600 Sept 30 at K50 1500	2014 K June 7 for K50 350 October 28 for K60 1680 2030

55 2400	

Required

Calculate the closing stock using F.I.F.O method

Solution

Date	Receipts		Issues		Balance	
2014		K		K	QTY	K
Jan	10 at K30 each	300			10	300
May	15 at K40 each	600			25	900
June			7 @ K30 each	210	18	690
Sept	30@ K50 each	1500			48	2190
Oct			3 @ K30 each 15@ K40 each 10@ K50 each	90 600 500	45 30 20	2100 1500 1000

The closing inventory at 31/12/2014 at cost is valued under FIFO is K1000.

Shire Investments ask its cost accountant to supply stock information for inventory valuation. The following information is supplied.

a. Stock record January- December

Purchases	issues
2014 K Jan 10 at K30 each	2014 K June 7 for K50

300 May 15 at K40 each 600 Sept 30 at K50 1500 55 2400	350 October 40 for K60 1680 2030

Calculate the closing stock using L.I.F.O method

Solution

Date	Receipts		Issues		Balance	
2014		K		K	QTY	K
Jan	10 at K30 each	300			10	300
May	15 at K40 each	600			25	900
June			7 @ K40 each	280	18	620
Sept	30@ K50 each	1500			48	2120
Oct			30 @ K50 each 8@ K40 each 2@ K30 each	1500 320 60	18 10 8	620 300 240

AVCO method

Shire Investments ask its cost accountant to supply stock information for inventory valuation. The following information is supplied.

Stock record January- December

Purchases	issues
2014 K	2014 K
Jan 10 at K30 each 300	June 7 for K50 350
May 15 at K40 each 600	October 28 for K60 1680
Sept 30 at K50 1500	
55 2400	2030

Required

Calculate the closing stock using AVCO method

Solution

Date	Receipts		Issues		Balance	
2014		K		K	QTY	K
Jan	10 at K30 each	300			10	300
May	15 at K40 each	600			25	900
June			7 @ K36 each	252	18	648
Sept	30@ K50 each	1500			48	2148

Oct			28 @ K44.75 each	1253	20	895

CHAPTER FIVE: ENTREPRENEURSHIP

Define the term "entrepreneurship".

Entrepreneurship is the process of running or doing business while an entrepreneur is the person doing business.

Define the term "entrepreneur".

Entrepreneur is the person doing business.

State the functions of entrepreneurs.

1. Employing workers.
2. Deciding on the place for his/her business.
3. Sourcing out quality raw materials for high quality products.
4. Finding potential markets for their products.

State the risks born by entrepreneurs.

1. Losing reputation whereby the business venture fails
2. Losing personal properties where creditors confiscate them when he/she fails to repay back loans.
3. Suffering losses incurred in the course of doing the business.

Explain the characteristics of good entrepreneurs.

- **They are innovative-** They are anxious for developing new ideas, technologies and discovering new products for business survival and continuity.

- **They are willing to take risks-** They are able to invest huge capital into the business even if there is no apparent profits. They are risk takers
- **They have high need of achievements –** They have great desire to realize the on set goals.
- **They have high need of self-esteem-** They desire to have high status –quo.
- **They have high need of self-confidence-** They are not moved by unfavorable business situations. He/she must have strong personal belief in him/herself. An entrepreneur must be able to convey this to others and have a need for achievement. They should also be self-motivated.
- **Resilience**. Developing an enterprise involves long hours and commitment, often leading to personal sacrifice. Resilience and determination are key to personal success. This is not only needed at the start but through the life of the business.
- **Visionary**. Spotting opportunities and visualising how and where they could develop.
- **Excellent ability to network**. Connections are vital for a new business and an entrepreneur needs to be able to build networks. These can be used in all aspects of the business – development, funding, marketing and accessing resources.
- **Management skills.** When developing a business, the entrepreneur needs to manage all the processes until more resources become available.

Explain three rewards to entrepreneurs.

1. **Enjoying profits from their business –** This takes the form of net profits which they use to get their needs and wants.
2. **Being independent-** They become self- reliant in financial matters**.**
3. **Satisfaction-** They are contented because they are able to get or have whatever they want. They can buy whatever they want and fashion their life the way they want without financial limitations.

