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.
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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	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 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	2014	K
Jan 10 at K30 each	300	June 7 for K50	350
May 15 at K40 each	600	October 40 for K60	1680
Sept 30 at K50	1500		
55	2400		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.
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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.

FORM FOUR WORK

CHAPTER SIX

THE ROLE OF GOVERNMENT IN PROMOTING TRADE IN MALAWI

Discuss six roles of central government in promoting trade

1. It develops and makes the tourism industry attractive. It does by constructing more hostels, making national roads accessible, legislating laws that aim at conserving the natural resources, promoting cultural preservation and ensuring efficient communication network system.
2. It manages and conserves the fishing industry. This is done by
   - encouraging people to use recommended nets,
   - using quota system,
   - civic education on the dangers of overfishing
   - Creating fish ponds.
3. Setting fort rules for trade aimed at ensuring fair trade so that neither buyers nor suppliers are exploited.
4. Checking out monopolies by opening out the economy to outside investors. It can also do this by privatizing state owned industries.
5. Ensuring the efficient public services and structure. These services must include telecommunication, police, fire protection, roads etc.
6. Maintaining economic growth by adopting fiscal and monetary policies that will direct to a conducive economic environment.

Discuss the role of local government in promoting trade.

The local government promote trade by

1. Providing licenses to people wishing to open up businesses such as rest houses or bottle stores in cities or districts.
2. Ensuring security at local levels in collaborating with the police and

neighborhood watch groups.
3. Improving local assembly infrastructure such as roads for efficient transport network system.
4. Providing fire extinguishing services in case some businesses catch fire.
5. Constructing several flea markets in various convenient places in towns or cities to promote trade.

Discuss the roles played by Malawi government to promote trade through

a. MINISTRY OF COMMERCE , TRADE INDUSTRY

- It issues both wholesale and retail licenses to people who like to venture into businesses.
- It registers various businesses through Registrar of companies.
- It regulates the activities of all financial lending institutions such as Malawi Rural Finance Company, SEDOM etc.
- It ensures even distribution of essential commodities such as sugar, salt and maize.
- It gives information on export and import procedures
- It appoints trade consuls to protect the interest of Malawian traders in foreign countries.

b. MALAWI BUREAU STANDARDS (MBS)

- It ensures that producers meet the required standards in products
- It is mandated to test imports and exports in order to control their quality through their testing laboratories.
- It certifies the products before they are launched on the market.
- It adopts the international standards in collaboration with the Ministry of Trade and enforces them to local producers.

c. MALAWI INVESTMENT AND TRADE CENTRE (MITC)

- It promotes the export based economy through encouraging local traders to market their products globally
- It attracts foreign investors by making the economic conditions conducive to them thereby generating more foreign exchange.
- It issues special foreign trade documents that facilitate the exporting of Malawi's products at lower custom duties.
- It makes available to exporters general trade information on export procedures, transport arrangements, marketing strategies etc.
- It collects information on foreign markets and disseminates it to local producers and exporters.

d. MALAWI CONFEDRTION OF CHAMBERS OF COMMERCE AND INDUSTRY (MCCI)

- It conducts extensive market research to identify potential areas for business venture.
- It makes available to local exporters the foreign market conditions.
- It represents and promotes the interests of the private sector both locally and internationally.
- It issues out some foreign trade documents such as Preferential Trade Area forms and certificates of origin to exporters.
- It facilitates trade between Malawian traders and traders in other countries through its linkage with other chambers within SADC.

e. INDEGENOUS BUSINESS ASSOCIATION OF MALAWI (IBAM)

- It expresses the united views of the business community to the relevant and concerned authorities.
- It acts unanimously to defend their interests in trade.
- It protects and promotes the rights and freedoms of the business community where they feel they have been infringed.
- It promotes the development of Medium and Small Enterprise businesses that encourage trade completion, production of products at affordable prices.

TRADE LIBERALISATION

Explain the term trade liberalization

It is the act of abolishing and controlling restrictions on trade so as to give wealth to the general public.

State the characteristics of the liberalized economy.

a. There is an increase in competition among business,
b. More business enterprises are owned by private investors with little or no government intervention.
c. The market forces of demand and supply determine the nature and prices of the products produced.

State five elements that have to be fulfilled to make trade liberalization to be complete and become effective.

1. **Profitability-** people must make profit on what they offer for sale.
2. **Risk reduction**- there must be minimal level risks to promote good businesses.
3. **Economic freedom-** sellers and buyers must exercise their freedom on the products
4. **The market-** there must be conducive market for n good business
5. **Competition-** competition must exist in order to improve quality of

products.

6. **Government intervention**- there must be minimal government intervention to control trade

Outline the advantages and disadvantages of trade liberalization

Advantages

1. It promotes the faster growth of private enterprise than public sector
2. Business community is free to trade in the way they want so as to make them better off
3. Due to little government involvement in one's business, it makes him to have power over his products.
4. It promotes competition thereby leading in the production of quality products
5. It encourages more foreign investors to come to Malawi

Disadvantages

1. Freedom of trade leads to consumer exploitation through high prices
2. A country with low production level becomes an importing country.
3. It makes Malawi to become a dumping area for the rejected goods in other countries.
4. It leads to the closure of domestic industries and being replaced by foreign industries
5. It makes Malawi to lose some reasonable revenues through tax since the foreign industries are given 5 years holiday as tax free- period.

ECONOMIC INTEGRATION

What is meant by the term economic integration?

It is an economic treaty or alliance adopted by countries to have common, fiscal and monetary policies hence they decisions that are made are followed by each member state.

Identify the forms of economic integration.

1. **Preferential Trade Area-** This is where nations agree and sign a common memorandum of understanding where custom duties are reduced on imports and exports moving within the trading bloc. Its aims are to increase the volume of trade within the member states.
2. **Free Trade Area—**this trading bloc where nations agree on completely abolishing all the custom duties on imports and exports moving within it.

   Free Trade Area is also called Free Trade. Free trade is the trade where imports and exports attract zero custom duties.
3. **Customs Union-** This is where the member states set up or establish a

common tariff of duties on goods imported from non-member states but with free trade or zero custom duties within the union.

What is meant by the term economic union?

It is a well-established and organized form of economic integration formed by a group of nations who agree to adopt similar economic, fiscal and monetary plus political and technological policies within its bloc. An example is the European Union.

What are common markets?

These are markets that share exactly or approximately the same laws and principles of trading. The nations in the common market only agree to follow the same policies, rules and regulations on trade but do not create a custom union; neither do achieve a complete free trade area. Examples of common markets are EU, AGOA, ECOWAS,SADC, and COMESA

SOUTHERN AFRICA DEVELOPMENT COMMUNITY-SADC

Southern Africa Development Community was established in 1992.

The member states of SADC included the following

1. Angola
2. Botswana
3. DRC
4. Lesotho
5. South Africa
6. Zimbabwe
7. Zambia
8. Mozambique
9. Namibia
10. Tanzania
11. Mauritius
12. Mozambique
13. Malawi
14. Seychelles

Mention the aims/objectives of the formation of each of the following common markets.

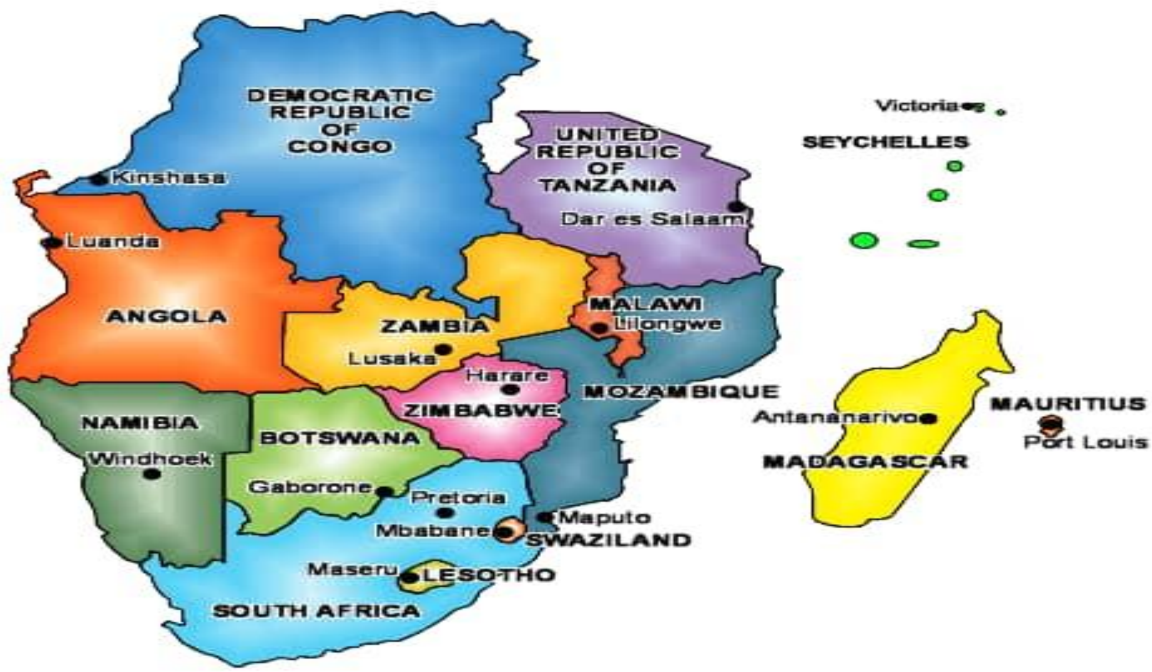
a. The SOUTHERN AFRICAN DEVELOPMENT COMMUNITY(SADC)

SADC is comprised of countries from southern Africa.

Its aims are

- To consolidate development strategies within the region
- To make a full common utilization of resources and markets with the whole are
- To increase income and employment opportunities within the region
- To foster the effort of achieving free trade are by starting with the adoption of preferential custom duties within the SADC.

SADC Member States



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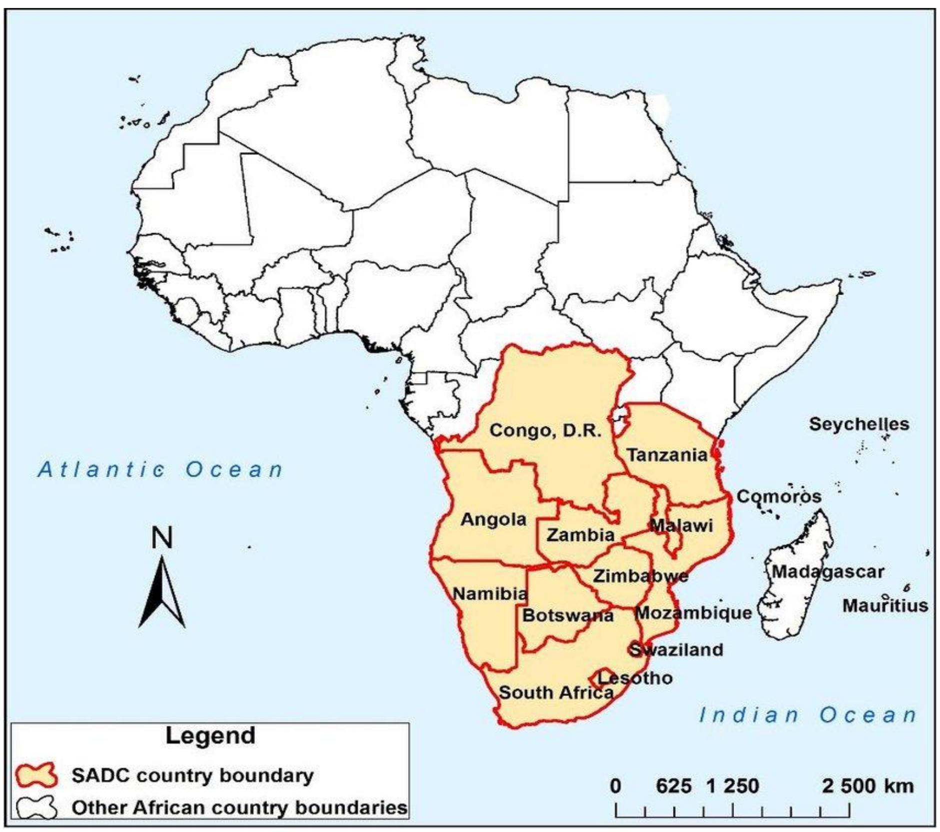


b. COMMON MARKET FOR EAST AND SOUTHERN AFRICA(COMESA)

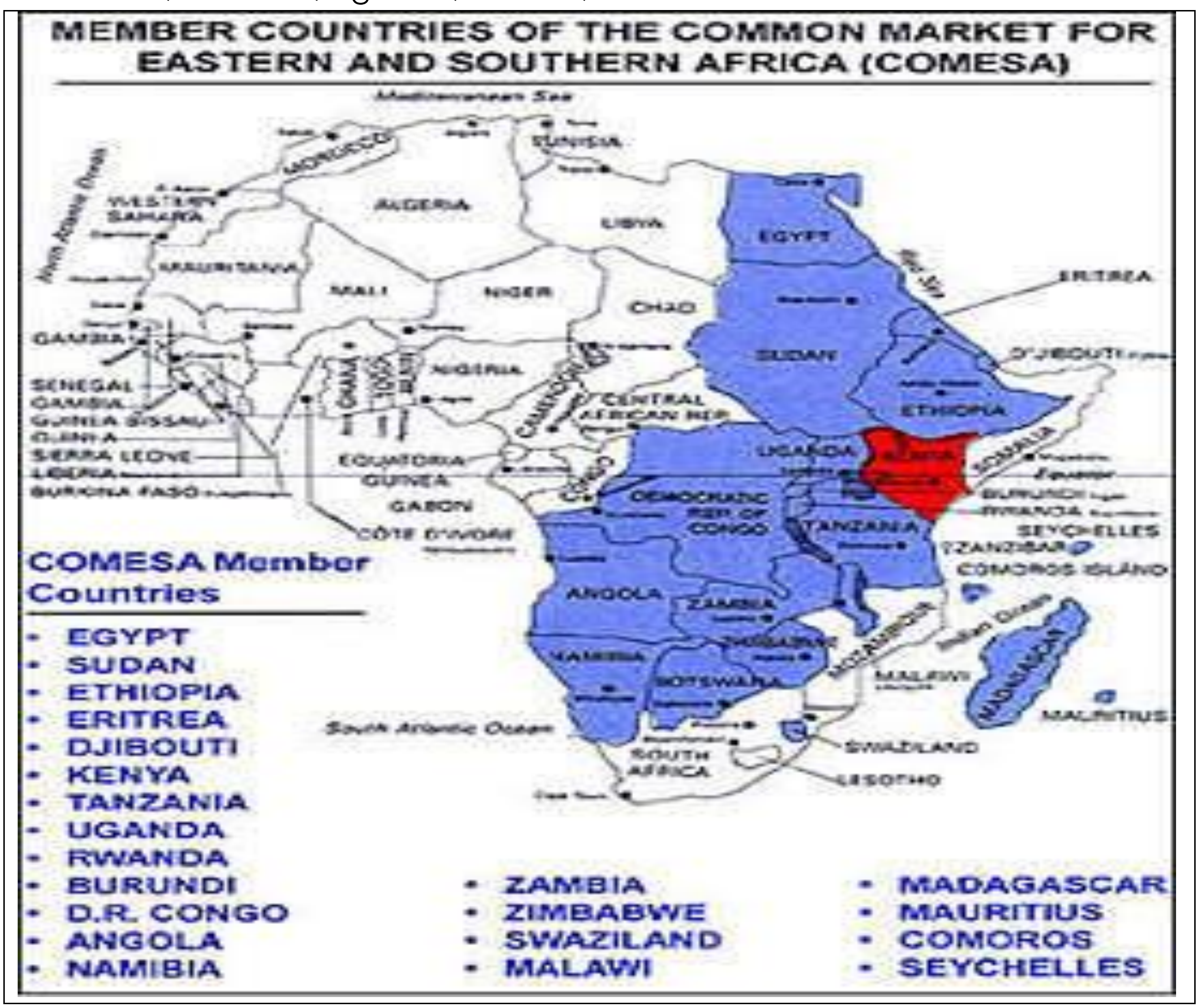
COMESA was established after it was ratified by the member states on 8th December, 1994 in Lilongwe, Malawi replacing the Preferential Trade area (PTA) for Eastern and Southern African states which was established in 1981.

REASONS/OBJECTIVES FOR THE FORMATION OF THE COMESA

1. To share the region's common heritage and destiny
2. To ensure greater social and economic cooperation
3. To create regional economic community
4. Work towards achieving common policies in judicial and banking systems
5. Facilitate the free flow of goods, services and labour within the region
6. Work towards achieving freer trade area with zero custom duties.

MEMBER STATES OF COMESA

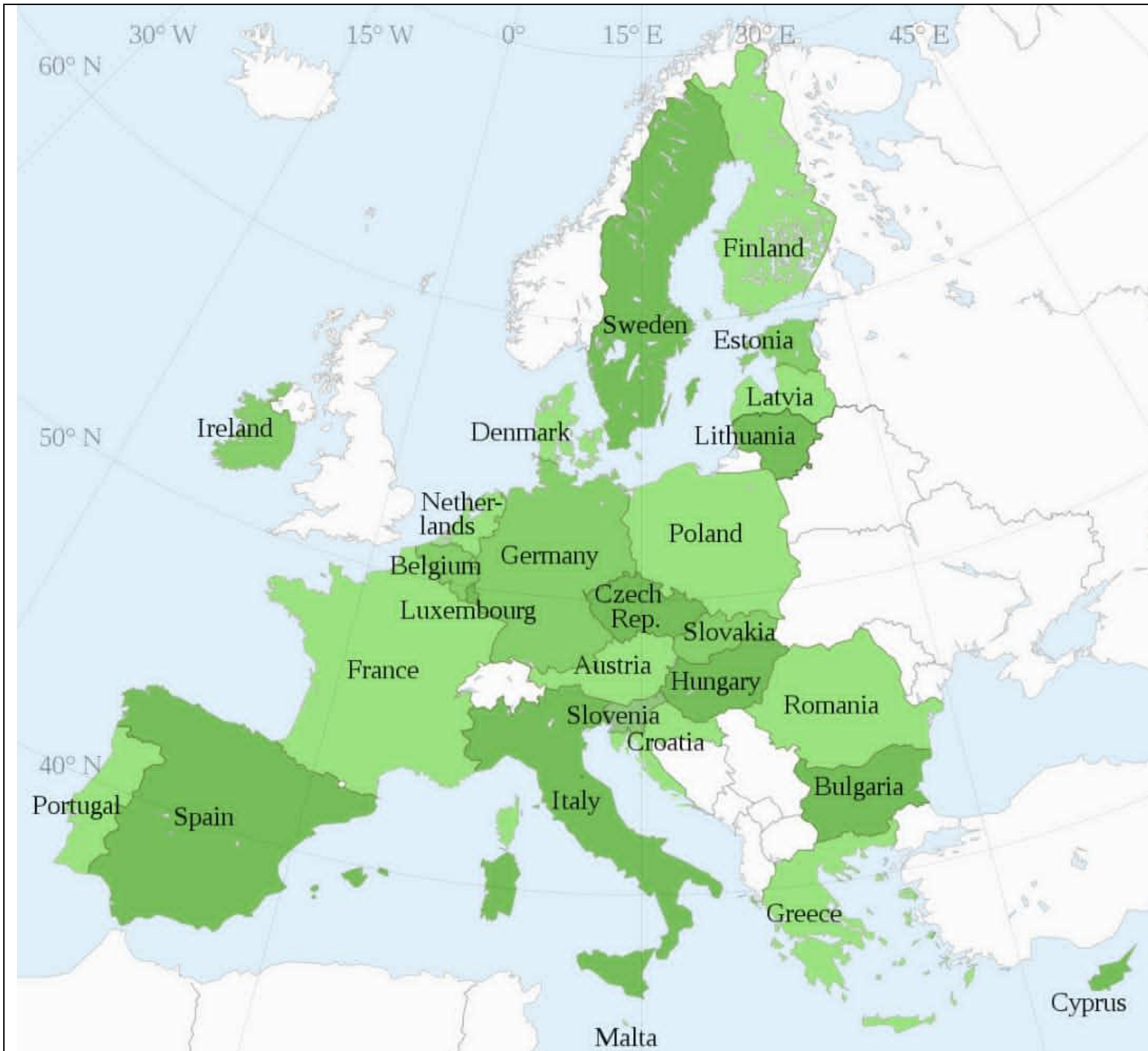
These include Angola, Burundi, Comoros, DRC, Djibouti, Egypt, Eritrea, Ethiopia, Kenya, Madagascar, Malawi, Mauritius, Namibia, Rwanda, Seychelles, Sudan, Swaziland, Tanzania, Uganda, Zambia, and Zimbabwe.