Explain four support and aids that are available for new businesses.

1. **Political support**

   The business is promoted where there is peace and stability.
2. **Economic support**

   Stable economic conditions and increasing economic growth rate support businesses positively. The businesses are able to plan ahead and are not disturbed by fluctuating prices**.**
3. **Social support**

   High class societies with high incomes provide enough market for the business.
4. **Technological support**

   Advancement in modern technologies increases productivity and reduction of unit cost. Businesses enjoy economies of scale.

Describe five means of support available for new business.

- **Political support**

  The business is promoted where there is peace and stability.

- **Economic support**

  Stable economic conditions and increasing economic growth rate support businesses positively. The businesses are able to plan ahead and are not disturbed by fluctuating prices.
- **Social support**

  High class societies with high incomes provide enough market for the business.
- **Technological support**

  Advancement in modern technologies increases productivity and reduction of unit cost. Businesses enjoy economies of scale.

Define foreign financing

This is financing the business with external sources from international lending institutions.

Discuss the two major types of foreign financing.

1. **Foreign loans**

   Foreign loans are business finances borrowed by businesses from external sources or provided by international organizations such as IMF, World Bank and foreign countries
2. **Foreign development grants**

   A grant is a special allowance and non-refundable form of assistance a business may have from external source.

Define the financial term "foreign loans"

Foreign loans are business finances borrowed by businesses from external sources or provided by international organizations such as IMF, World Bank and foreign countries.

Explain the following types of foreign loans.

1. **"Soft" loans**

   Soft loans are loans that are given to the business already converted into the recipient's country's currency.

2. **"Hard" loans**

   Soft loans are loans that are given to the business in form of the foreign currency and need to be converted into local currency before using them.

Describe any three steps/produceres that a firm should follow to acquire a foreign loan.

1. Identification of international lending institution from which the business can source funds.
2. Drafting the business plan. The business need to come up with comprehensive business plan in order to convince the external funding institution to lend money to the business.
3. Application letter- This the covering letter that act as an accompanying document which must be clear, logical letter head containing the company logo.

Explain any three steps that should be followed in order to obtain a foreign loan.

4. Identification of international lending institution from which the business can source funds.
5. Drafting the business plan. The business need to come up with comprehensive business plan in order to convince the external funding institution to lend money to the business.
6. Application letter- This the covering letter that act as an

accompanying document which must be clear, logical letter head containing the company logo**.**

Mention the requirements that must be fulfilled by the local institution in order to obtain foreign finances.

- Identification of international lending institution from which the business can source funds.
- Drafting the business plan. The business need to come up with comprehensive business plan in order to convince the external funding institution to lend money to the business.
- Application letter- This the covering letter that act as an accompanying document which must be clear, logical letter head containing the company logo**.**

State four things that must be found on the covering letter that is sent to foreign financing institution in order to foreign financing.

1. Name of the local organization
2. Official and physical address of the organization.
3. Business goals and objectives
4. Expected out
5. Competitive strengths
6. Target market.
7. Total estimated budget in foreign currency.

Explain four problems of acquiring foreign loans.

1. **How to identify the external funding institution.** It is not easy to get an international organization for sourcing out foreign loans**.**

2. **Specifications on the business plan-** It is difficult for a business to meet the demands required by the external money lending institutions such as logistics and stating convincing objectives.
3. **Undue influence on the recipient business.** They external funding institutions may attach unfavourable conditions to their loans which may bring inconveniences to the business.
4. **Debt servicing-** The business may face problems in repayment of the loans due to huge interests.

FOREIGN GRANTS

Define a "grant"

A grant is a special allowance and non-refundable form of assistance a business may have from external source.

Describe the two main types of foreign development grants.

1. **Free grants**

   This is a form of the grant that a business gets from the foreign financial institutions that does not have restrictions or conditions attached to them. The business enjoys total freedom and uses it in the way it wants.

2. **Tied grants**

   This is a form of the grant that a business gets from the foreign financial institutions that has restrictions or conditions attached to them. The business uses the tied grant as directed.

Explain four importance of foreign development grants.

1. It acts as free capital for the business to conduct some research

on business development.

2. It can be used to purchase capital goods, replace scraps and repair damaged assets.
3. It is used to settle down some outstanding debts accrued within the business.
4. It enable the business to carry out some development work such as diversification, building extra infrastructures.