COMESA aims to

- To share the region's common heritage and destiny
- To ensure greater social and economic cooperation
- To create regional economic community
- Work towards achieving common policies in judicial and banking systems
- Facilitate the free flow of goods, services and labour within the region
- Work towards achieving freer trade area with zero custom duties.

c. EUROPEAN UNION (EU)



It aims at

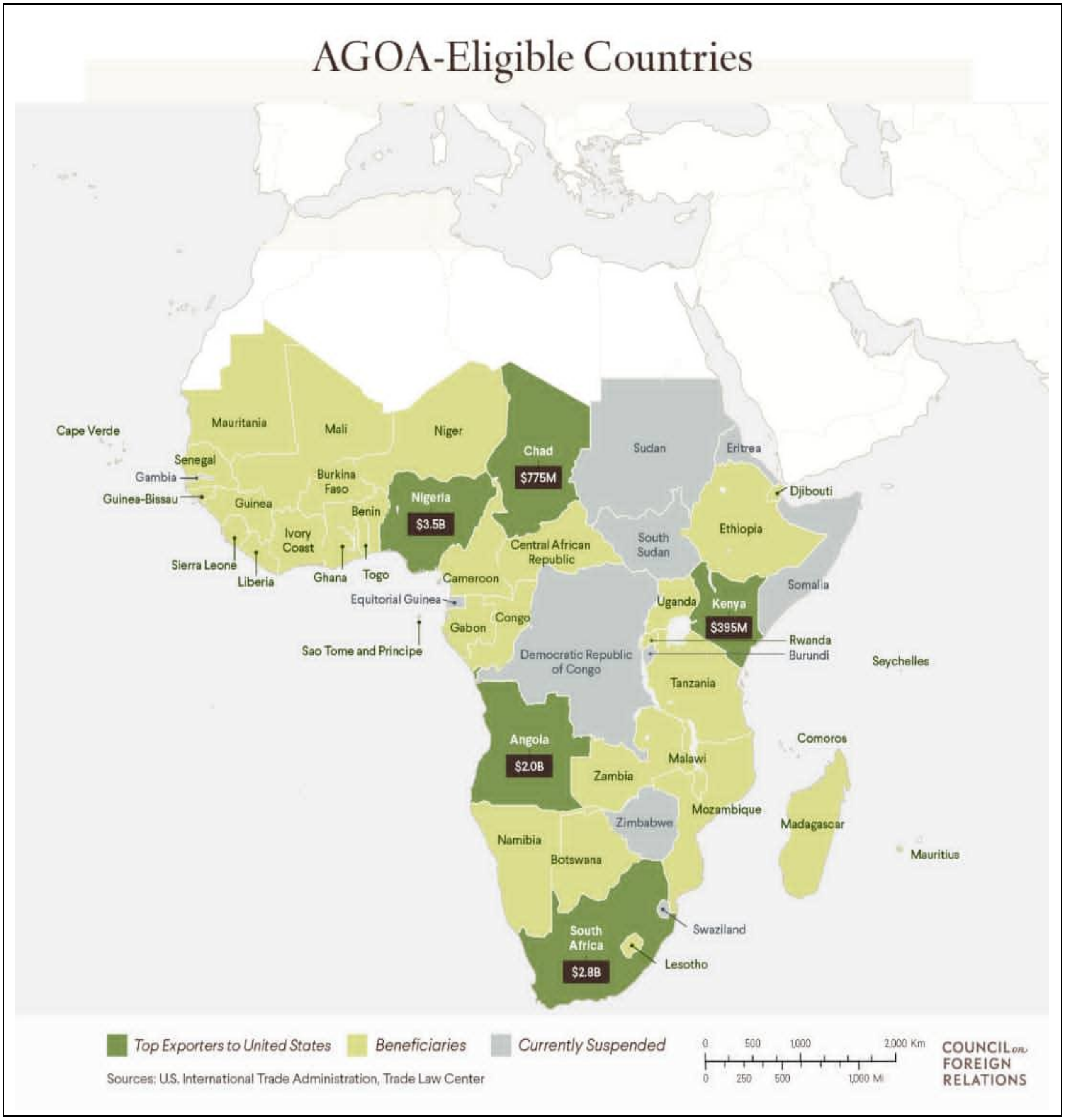
- Creating a single wider and broader market for the facilitation of the flow of capital goods
- Co-ordinating the banking systems by creating an European Monetary Bank

- Creating a European Central Bank to manage their single currency, the EURO.
- Promoting the cross boarder investments within the member states.

d. AFRICAN GROWTH AND OPPORTUNITY (AGOA)

Its aims are

- To provide African countries an opportunity to export goods into the US on duty free and quota free basis.
- To assist American industries to access markets in Africa and establish trade partners with African firms
- To improve accessibility of African nations to United States' technical expertise.



e. ECONOMIC COMMUNITY OF WEST AFRICAN STATES (ECOWAS)

Its aims are

- To work towards achieving a free trade area through eliminating trade barriers within the region
- To create a common rate of custom duties to be charged on imports from non- member nations
- To increase labour mobility within member states

- To facilitates common policies in financial resources and agriculture.

TRADE PROTOCOL

What is trade protocol?

It is a code of conduct or agreement made between or among individuals or nations on how to trade with one another. It involves removing trade barriers such as tariffs, quotas or using a common currency etc.

Explain the following types of trade protocol.

a. Unilateral Trade Protocol

It is the trade protocol signed by two nations but only one nation benefits from the agreement.it exits between one developed nation and the other developing country.

b. Bilateral Trade Protocol

It is an agreement made between two countries only and both nations have mutual benefit.

c. Multilateral Trade Protocol

This is the trade agreement whereby more than two countries are involved

Explain the advantages and disadvantages of bilateral trade protocol.

Advantages

- It enhances fairly perfect comparative advantages
- It reduces boarder tariffs and interest rates
- It helps to build relationships between the two countries
- Two countries become one global market

Disadvantages

- It limits the number of goods and services to be transacted
- Perfect comparative advantages may lead to dumping
- It may lead to the collapsing of infant industries due to strong foreign competition.
- Political unrest in one country may affect other's economy.

Explain the advantages and disadvantages of multilateral trade protocol.

Advantages

a. It may lead to wide range of goods/services to be transacted
b. It enhances perfect comparative advantages
c. Political unrest in one country may not necessarily affect al countries involved.

Disadvantages

a. Comparative advantages may lead to dumping of goods
b. Infant industries may be closed down by strong competition from strong foreign industries.
c. It becomes less interesting to travel abroad for more business when there is one global marketing.

TRADE GLOBALISATION

Define term trade globalization

Globalization is the process of opening up the whole world such that companies, nations, firms and industries should easily access the large global markets.

Explain the factors that encourage trade globalizationin Malawi

1. Improved communication facilities such as introduction of computers, cell phones and television equipment has helped a lot
2. High education levels. Well educated people have access to global information through internet and other modern equipment.
3. Status-quo and prestige – some people are only interested to get international standard products just to make a difference with others.
4. High quality products- the whole world has become one village whereby business man can choose from where to obtain the product needed.

Explain the advantages/importance and disadvantages of trade globalization.

Advantages

1. It leads to economies of scale and greater efficiency where companies source and supply goods on a global basis
2. Everyone gains access to cheaper gods and services
3. The whole world becomes one global village
4. Less developed countries gain access to world markets.
5. Stiff completion leads to high quality products to be produced by firms
6. It makes companies to make huge profits due to large world market share.

Disadvantages

1. The less developed countries become the victim of dumping
2. The world becomes a less interesting place as the same goods are supplied to most markets of the world.
3. Transport costs are high when there is globalization
4. Companies need to spend a lot on international products and research

CHAPTER SEVEN: STATUTORY CORPORATIONS

What is a statutory corporation?

It is any public organization which is either directly or indirectly owned by the government for purposes of providing services to the general public or aid the government in revenue collection.

Explain the formation of statutory corporation.

It is formed by the Act of Parliament and assented to by the State President.

Describe the hierarchy of statutory corporation.

The management reports to Board Members and this report to Board of Directors who in turn report to the responsible Minister who then becomes answerable to the Parliament. The hierarchy for parastatal or statutory corporation is shown below

Parliament
Minister
Board of directors
Board members
management

Explain two objectives or reasons why statutory corporations are formed.

1. **Commercially oriented-** Some are formed to make profits for the government. They generate funds for the government to cover its expenses and meet its budget requirements.
   Examples are include ADMARC, ESCOM, Water Boards, MRA, MHC etc.
2. **Service providers-** some are established to provide services to the general public. Examples include MBC, University of Malawi, National Library etc.

Identify the types of statutory corporations

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2. **Service providers-** some are established to provide services to the general public. Examples include MBC, University of Malawi, National Library etc.

Explain the major features of statutory corporations

1. **Formation and ownership**
   - Public enterprises are formed by the Act of Parliament and assented by the State President.
   - They are owned by the government.
2. **Management and control**
   They are managed and controlled by the Board of Directors appointed by the State President to run the day to day activities of the business and are chosen on trust and accountable to Parliament through Public Accounts Committee.
3. **Capital and profits**
   - **Capita**l- Capital for public enterprises is obtained from the government through borrowing it from elsewhere or they borrow money from Treasury to finance their projects.
   - **Profits-** Profits made by public enterprises is used to pay loans obtained, to provide services to the general public or it is ploughed back into the business.
   - Losses incurred by the public enterprise are usually met by taxpayers

through Treasury.

State the advantages and disadvantages of statutory corporation.

Advantages

a. Essential services and goods are provided to the general public cheaply and on a more comprehensive scale.
b. Corporations are not area-selective
c. It leads to decentralization hence sectors become effective on services they offer
d. Due to decentralization, sectors can afford to pay good remuneration to their workers.

Disadvantages

a. They encourage monopoly of trade e.g. ESCOM
b. There are a lot failures to meet public demand.
c. Work is not seriously done due lack of control by management
d. Too much corruption by workers when discharging their duties that they are monthly paid for.
e. There is rampant pilferage in public enterprise especially by junior workers.

CHAPTER EIGHT: PRIVATISATION

Explain the meaning of the term privatization/denationalization.

It is the act of removing ownership and control from the government to individuals by offering them shares on Malawi stock exchange.

It is also defined as the transfer of industry from state ownership to private ownership.

State the duties /objectives of the Privatization Commission.

1. It assumes the de-facto interim ownership of the on-going privatized enterprises for the duration of transition.
2. It carries out any preparation of the public enterprises to become private enterprise where necessary.
3. It formulates and recommends to cabinet for the approval of the preferred privatization option.
4. It implements the divestment in accordance with the approved privatization methodology.

State the reasons/objectives for denationalization or why the government privatized its nationalized industries in Malawi.

a. To increase revenue for the government through earning corporate tax
b. To foster increased efficiency in the economy by selling state owned

companies which are inefficient.

c. To reduce government borrowing since the government would stop when the state owned companies are privatized.

d. To reduce monopoly in the economy

e. To promote participation by the Malawian public in businesses

f. To promote free market system so that the economic activities is regulated by the common man,

Identify privatized industries in Malawi.

Some of the privatized industries in Malawi include Agrimal MW company, Packaging Industries, SUCOMA, Mchenga Coal Mines, Soche Tours, Kasungu Inn , NICO ltd, Optichem MW Ltd, Portland Cement Company Ltd.

Outline the forms of privatization in Malawi.

1. **Offer of share to public-** the state owned companies offer shares to the public so that ownership of the company moves from the public to the private sector.
2. **Deregulation of industries**- this allows private firms to compete against state owned businesses where they could not have done before.
3. **Contracting out of work to private firms-**this form serves to give out work that was previously done by the government to private sector.
4. **Public private partnership-** this is where the government invites the private sectors to run certain industries in association.

Discuss the advantages and disadvantages of privatization.

Advantages/benefits

1. it results into efficient use of resources since production of goods and services is challenged by competition
2. It helps the government to collect revenue in the form of tax from the privatized industries
3. It leads to free market economy it helps to improve the standard of living to those Malawians that acquire shares in the privatized industries.
4. It helps to keep government expenditure low
5. It helps companies to produce high quality products to meet international standard due to competition.

Disadvantages/problems

1. It leads to private monopoly and ownership and this makes the owners of the privatized industry to charge their prices more than in the hands of the state.
2. It leads tom job losses since privatization of the public enterprise is followed by redundancy.

3. It encourages capitalism, a situation where the poor continue to be poor and those who are richer continue to be rich.
4. It leads to financial base whereby the government is left by the dormant industries and all profitable companies are privatized.
5. It leads to capital fright, a situation whereby foreign investors take money away from Malawi to their country.
6. It leads to social cost. The privatized industries do not consider the welfare of the society in terms of pollution.

CHAPTER NINE: INSURANCE

Define the term insurance

Insurance refers to the cover to protect businesses or individuals against both external and internal events leading to business loss.
In other words refers to the sharing of the loss of the few between or among the many.

Explain the following terms as used in insurance

- **Insurer-** This refers to the insurance company that provides protection to the insured in return for the premium that he pays to the insurer. In other words, insurer is the insurance company that provides insurance policies.
- **Insured-** this refers to the customer seeking protection against financial loss from insurable risks from the insurer. In other words, insured is the client/business that buys insurance policies.
- **Insurance policy document-**This is a document that indicates an agreement between the insured and the insurance company stating the premium to be paid and the sum of money the insurance company promises to compensate the insured in time of need.
- **Insurance policy-** this refers to the agreement or insurance contract and its details.
- **Premium- It** refers to the fixed sum of money that the insured is required to pay to the insurance company so as to service the insurance policy to make it valid.
  In other words, premiums refers to periodic or annual payments that the insured pays to the insurance company.
- **Proposal form-** It refers to the document on which written information about the insured is collected and the calculation of premium is based on the data contained on it.
- **Cover note-** It is a temporary document which is given to the insured and it acts a proof of insurance before insurance policy is issued.

- **Risks-** Risks are basically dangers or misfortunes that occur in the course of running the business.
- **Claim form-** It is a written document which has to be submitted by the beneficiary to the insurer to get the payment against the financial loss.
- Sum insured
- **Accessor/actuaries-** It is somebody employed by an insurance company to assess risks and fix premiums**.**
- **Insurance brokers/underwriters-** these are agents who sell insurance policies on behalf of insurance companies they are working for. They guide clients on polices that benefit them. They travel short and long distances in search for clients.

Explain two types of insurance risks. Describe the business risks that affect businesses in Malawi.

a. **Insurable risks –** These are risks that the total loss from the event occurred can fairly be estimated accurately in advance and are the ones that are covered by the insurance companies**.**
   Examples of insurable risks are fire on the house, road accident on a vehicle, theft on a car, death on a person etc.
b. **Non insurable risks –** these are risks which cannot be estimated and reasonably be measured even by past experience. They are not covered by the insurance companies.
   Examples of non insurable risks include effects of war, unforeseen changes in fashion resulting in loss of business, street riots, vandalisms by vendors, lava eruption in Malawi.

Explain the purpose/advantages of insurance in businesses.

- It provides cover for the loss or provides protection against losses from insurable risks.
- Insurance brings foreign exchange to the nation mainly where there are included in the invisible export trade.
- It promotes the nation's economy because institutional investors invest pension money in a wide range of projects.
- Insurance may replace the responsibility of the parents when they are dead or become incapacitated.
- Policy holders may use it as collateral to make borrowings from the bank
- It helps a lot in reducing unemployment levels because the insurance companies employ a lot of Malawians.

Explain how does pooling of risk operates in insurance.

It states that the insured whether individuals or businesses contribute money in a certain patterns to the insurance company(common fund) from which compensation is made whenever one of the insured is involved in the financial losses caused by insurable risks.

Identify institutions that provide insurance services in Malawi

These include

- National Insurance Company
- Vanguard Insurance Company
- Old Mutual Mw Ltd
- United General Insurance
- Royal Insurance
- Prime Insurance

Describe the main insurance principles.

a. **Insurable interest –** This principle states that if the insured wants to be covered from a loss against fire on his house, then he must develop an interest based on house versus fire and nothing else**.** The house by be his own house and somebody's house.
b. **Utmost god faith/uberrimaefidei-** This principle states that the insured and the insurer must act in good faith to each other by disclosing fully any information that might affect the policy. This means that the insured must tell the insurer about anything that is more likely to affect the risk whether asked or not. He must disclose any possible information that can affect the contract honestly.Similarly, the insurer must disclose all the terms and conditions attached to the contract to avoid the insured being deceived.
c. **Indemnity-** This principle restores or brings back the insured to the position he or she was before the insured risk took place so that he/she neither makes a profit nor loss.
d. **Doctrine of proximate cause-** This state that there must be closes connection between the loss and the risk for which the policy was bought. For example, if the house was being insured against fire and destroyed by earthquake, then it cannot be compensated.
e. **Doctrine of Subrogation –** By this principle, the insured who has been compensated surrenders his right to claim and in case of motor car insurance any money raised from the sale of the wrecked car belongs to the insurance company**.**
f. **Contribution** – The principle states that if the insured insures his risk with two different insurance companies, it determines that each insurance company must partly contribute to the compensation so that no profit is made by the insured.

Explain four types of insurance policies in Malawi

a. **Marine insurance**– it is an insurance on the ship, cargo or any water accident**.**
b. **Life assurance –** This is used when the event that is insured against will definitely happen.
c. **Fire insurance-** This provides cover to persons against injuries whenever their properties are burnt injuries.
d. **Accident insurance**- This type of insurance covers up financial losses arising from various natures of accidents and injuries**.**

.Explain two types of life assurance

1. **Endowment policy-**this policy allows the assured to pay premium for the agreed period of time. When the policy matures, the assured enjoys the benefits of the policy. When the assured dies before the policy matures, the sum assured is given to the next of kin.
2. **Whole life policy-**this policy allows the policy holder to be paying premium for the rest of his/her life and compensation is calculated at death of life assured. Under this policy gives out the names of next of kin who will act as beneficially for the policy when the policy holder dies.
3. **Annuity policy -** this policy is for pension scheme arrangement and allows the policy holder to pay premiums until he/she retires. The annuitant receives monthly compensation for the rest of his/her life until death.
4. **Education policy-** this is policy bought by parents for education of their children. It allows the insurance company to pay school fees for their children in case they die or become incapacitated.

Explain the term insurance fraud.

Insurance fraud occurs when one party knowingly lies in order to obtain some benefits or advantage of which they are not legally entitled. It may done by the insurance company. They capitalize on the ignorance of the party concerned, for example the insurance company may twist some information in order to deny some benefits what is due and to which someone is entitled.

Explain the term risk management and briefly explain the risk management strategies in businesses.

Risk management is s structured and coherent approach to identifying, assessing and managing business risk.

The risk can be managed by hedging.

Hedging – Hedging means efforts which businesses or individuals do to get protected from acts that cause financial loss.

The following are the ways of hedging againstthe risks

a. **Contingency plan**- It gives businesses or individual's alternatives in advance if unfavourable circumstances will appear. It gives ready provisional solutions in case the current plan will turn out to be false.
b. **Business continuity-** This means allowing business to continue to trade despite disasters or risks occurring provided that they are well hedged.

The **following** are the risk management strategies

a. **Treating the risks –** once the risks are identified and assessed, they should be handled. The management committee should be set to treat such risks by buying insurance policies s that when they occur their impact may not be felt nor destroy the company.
b. **Terminating/avoiding/ eliminating-** This strategy includes not performing an activity that could carry risks. For example, a multinational company may withdraw plans of conducting business mergers in order not to take on legal liability that may come with it.
c. **Risk reduction-** This involves reducing the severity of the loss or reducing the likelihood of the loss from occurring. For example fire-fighting equipment may be installed in vehicles or buildings in order to risk by fire.
d. **Tolerance-** This is a strategy that acknowledges that risks can both be positive or negative. Therefore the business must find a balance between negative risks and the benefit of operation.

CHAPTER TEN- PRODUCTION COST

What is meant by the term production costs?

Production costs refer to the total value of economic factors/input such as land, labour, capital that must be incurred to bring a product to its final stage-distribution stage.

In other words, production cost is the amount of money that is spent in order to produce a product.

Identify the types of inputs in production

These include

1. **Fixed inputs-** There are economic factors that remain constant for given set of business activities e.g. rental fee
2. **Variable inputs-** these are economic factors that change following the changes in the level of business activities.

Identify the types of production costs

These are

a. **Fixed costs-** Fixed costs are the type of production cost that remains constant regardless of the increase in the level of business activities/output within a given period of time. Fixed cost must be incurred even if production output is zero. Examples are rental fees for lease, interest payable on loans, insurance premium.

b. **Variable costs**– Variable costs are those costs in a cost function that change with respect to rate of change of the firm's output**.** These may include wages; agricultural inputs such as pesticides, fertilizer etc.

c. Total costs- Total costs refer to the combination of fixed costs and variable costs in a given period of time.

The table below shows the total cost, total fixed costs , total variable costs, total revenue and total net profit or total loss made in the Month of ecemer, 2020.

Output	Sales	Variable Costs	Fixed Costs	Total Costs	Profit
'000	£'000	£'000	£'000	£'000	£'000
0	0	0	40	40	-40
1	10	4	40	44	-34
2	20	8	40	48	-28
3	30	12	40	52	-22
4	40	16	40	56	-16
5	50	20	40	60	-10
6	60	24	40	64	-4
7	70	28	40	68	2
8	80	32	40	72	8
9	90	36	40	76	14
10	100	40	40	80	20

Discuss the difference between economies of scale and diseconomies of scale.

Economies of scale refers to the rate of savings in terms of the cost of producing each unit of production as a result of increasing in size**.**

Advantages of economies of scale

a. Technical economies- a firm is able to use plants carrying specialist labour and machinery than small firms

b. **They enjoy financial economies-** large firm go direct to the money markets much easier.

c. **They have buying economies-** large companies enjoy quantity discounts due to bulk buying.

d. The risk- bearing- large firms are able to diversify and therefore able to sell products to different markets**.**

Diseconomies of scale- this is when the increase in the scale of production of the firm causes decrease in the revenue per unit output

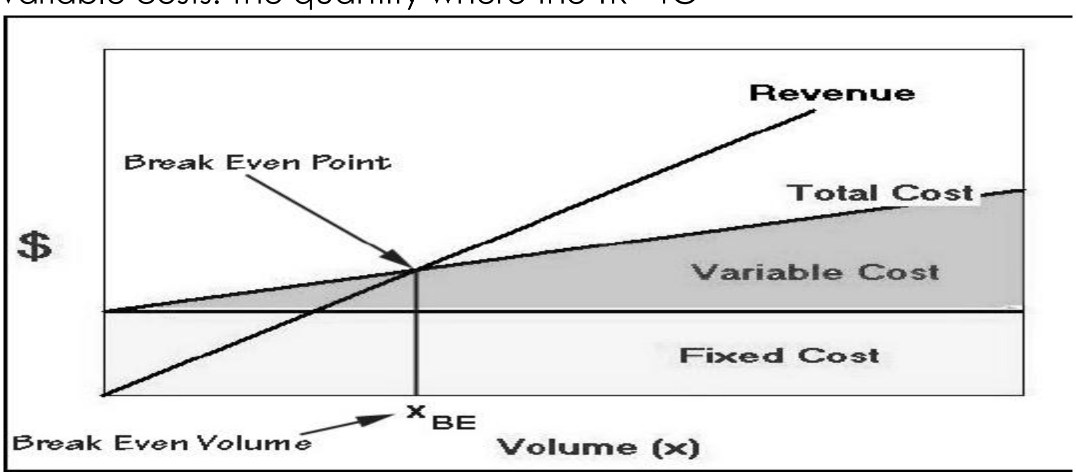
Explain three factors that lead a firm to operate under diseconomies of scale.

a. Communication difficulties caused by longer chain of command
b. Delays in responding to changes in the market

Long bureaucracy system which incurs extensive

Define the following terms

- **Average variable costs**- These re total variable costs per unit of output incurred in the business. AVC = TVC/output
- Average fixed costs – These are total costs per unit of output. = TFC /output
- Average total costs = TC/output
- **Principle of diminishing marginal returns**- It states that average variable costs decrease with increasing scale of production until such a point where further increase in the production causes in average variable costs.
- **Marginal cost** – it is the increase in total cost resulting from raising the rate of output by one unit and calculated a D (change) in total cost divided by D (change) in total quantity (Q) produced. Hence it is called incremental cost **Marginal cost** is the measure of cost of producing one product hence it is called cost price per unit.
- **Break-even point** is the point where sales revenue line meets the total cost line and the firm has managed to cover up fixed costs and variable cost.
- In other words, **Break –even point** is where Total Revenue = Total Cost where the firm makes neither profit nor loss.
- **Break- even quantity- It** is the quantity where the firm covers fixed costs and variable costs. The quantity where the TR= TC



Example

Data for a hamburger stand.