BUSINESS PLAN

Define the business plan.

It is of items and events which an entrepreneur would want to undertake should the business be launched.

Mention three purposes of the business plan.

1. To convince the finding institutions when seeking financial assistance.
2. To act as a guide when running the business so that an entrepreneur should not lose direction.
3. It helps an entrepreneur in evaluation and checks whether the onset goals have been met and makes improvements where necessary.

Explain the factors to be considered when drafting a business necessary.

1. **Good idea about the product**

   The entrepreneur should conduct product and market research in order to know the right product to sell.
2. **Marketing**

This function helps the entrepreneur to identify consumers wants and provide exactly what can satisfy them.

3. Financial statements

The entrepreneur must prepare the financial statements such as income statements that determine liquidity ratios, balance sheet that reveal the financial status of the business and cash flows that predict the going concern of the business.

4. Existing sources of finance

An entrepreneur must disclose some sources of capital for the knowledge of financiers.

5. Business growth and diversification

This reveals the asset base of the business that can be used as collateral purposes.

6. Business location

A conducive business location contributes positively to the business success because more customers are attracted.

Mention four qualities of a good business plan.

1. It must be simple, clear, concise and unambiguous.
2. It should be realistic and have a sense of truth.
3. It must be logical well illustrated and mathematically supported.
4. It should be accurate, that is, information and figures should tally.

Describe any five components of a good business plan.

1. Details of the business

These include name, address, background, and its legal identity.

2. Business objectives

The aims, goals or purpose of the business must be clearly stated in the business plan

3. Key personnel

Influential personnel must be indicated such as accountant, general manager, marketing manager etc.

4. Nature of the business

The entrepreneur must clearly specify the type of business activity to be involved such as selling, retailing, manufacturing etc.

5. Resources available

This includes resources that are already available for the business such as water, electricity, transport etc.

6. Market analysis

An entrepreneur should analyse the market in terms of class of people, their likes and dislikes.

SETTING UP A BUSINESS

What are the three things that entrepreneurs are supposed to fulfill before setting up any business?

1. Availability of adequate capital in relation to the size of the business
2. Identification of the location where to set up the business
3. Undergoing an appropriate registration process with the Registrar of Companies in case of limited companies.

Explain the following methods of setting up a business.

a. Establishing on entirely new business.

This is where the owner conducts feasibility study or conduct a research regarding performance of the proposed products and services. The owner is also required to have special expertise and knowledge of the concerned product and target market.

Give any three reasons why would an entrepreneur buy an existing business firm than launch an entirely new business?

b. Buying an existing old business

This is where the new owners firstly study the old existing business performance and then try to improve on them.

c. Franchising

Franchising is the arrangement where a parent company agrees to grant some rights or patents to another small company to establish a business in their name.

The small company is the franchisee while the parent company is the franchisor.

Examples of franchising business enterprises in Malawi are

a. Nandos
b. Multi Choice (MW) Ltd
c. Banja L Mtsogolo

Define "franchising"

Franchising is the arrangement where a parent company agrees to grant some rights or patents to another small company to establish a business in their name.

Mention the advantages and disadvantage of franchising.

Advantages

a. The small company benefits from training programmes for technical know-how.
b. The small company is easily connected to global market.
c. Business success is guaranteed due to professional back up and sale of familiar products.
d. The small company is insulated against risks and uncertainties which new business starters face.
e. A small company enjoys post contract services such as advices on special problems.
f. The parent company enjoys a constant flow of revenue through royalties and percentage of sales.

Disadvantages

a. There is loss of control by the small company.
b. The small company cannot cancel out the contract without the parent company's consent.
c. The small company pays royalties and percentages of profits regardless of the volumes of sales made.

SMALL BUSINESS

State five economic roles of small business to the economy of Malawi.

1. They provide jobs or employment to Malawi
2. They bring out special products such as wrist watch, cell phones, pencils, pens etc.
3. They encourage competition which leads to high quality

products offered at affordable prices.

4. They check out monopolies and hence maintain consumer protection.
5. They aid big businesses as they feed big businesses such as wholesalers and producers with information relating to the market behavior. They also act as outlets through distributing goods to the final consumers.
6. They provide specialized services such as watch repair, shoe repair etc. which big businesses do not offer.