$500 for booth rental per day (fixed costs)
$1 hamburger cost and labor to make the hamburger (variable costs)
$2 sales price for hamburger (price)

Qty Sold	Fixed Cost	Variable Cost	Total Cost	Revenue (price X qty)	Profit/Loss
0	$500	$0	$500	0	($500)
100	$500	$100	$600	$200	($400)
200	$500	$200	$700	$400	($300)
300	$500	$300	$800	$600	($200)
400	$500	$400	$900	$800	($100)
500	**$500**	**$500**	**$1000**	**$1000**	**$0**
600	$500	$600	$1100	$1200	$100
700	$500	$700	$1200	$1400	$200

Break-even production is 500 hamburgers per day.

Angle of incidence– It is the angle that reveals the rate at which the profits increases. A larger angle indicates high rate of earnings while a smaller angle indicates a low rate of earnings.

- Margin of safety is the extent by which sales could fall before a loss is incurred.

  Margin of safety = Budgeted Total revenue- Break even point sales

  NB Producing any quantity less than the break even quantity the firm makes losses. Producing quantity above break-even point, the firm makes profits. The sales revenue line is also **called contributory line.**
- **Contribution**- Contribution is the difference between total revenue and total variable costs.
- In other words, **contribution** is the figure when the total variable costs/marginal costs of a number of products are deducted from the total sales revenue.

Break-even point can be defined as a point where total costs[expenses] and total sales [revenues] are equal. Break-even point can be described as a point where there is no net profit or loss. Graphically, it is a point where the total cost and total revenue curves meet.

Total Costs

Total Cost = Fixed Costs + Variable Costs:

TC = FC + VC;

Profit Relationships;

Profit = Revenue – Total Cost

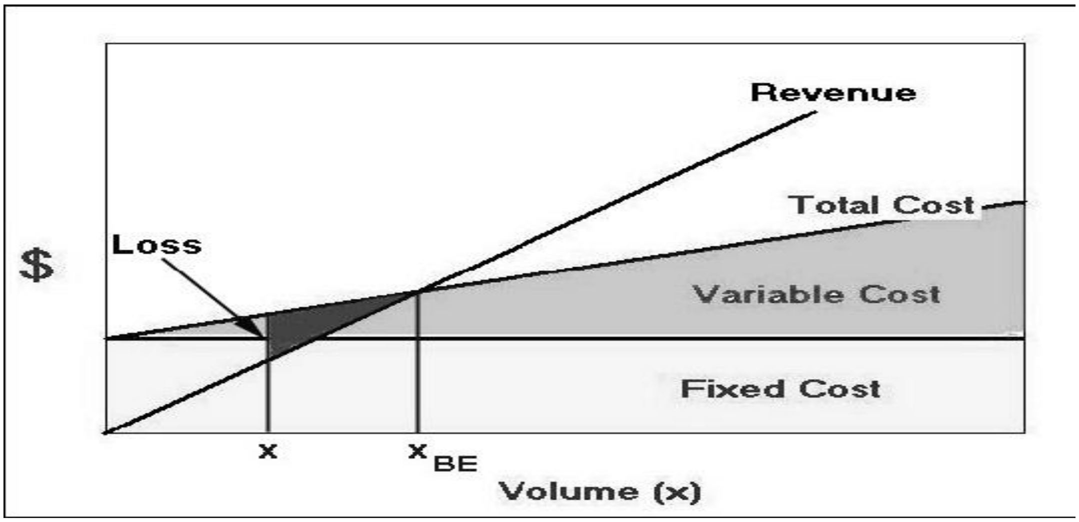
P = R – TC

P = R –{FC + VC}..

PREPARATION OF BREAK-EVEN CHART

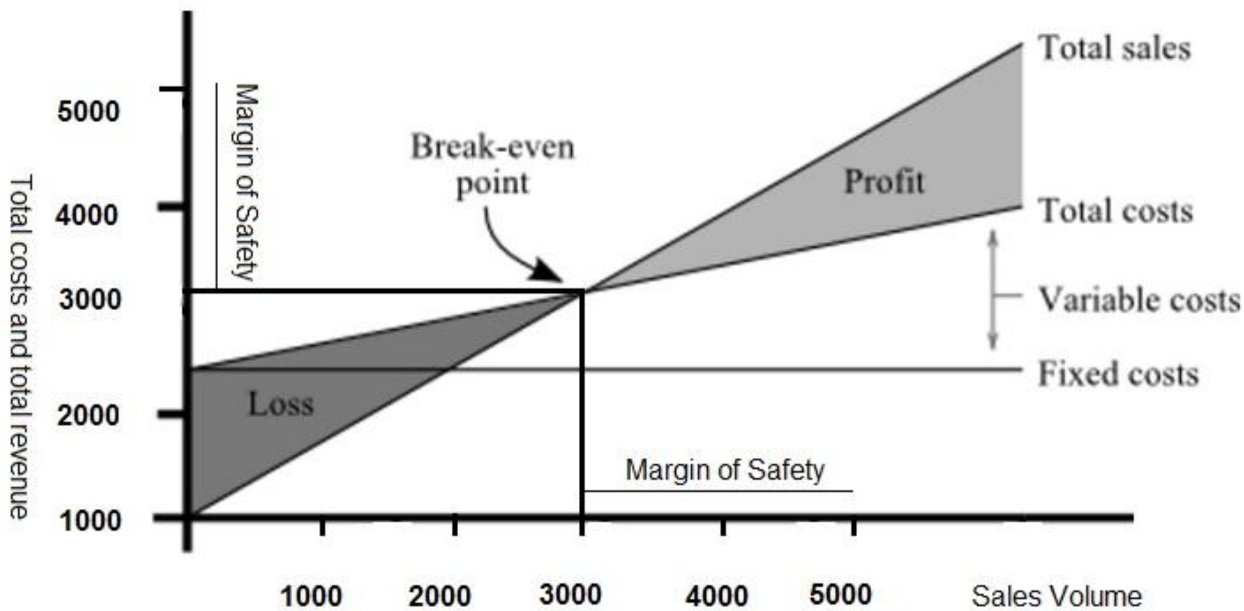
If volume is below the BE point, the difference between the lines **represents a loss**

1. Use the horizontal axis for units of out and vertical axis for monetary values like sales, revenue and total costs.
2. As fixed costs remain the same at all output levels so the fixed costs line is drawn across the chart as a straight line parallel to the horizontal axis.
3. The variable cost line commences on the vertical axis from the same point where the fixed cost line intersects the vertical axis. This is to show total cost on the chart.



4. On the chart break-even point represents the point at which total cost and total revenue lines cross each other.

5. The break-even point so determined tells the reader that the break-even point in terms of units of output on the horizontal axis and in terms of sales revenue and total costs on the vertical axis.
6. Shaded area below the break-even point indicates losses where shaded area above the break-even point indicates profit.
7. Profit and loss on break-even chart may be determined by looking at the vertical distance between the sales revenue and total cost line.
8. The difference between the prevailing sales and the break-even sales represents margin of safety both in terms of sales revenue and the output level.
9. If the break-even point appears well over the right side of the chart then it would imply too high total fixed costs or low contribution. This will result in lower margin of safety.
10. If the break-even point or to the left side of the chart coupled with a large angle of incidence then it would imply either lower total fixed costs or high contribution.



BREAK EVEN ANALYSIS

Break -even analysis allows you to understand what point your sales of a product or service will cover your costs. This point

Break-even point is the point at which total cost and total revenue are equal, that is even. There is no loss or gain at this point. All costs that must be paid are paid, and there is neither profit nor loss. See the diagram below.

Table 1 : Total Revenue and Total Cost and BEP

Output in units	Total Revenue	Total Fixed Cost	Total Variable Cost	Total Cost
0	0	150	0	150
50	200	150	150	300
100	400	150	300	450
150	600	150	450	600 BEP
200	800	150	600	750
250	1000	150	750	900
300	1200	150	900	1050

(Selling Price : Rs. 4 per unit)

Exercise

Given the following table showing output, sales revenue, fixed costs and total costs.

OUTPUT	SALES REVENUE	FIXED COSTS	TOTAL COSTS
O	0	K10,000	K10,000
2,500	K10,000	K10,000	K15,000
5,000	K20,000	K10,000	K20,000
7,500	K30,000	K10,000	K25,000
10,000	K40,000	K10,000	K30,000

Required

a. Plot the break even chart from the details in the table above.
b. Show the following on your chart

- Break-even point
- Break-even quantity
- Angle of incidence margin of safety
- The area that represents the loss(diseconomies of scale)
- The area that represents a profit(economies of scale)

Discuss how the following factors affect the location of the business activity.

1. **Land cost-** High added business activities may be located in cities and towns because the benefits realized will be sufficient enough to cover for the high land costs in these sites
2. **Labour costs-**the business should located in areas where is available of a pool of labour force but areas where labour costs are bearable in order to make profits.
3. **Transport network- Business** enterprises should be located to busy road

networks to offer convenience to consumers from all walks of life.

4. **Proximity to the market/consumers –** the businesses must be located to areas which are close to their potential customers to facilitate quick distribution of products and utilization of their products by customers.
5. **Government influences on location –** The government must set up safety regulations which are conducive for business growth**.**
6. **Social conditions-** the high literacy levels and adequate disposable income of the people in the area will promote businesses.
7. **Availability of raw materials –** the business should located to areas which are close to their raw materials

CHAPTER ELEVEN - MARKETING

Explain the term marketing

Marketing is the management process of identifying, anticipating and satisfying customers' requirements efficiently and profitably.

What is marketing environment?

It refers everything, actors or forces (micro, macro and internal forces) which surrounds and impinges on the marketing management ability to develop and maintain successful transaction with its customers.

Describe the marketing process.

Marketing is a process and it comprises analysis, planning, implementation and control.

- **Analysis –** This marketing process stage examines the position of the business in terms of its competitors, its strength, weaknesses and opportunities.
- **Planning**– This part examines the missions/goals of the business and setting up of strategies to meet these objectives/goals.
- **Implementation –** This part involves exploring ways of putting into effect the strategies outlined to achieve the intended purpose.
- **Control–**This is an evaluation stage where the business must compare the on set goals to the results and carry out corrective measures where necessary.

Outline the objectives of marketing.

a. To increase market share by securing as many potential customers through reducing the prices and conducting aggressive advertising.
b. To maintain status quo. This can be done by maintaining its optimum level of scale of production without losing or seeking more.

c. To survive by withstanding the worst business conditions such as economic recession, inflation, economic depression and stagnation.
d. To maximize current profits
e. To outperform business rivals by striving to become market leaders.

Describe market segment, market strategy and market research.

a. Marketing strategy – These are befitting policies adopted by a business aiming at supplying products that would satisfy customers. For example recruiting the staff who would fulfill the needs of customers rather simply minimizing a wage bill.
b. **Marketing research –** Marketing research involves formal methods of collecting, analysis and disseminating information about the markets. This helps the business develop the better products which give them a competitive advantage.
c. Marketing segment – This refers to market niches that comprise a group of average buyer who share similar needs and have similar buying potential and process. It helps the business to develop the programme to meet the needs of the average buyer.

Explain the meaning of marketing mix.

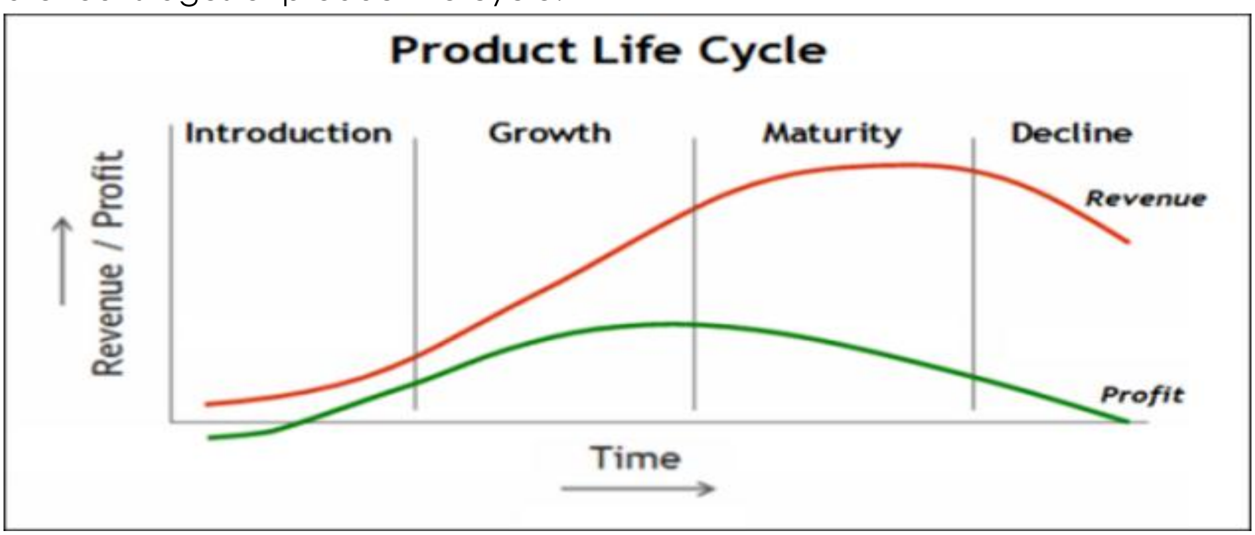
It refers to the major elements of marketing which include the product, price, place and promotion used by the business to market its products.
It is defined as sum of the product, price, place and promotion.

Discuss the role of product in marketing mix.

The role of product in marketing is to satisfy customers' needs and wants.

What is a product life cycle?

It refers to the life span of a product from introduction through to decline. There are four stages of product life cycle.



1. **Introduction stage** – This is the stage the new product is introduced on the market for the first time. There are few potential customers and sales volume may be quite low.
2. **Growth stage** – This is the stage where the new product becomes a success and more customers want to buy it. At this stage the business start reaping the benefits of economies of scale.
3. **Maturity stage –** This is the stage where the number of customers of the product has stopped to increase. Sales may remain constant over a period of time and later start slow down due to the new rivals that are attracted to the market and challenges the product performance.
4. **Decline stage –** This is the stage that registers the fall of the sales revenue and since the product has been challenged and has started losing market**.** Eventually sales fall and the product perform poorly.

Describe the role of pricing in marketing mix.

The following are the roles of price in marketing

a. Indicates the quality of products as high price sets precedence of high quality product while very low price levels communicate that the product is of low value

b. Indicates social or ethical consideration by the business to its valued customers. A reduction in prices shows that the business considers its customers in time of economic problems.

Explain the following pricing strategies

a. **Cost plus pricing –** This pricing strategy is based on the total cost of production incurred in producing the products and a certain percentage is added to the marginal cost which represents the rate of the profit.

b. **Competitive based pricing –** This pricing strategy is set after examining the prices of charged by competitors and is set in line with those charged by its competitors.

c. **Demand based pricing –** This is pricing strategy that is set basing on the current demand for the product by customers. This price increases when the marketing demand rises and vice versa

d. Penetration base pricing- This strategy is used to introduce new products onto the markets. The product price is set at low levels in order to attract more customers and hence win more market share.

e. **Skimming based pricing –** This is a strategy whereby the new product is introduced on to the market at higher price levels in order to recover business research and development costs.

f. **Promotional based pricing –** This is the pricing strategy adopted by the business when it would like to sell off old existing products or is used to price products during festive seasons.

g. **Marketing based pricing –** This is a pricing strategy that is set basing on the social-economic class of the customers comprising the market**.**Prices are deliberately raised where the market comprise high class people and dropped where the market comprise low class people.

h. **Psychological based pricing –** Under this technique, the product is set at odd amount slightly below the next whole number such as K199.9 in order to drive the customers by their psychology to buy the product from the shop marked K199.9 even though they will pay K200.00 with no change.

Discuss the role of promotion in marketing mix.

As set of communication is aimed at inducing people to buy what the organisation is selling.

Describe the main components of promotion.

a. **Advertising –** It is any paid form of giving out information concerning ideas, goods or services delivered through selected media channels such as radios, television, poster, newspaper etc. It aims at increasing sales and raising the volume of profits.

b. **Public relations –** It is the art used by the business to maintain mutual understanding between the organisation and the public and the information is communicated for free.

c. **Direct marketing /personal selling –**It involves communicating to customers directly face by face and is performed by front line employees right away from gate workers, receptionist and company's resident sales persons**.**

d. **Sales promotion–**It is a set of trading activities such as price reduction, coupons, samples etc., in a marketing framework aimed at achieving specific sales volume or intended marketing objectives.

e. **Placing/distribution –** It is the process that involves the physical movement of goods in right quantities from one place to another place.

Describe the role of place in marketing mix.

The main role of placing is to move products from places where they are plentiful to places where they are scares.

Describe the channel of distribution.

It refers to the route through which products pass from the manufacture to the hands of the final consumer/user.

Explain four types of channels of distribution.

a. **Zero level channel/direct channel –** This channel comprises no channel intermediary. Goods move directly from producers to final consumers

Advantage- It is favoured by young and growing industries because the product prices are kept low due to short distances

Disadvantage - It does not help sellers to make more money since prices are very low.

Products transported through this channel are perishable products such as milk, meat, tomatoes.

b. **One level channel –** This channel comprises only one channel intermediary (retailer) who relates the products from producers to final consumers.
c. **Two level channel**– This channel comprises two intermediaries, the wholesaler and the retailer.
d. **The three level channel**– It comprises three intermediaries who are the agents, wholesalers and the retailers.

Describe three factors that affect the choice of the mode of channelof distribution.

a. The nature of products whether they are perishable products, nonperishable or expensive products
b. The nature of the industries whether young, growing or service providing industries.
c. The total financial involvement incurred in distributing the products.

CHAPTER TWELVE: CONSUMER PROTECTION

Explain the term consumer protection.

It means different ways, laws, by-laws, legislations and rules which the government and other civil society bodies follow in order to safeguard consumers' rights and freedoms.

Explain the responsibilities of the customer.

a. Ask questions where necessary
b. Inspect the property before buying it
c. Read I between the lines of the contract agreement before signing.

State five rights of the customer.

- Right to sustainable health
- Right to consumer education
- Right to be satisfied
- Right to be protected
- Right to be informed
- Right to choose

- Right to be heard
- Right to withdraw
- Right to return the goods if they are not the ones h/she wanted.

Mention five importance of consumer protection.

a. It helps to promote fair trading such as that both suppliers and buyers do not complain.
b. It helps to safeguard consumers against exorbitant prices hence preventing exploiting them
c. Consumers get safe products that can not cause injury to their bodies.
d. Consumers are able to obtain up to date products that would not be poisonous.
e. It helps to reduce the proliferation of fake products on the markets.

Explain four roles played by government in protecting consumers.

a. Through presidential degree. The president may degree that shops charging high prices be closed or reduce their prices.
b. Through ministry of trade that ensures that there is even distribution of some essential commodities throughout Malawi. There are officers appointed by the government who monitor the eligibility of trade instruments including weighing scale.
c. Through establishment of regulatory bodies. The government has established regulatory bodies to safeguard the interest of the consumers. For example, MACRA that regulates telecommunications, National Electricity Council regulate ESCOM and the Censorship Board that protects consumer's cultural right.
d. Through establishing public bodies. Parastatals are established to provide essential goods and services at affordable prices comprehensively and continuously without selecting regions.

Describe government assizers and explain their role in protecting consumers.

These are officers who monitor the eligibility of trade instruments including weighing scale.

Identify the roles of the following consumer protection organization and association in Malawi.

a. CONSUMER ASSOCIATION OF MALAWI (CAMA)

- Promoting environmental cleanup campaign to ensure hygiene in business place
- Promote the availability of trade information to consumers through making trade publications such as magazines.

- It monitors the shops to ensure that products offered for sale are of high quality and up to date.
- It provides the forum to tackle issues relating to consumers interest.
- It represents consumers' interests in various international trade conferences.

b. MALAWI BUREAU OF STANDARDS(MBS)

- Setting up required standards for Malawian products.
- Providing the certification of quality of products
- Conducting testing process to the products before they are introduced on the markets.
- Calibrating marks on the trading equipments such as on meters, scales.

Discuss the major acts of parliament that protect consumers.

a. Competition and Fair Trading Act of 1978.

This act protects consumers against activities such those that practiced by some suppliers who put notices such as 'Goods once bought are not returnable' which violate customers right to return wrong type of goods, obtain a replacement or get a refund of cash for goods that are not fit for their intended purpose.

b. Consumer Protection Act of 1987

- It ensures that children toys are safe and harmless
- It ensures that the products do not kill/injure the consumer.
- It ensures that the fire extinguishing equipments, hotplates and cookers are well insulated.

c. Sale of Goods Act of 1979

- It ensures that that transfer of ownership of property from seller to buyer should be supported by authenticated documents.
- It ensures that the supplier must be the bonafide owner of the property on sale to protect buyers from purchasing stolen items.

d. Weights and Measures Act of 1963

- It lays down standard measures by which goods are sold
- It empowers Government Assizers to inspect measuring devices.
- It ensures that the packed goods should have the weight of the contents indicated on the pack.

e. Food and Drug Act

- It controls the conditions under which the food products are produced.
- It ensures that no employee smokes in the production departments and public places
- It regulates the sale of drugs that may be harmful to people's live.

- It ensures that manufactures of drugs should indicate

f. Description of Goods Act of 1968

It checks some suppliers who have the tendency of offering goods under a false description and makes false claims for their products.

CHAPTER THIRTEEN: HUMAN RESOURCES

Describe the term human resource.