Explain six contributions of small business to the economy of Malawi.

7. They provide jobs or employment to Malawi
8. They bring out special products such as wrist watch, cell phones, pencils, pens etc.
9. They encourage competition which leads to high quality products offered at affordable prices.
10. They check out monopolies and hence maintain consumer protection.
11. They aid big businesses as they feed big businesses such as wholesalers and producers with information relating to the market behavior. They also act as outlets through distributing goods to the final consumers.
12. They provide specialized services such as watch repair, shoe repair etc. which big businesses do not offer.

Explain five challenges/problems faced by the small businesses.

1. Lack of capital which restricts business growth and

development.

2. Poor marketing skills. They do not intensify on advertising, promotion, publicity and hence can easily be pushed out of the market share.
3. Bad bets- Many small businesses have problems of repaying loans.
4. Lack of managerial skills as they owned by uneducated people who are not skilled and have poor background concerning business.
5. Government regulations and policies. Polices to do with tax on businesses may discourage small business to forge ahead.
6. Few personnel as they rarely employ enough workers.

Name and describe four competitive strengths of the small businesses over large businesses.

1. Convenient working hours- they have long trading hours unlike big businesses.
2. Convenient location as they are located within the living communities.
3. Management flexibility as they are not rigid in their policies. They can change to favour customers.
4. Customer knowledge- They are able to know their customers, their needs, aspirations, names which increases interpersonal relationships.
5. Product specialization – They specialize in dealing one product.

State four weaknesses of the small businesses.

1. They offer products or services of poor quality.

2. They have unskilled labour due to lack of staff training and low packages given to workers.
3. They have poor management skills
4. They have low-resource base.

State the business opportunities that are available to small businesses.

1. Economic opportunity when there are low interest rates, low inflation and stable exchange rates.
2. Social opportunity as they are located in an area where most of its customers are socially based.
3. Technological development such as the coming in of cell phones and computers have eased many small businesses to operate**.**

State any three threats to small businesses.

1. Competition from big businesses
2. Changes in the fashion of some of their products
3. Political crisis in the country
4. Adverse climatic conditions

Discuss four support and aids for the new business.

1. Economic aid is heavily affected by how much support and aid offered by the domestic community or overseas community**.**
2. **Social aid-** there is need to examine the behavior of the society where our business exists.
3. **Technological aid.** Organizations must be aware of the new materials as well as developments in manufacturing techniques and business processes.

4. **Political and government aid-** good government attracts a lot of investors.

SMALL BUSINESS GROWTH

State three reasons for expanding small businesses.

1. The prospect of making higher profits. This due to the more sales being made.
2. To ensure business survival
3. To have easy access to credit facilities as they may adequate asset to be used as collateral when obtaining loans.

Describe two ways of expanding small businesses.

1. **Internal growth**

   This occurs where the original management structure expands. The factors that bring about internal growth include

   a. Conducting research
   b. Market-gap-analysis
   c. Revisiting and modifying old existing products
   d. Competitors knowledge and capitalize on their weaknesses
   e. When the business is able to efficiently utilize its own resources.

2. **External growth**

   This occurs mainly where two or more business entities join together to form one larger business unit or through take overs or through mergers.

   The following are three categories of external growth

   a. Vertical integration

This occurs where businesses in the same industry but are engaged in different stages of production processes join together. For example, Oil refinery company merging with a filling station company.

b. Horizontal integration

This occurs where firms in the same industry and engage in similar stages of production join together. For example, Candlex (MW) Ltd takes up a merger with Uniliver Brothers (MW) ltd.

c. Conglomerate integration/diversification

This occurs where firms in different industries and whose operations are not directly related joint together as one larger business unit.

State the advantages of business mergers

1. There is greater security over vital suppliers and better control over the quality of raw materials.
2. There are prospects of increased profits due to the increased scale of production.
3. There are more opportunities of accessing credit facilities easily.
4. Risks are spread over the mergers, for example, if one business declines, the other survive.
5. Economies of scale e.g. bulk buying and selling, marketing etc.

Stages the disadvantages of business growth.

1. It may lead to management diseconomies of scale.
2. It leads to increase in unit costs hence the business experience diseconomies of scale.