It refers to the workforce supplied by the organization staff employed to exchange the organization business activities at achieving the company's goal.

What is the difference between personnel management and human resource management?

Personnel management is a workforce centred directed mainly at organizations' employees and is involved in recruiting, training, payment and satisfying the while HRM is centred at the management of human resources and pays more emphasis on planning, monitoring and control.

Explain five roles of the human resource specialists.

a. They are involved in formulating plans to facilitate the acquisition, utilization and retention of other lines of human resources to achieve the corporate strategy.
b. They participate in negotiating with labour unions in policies such as conditions of employment, handling workers grievances etc.
c. They advise managers through providing accurate advices, guidance and on the implementation of the company policies.
d. They are involved in recruiting activities, arranging training and development, counselling employees etc.
e. They are actively involved in the actual production.

Evaluate the approaches to human resource management

The following are the approaches to human resource management

1. **Recruitment-** This involves efforts to get the right people in the right job at the right time from the labour market
2. **Selection-** It is the process of acquisition of suitable candidate for the particular job after being successful in the interviews. Two techniques for selection approach are **practical tests** and **psychological tests**. **Practical tests** aim at examining the candidate's special skill while **psychological tests** are carried out to assess the candidate's personality type and attitudes.

3. **Induction-** After selection, the candidate undergoes induction process in order to become a reliable and productive member of staff. The candidate is familiarized with job descriptions, pension schemes, safety policies, statement of particulars of employment, good mannerism of the company etc.
4. **Training –** This is when the employee is equipped with the skills so that they can perform their work tasks effectively. Training also leads development of the staff so that they realize, use their potential capabilities.
   Two methods of training are
   a. **On the job training-** This involves training employees within a realistic work environment and are able to learn from established company experts.
   b. **Off the job training-**This involves employees to access external education in workshops, universities that may lead to some form of qualification or certified recognition of achievement.
5. **Dismissal-** This when the employee is fired from the job due to gross misconducts or for other disciplinary reasons.

Briefly explain the stages of recruitment process.

a. **Existence of the vacant post –** This may due to resignation of existing employee, death of existing employee, creation of new posts etc.
b. Advertisement-Advertising the vacant position in the media such as radio, television, newspaper etc. if there are no existing staff to fill the post internally.
c. Selection of interviewees- This involves shortlisting the applicants for the interview process.
d. Communication-This is a process where the shortlisted applicants are informed to attend the interview. This is done through phone calls, radios, television, newspaper etc.
e. Interview-This involves a two way conversation aiming at collecting information from the candidate as to his/her suitability for the job.

What are the qualities of the good interviewer?

a. Should maintain good eye contact
b. Should be able to paraphrase
c. Should be able to be sensitive to feedback.
d. Should not be irritative
e. Should be emphatic

State five sources of recruitment.

a. **Internal source/job watch-** circulars are published internally to the existing company staff to apply.

b. **Advertising-**The job is advertised in local weekly newspapers, trade journals, radios and television.
c. **Job centres –** These include labour offices and they introduce prospective applicants to employees.
d. **Universities –** companies my directly contact the educational institutions to recruit the most recently qualified graduates.
e. **Casual enquiries-** These occur where applicants write or make phone call or visit the company personally.

Describe the management styles available in organizations.

The management styles include

1. **Line management/scalar chain –** This involves the direct flow of command or authority from the top of an organization to the bottom. Information concerning sales, output, stocks, orders and finance extends downwards and upwards in a hierarchy through various levels of authority
2. **Tall management-** This has many levels of management. It demotivates employees because of long ladder of promotion, mainly those at the bottom. They are bureaucratic in nature.
3. **Flat management-** This has relatively few organizational levels. It brings about motivation among employees at the bottom because there is a short ladder of promotion resulting to more flexible and less risk of divergence between the objectives of one level and another.

Explain theory of motivation.

Motivation refers to the whole process or factors that cause people to behave and act positively towards achieving the corporate objectives by exploiting their full potential/capabilities.

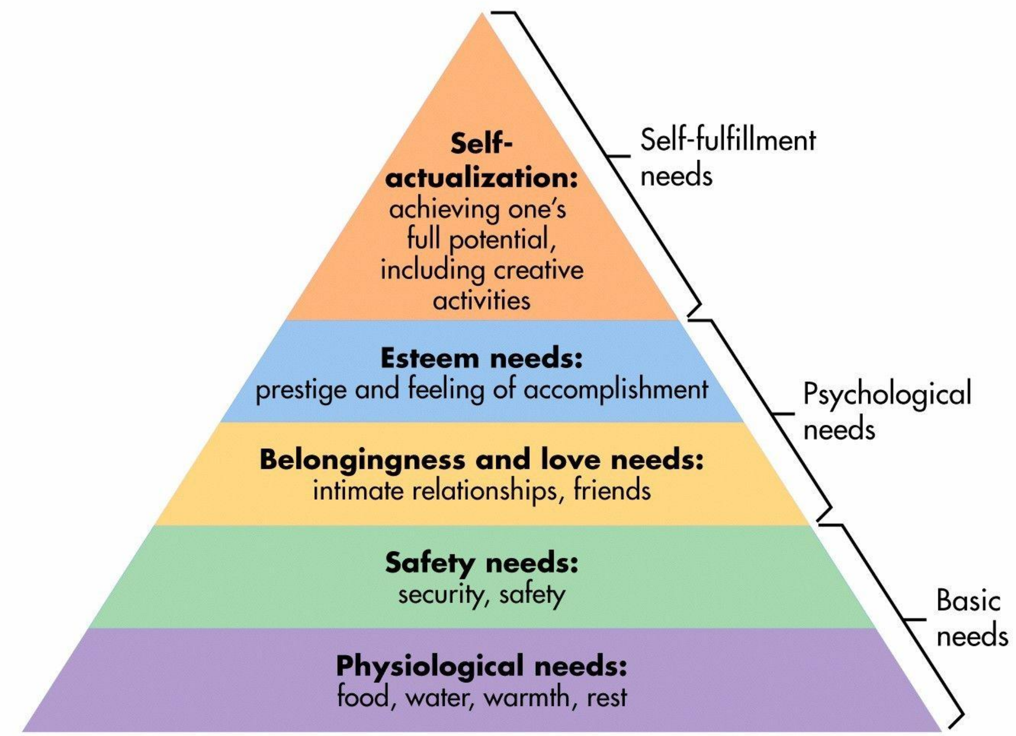
The theory of motivation has two elements content theory and process theory.

Content theory looks at factors that can cause motivation. This content theory was developed by Abraham Maslow. He developed a hierarchy of needs where the needs of individuals are categorized

1. **Psychological needs-** these include food, shelter and clothes and they are required for survival. The organization may offer good pay and cafeteria to promote physiological needs.
2. **Safety needs -** The individuals need to be protected in their homes, at work or even on the roads. The organization should ensure safe working conditions, job security, incentives to promote safety needs.
3. **Social needs –** Employees want sense of belonging, love and affection at work. There must be good leadership, co-operative work groups and

acceptance.

4. **Esteem wants-** Employees require self-respect, recognition, high social status and to be praised. An organization may offer prestigious job titles, company car or mansion.
5. **Self- actualization-** The employees need them for personal creativity and advancement. The organization need may require employees matter.



Process Theory

It comprises three factors that drive motivation and these include

a. **Instrumentality-** this involves setting up a certain standard of performance that will attract a rewarding result to be achieved
b. **Expectancy-** this aims at developing employees.
c. **Valency**– this encourages employees. The theory recognizes groups of activities.

State four factors that result to high late

1. Personality
2. Personal wants and values
3. Remuneration rates
4. Good working environment

With the aid iof the diagram, explain five groups of the human needs based on Ablaham Maslow's hierarchy of needs.

FINANCIAL REWARDS

Define the term rewards

Rewards refer to the forms of payment that employees receive from an organistion for supplying labour.

Explain two categories of rewards offered by companies to their employees.

a. **Financial/monetary rewards**
   Financial rewards include sickness pay, incentives, commissions, bonuses, salaries, wages etc.
b. **Non financial/non-monetary rewards**
   Non financial rewards include leave entitlement, flexible working hours, , social club facilities, career breaks, educational leave/study etc.

Explain the following forms of financial rewards

a. **Loans-** Loans are amount of money that organizations lent to employees and may be short term or long term and enable employees to purchase real estates such as household property, cars, land and buildings etc.
b. **Incentives**- These are financial rewards offered to employee to encourage better performance and are associated with the achievement of previously set and agreed targets.
c. **Commissions**- commissions are a form of financial rewards companies pay

to agents. Agents who are given possession of goods are factors, mercantile agents, auctioneers and del credele agents

d. **Bonuses-**These are financial rewards offered to employees for achieving something very outstanding and is determined by the employee's boss, the CEO or the board.
e. **Salary-** salaries are a form of financial rewards offered to employees expressed as an annual rate but payable monthly
f. **Wages-** These are financial rewards expressed on weekly or hourly and are paid out to workers on weekly basis or hourly rate.

Explain the differences between salaries and wages.

wages	Salaries
Normally expressed as an hourly rate	Expressed s an annual rate
Normally paid a week in arrears	Paid a month in arrears
Calculated based on piece rate and time rate	Calculated in terms of annual figure divided by 12 months
Paid either in cash or credit transfer	Typically paid automatically into bank account

Mention the factors that determine wages and salaries or discuss the factors that influence wages and salaries in any organization

a. **Job demand-** Risky jobs are usually paid good salaries or wages because such jobs can cost workers lives.
b. **Employees education-** graduates gets more pay than a form four or a diplomat.
c. **Employee's experience-** highly experienced employees get more pay than the less experienced due to the accrued increments over his performance for a long period of time of service on the same job.
d. **Nature of the organization-** profit oriented organizations pay more salaries than those which operate at a loss and below economies of scale.
e. **Performance at work**- those who perform well at workplace get more salaries and wages than those who do not perform well because they are rewarded extra pay in the form of bonuses, increment etc.
f. **Financial resources within the organization**- If the resources are costly, then the organisation pay low salaries and wages.
g. Organisational policies- some organizations develop policies such as pay leader and such organizations set up highest scales and wage rates for their employees than other companies.

What is a pay slip?

It is a piece of pay that stipulates salary details for a given period probably a month given to employees before pay day.

What is a payroll system?

It is a process of producing pay slips.

What does a salary comprise of?

It comprise of

a. **Basic pay-** this is the amount that is based on some form of fixed pay structure within which each job is allocated to a certain pay level
b. **Gross pay-** this is the amount that includes basic pay plus allowances.
c. **Net pay-** this is the left over or take home pay an employee actually receives and is calculated by subtracting total deductions from the gross pay.

EXAMPLE

Suppose Mr. Philip receives K720, 000 as his annual salary. Calculate his net pay after deductions of tax using the following MRA Tax schedule.

MRA TAX SCHEDULE

1st k20,000	Free or Zero
Next k3,000	15%
Excess over	30%

SOLUTION

Annual salary K720,00

Monthly pay = $\frac{k720{,}000}{12\ months}$

= K60,000

AMOUNT	TAX		REMAINDER
1ST K20,000	-	O	(60,000-20,000)= K40,000
NEXT K3,000	3000 X 15%	K450	(40,000-3,000) = K37,000
EXCESS K37,000	37,000 X30%	K11,100	(37,000-37,000) = 0
	TOTAL TAX	K11,550	

Tax calculated = K11,550

Net Pay = Gross pay – Total deductions (Tax)

=K60,000 – K11,550

= K48,450

EXAMPLE TWO

Suppose Mr. Philip receives K720, 000 as his annual salary. Calculate his net pay after deductions of tax using the following MRA Tax schedule.

MRA TAX SCHEDULE

1st k20,000	Free or Zero

Next k3,000	15%
Excess over	30%

In addition to annual pay of K720, 000, Mr. Philip receives nontaxable allowances as follows: overtime for May, 2015, K10, 000, monthly house allowances K25,000, he is deducted a loan K90,000 on a monthly instalments of K24,000, pension scheme K5,000 and NICO Insurance premium of K8,000.

Required

a. Calculate the gross pay and net pay for Mr. Philip for month of May, 2015.
b. Prepare Mr. Philip's pay slip for the month of May, 2015.

SOLUTION

Annual salary K720,00

Monthly pay = $\frac{k720{,}000}{12\ months}$

= K60,000

Gross pay = K60,000 + non taxable allowances

= K60,000 + K10,000 +K25,000

= K95,000

Calculation of P.A.Y.E

AMOUNT	TAX		REMAINDER
1ST K20,000	-	O	(60,000-20,000)= K40,000
NEXT K3,000	3000 X 15%	K450	(40,000-3,000) = K37,000
EXCESS K37,000	37,000 X30%	K11,100	(37,000-37,000) = 0
	TOTAL TAX	K11,550	

Tax calculated = K11,550

Net Pay = Gross pay – Total deductions

=K95,000 – (K11,550 + K5,000 + K8,000 + K24,000)

= K95,000 – K48,550

= K48,450

PREPARATION OF PAY SLIP

Name of Co	Mr. Philip	ID T/044	District-Mzimba	Date 28/02/2015
CODE	DESCRIPTI0N	PAY	DEDUCTIONS	BALANCE
01	Basic pay	K60,000		
02	Overtime	K10,000		
03	House allowance	K25,000		
04	Loan repayment		K24,000	

05	Pension		K5,000	
06	Insurance Premium		K8,000	
07	Tax (PAYE)		K11,550	
		Gross pay K95,000	DEDUCTION K48,550	NET PAY K46,450

EXAMPLE THREE

Suppose that Mr. Thom of General Dealers Ltd gets K240, 000 as annual salary. In August, 2014, he had K500 accrued loan, K250 social club charges. Assuming that MRA has the following tax schedule.

MRA TAX SCHEDULE

1st k20,000	Tax free
Next K1,500	10%
Next k1,500	15%
Excess over	30%

a. Determine Mr. Thom's net pay for the month of August if General Dealers Ltd regards K4, 000 for his house allowance as taxable.
b. Prepare Mr. Thom's pay slip for the month of August, 2014.

SOLUTION

Annual salary K240,000

Monthly pay = $\frac{K240{,}000}{12\ months}$

= K20,000

Gross pay = K20,000 + non taxable allowances

= K20,000 + K4,000

= K24,000

Calculation of P.A.Y.E

AMOUNT	TAX		REMAINDER
1ST K3,000	-	O	(24,000-3,000)= K21,000
NEXT K1,500	1,500 X 10%	K150	(21,000-1,500) = K19,500
NEXT K1,500	1,500 x 20%	K3,00	(19,500-1,500) = K18,000
EXCESS K37,000	18,000 X30%	K5,400	(18,000-18,000) = 0
	TOTAL TAX	K5,850	

Tax calculated = K5,850

Net Pay = Gross pay – Total deductions

=K95,000 – (K5,850 + K500 + K250)

= K95,000 – K6,600

= K17,400

PREPARATION OF PAY SLIP

Name of Co	Mr. Thom	ID T/044	District-Mzimba	Date 28/02/2015
CODE	DESCRIPTI0N	PAY	DEDUCTIONS	BALANCE
01	Basic pay	K20,000		
02	House allowance	K4,000		
03	Personal Loan		K500	
04	Social club charges		K250	
05	Tax (PAYE)		K5,850	
		Gross pay K24,000	DEDUCTION K6,600	NET PAY K17,400

State the differences between the following systems for paying wages

a. **Piece rate** – this involves determining rewards by the number of units produced or the amount of work done.
b. **Time rate-** this involves paying employees basing on a set rate of work per unit time.
c. **Flat rate-** under this system a group of employees doing similar jobs are given equal rewards regardless of their levels of qualifications.

Explain the advantages and disadvantages of piece rate as system of paying wages.

Advantages

1. It encourages efforts and seriousness at work
2. It is a form contract to a worker hence gets more pay
3. The owner of the work gets required standards of work otherwise no pay is made to the worker

Disadvantages

1. Workers develop fatigue which affect performance the following day
2. Workers turn money making machines resulting to overwork
3. It drains more company profits because jobs on contract are expensive
4. The machines may be over used leading to high wear and tear.

Explain the advantages and disadvantages of time rate as system of paying wages.

Advantages

1. It is a more revenue generating system to the workers especially with overtime
2. It encourages effort and seriousness to the worker

3. Output of many jobs is relatively possible to measure as compared to piece rate

Disadvantages

1. Workers have a tendency of working at a slow pace in order to have overtime.
2. It is very expensive to the owner more especially when many workers have overtime rate.

TAXATION

What is taxation?

It is a compulsory contribution to support government in providing social, economic and development programs. Taxes are charged on people, property in come and transactions.

Which statutory corporation is mandated to collect tax revenue in Malawi?

It Malawi Revenue Authority.

What is meant by the principles of taxation? Explain the principles of taxation.

These are basic concepts which guide government in designing and implementing an equitable tax system.

The following are the principles of taxation

1. **Principle of equity-** it states that the tax system should be fair to all taxpayers
2. **Principle of certainty-** it states that a taxpayer should know how much tax and how it must be paid.
3. **Principle of convenience-** It states that taxes should collected in a convenient time
4. **Principle of efficiency-** it states that taxes should not be expensive to pay, collect and assess.
5. **Principle of impartiality-** it states that all persons in the same position should pay equal tax.
6. **The principle of adjustment-** it states that a good tax system should be capable of variations that is both up and down according to changes in policy.
7. **The principle of productivity-** it states that a good tax system should encourage productivity.

Explain two main broad types of taxes.

1. **Direct taxes**

   These are taxes imposed directly on income of business, employment, property and the burden of the tax is borne by the individual or business entity.

Examples of direct taxes include

a. PAYE
b. Fringe benefit tax
c. Corporate tax

2. **Indirect taxes**

These are taxes levied on consumption of goods and services collected by a tax payer. It is collected by the seller of the products on behalf of the government and paid over at a later date..

Examples of indirect taxes include

a. VAT
b. Excise tax
c. Import duty etc.

Explain six Forms of taxes.

1. **Value ADDED Tax**

It is a general tax on the consumption expenditure that is levied on the value added that has been created at various stages in the production and distribution chain. It is also levied on goods and services imported into Malawi.

The standard rate for VAT is now 16.5%

2. **Domestic Excise**

It is tax that is levied on the production of certain locally manufactured products such as spirits, perfume, beer etc.

Domestic Excise acts as a source of revenue and also as a control measure on the production or consumption of certain luxurious goods.

3. **Custom Duties**

- These are taxes levied on imports and sometimes on exports by the custom authorities of the country in order to raise state revenue.
- Custom Duties are also levied on imports to protect domestic industries from more efficient or competitors from abroad.
- Custom Duties can be levied on exports in order to limit the existence or outflow of home products.
- It may take the following forms

a. Advalorem Duty – it is when custom duty is based on the value of goods
b. Specific Duty – it is where it is based on the weight of the goods.
c. Preferential Duty- It is when it isbased on where the goods come from.

4. **Dumping Duties**

These taxes are imposed imported goods to prevent dumping into the country. Goods are said to be dumped if they are brought onto the market at less than what they cost in the source country.

Advantages of direct taxes

a. Provide constant flow of revenue to the government
b. Easy and cost effective to collect
c. Discourage and check tax evasion

Advantages of indirect taxes

Advantages

- They help to raise state revenue.
- Custom Duties are also levied on imports to protect domestic industries from more efficient or competitors from abroad.
- Custom Duties can be levied on exports in order to limit the existence or outflow of home products

Explain the purposes/ role of taxation

1. To raise government revenue for the construction of public goods such as schools, roads, hospitals etc.
2. It is used as expenditure control mechanism whereby the government increases tax to reduce disposable pay in order to control inflation because total spending is reduced.
3. It is used to redistribute wealth for political and social reasons
4. It is used to increase the volume of both home and foreign trade
5. It is used to discourage the consumption of demerit goods such as beer, spirit and cigars.
6. It is used to protect local industries to encourage to develop hence creating employment opportunities by imposing high taxes on imports

Explain three stages that are gone through when determining taxable income.

1. Gross income- this is the total amount of cash or any capital gain received by a person within or deemed to be within Malawi. It includes monthly or annual salaries, bonuses, overtime, gratuities, leave grant, pension and cash allowances etc. received in the course of employment.
2. Assessable income- this computed by excluding from gross income any amount that are exempted from tax such as the salary and payment to the president and vice president that they receive from the government, allowances made to members of National assembly and up to K50, 000 of any amount paid by an employer to an employee who has been declared redundant.
3. **Taxable income**

This is the result one gets after deductions are made and may include exemptions such as subsistence allowance, professional subscription and donations of not less than K250 to charitable organizations.

Explain the methods of collecting taxused by MRA.

a. P.A.Y.E (Pay As You Earn)

It is a method of collecting income tax in advance and is applicable to individuals who derive an income from employment. It is collected by the employers by deducting from payment paid to their employees and they remit them to MRA.

b. Corporation Tax

This is the tax that is levied on the firm's profit after expenses and capital allowances have been deducted from the revenue during a given taxable period.

c. Capital Gains

A capital gain is a profit that results from a disposition of a capital item such as stock or property where the amount realized on the disposition exceeds the purchase price.

Capital gain = Higher Selling Price – Lower Purchase Price

Capital Gain Tax is the tax on the gain/profit made when the property or stock is disposed off.

EXAMPLE

Suppose a company bought a motor vehicle at K120, 000,000 in 2001. In 2010, the asset was disposedoff. Assuming that the conversion factor in 201O is 1.305825 and the tax rate for capital gain is 30%. Calculate the Capital Gains Tax.

Initial cost of the motor vehicle	= K120,000,000
The rate for capital gain tax	= 30%
Conservation factor(2010)	= 1.305825
Net Book Value	= K120,000,000 x 1.305825
Disposal/selling price	= K156,699,000
Capital gain	= K36,699,000
Capital Gain Tax	= 36,699,000 x 30%
	= K11,009.70

CHAPTER FOUTEEN: BUSINESS ACCOUNTING

Define the term "accounting".

Accounting refers to the gathering and recording of financial information and summarizing and analyzing it for the use by various stakeholders.

Identify six users of accounting information.

Five users of financial information and their requirements

1. **Shareholders/owners**
   - They are the owners of the business and would like to know the value of the business so as to assess their net worth and how much return they should expect from the business.
2. **Employees**
   - The employees would like to assess the performance of the business in assessing their job security. In addition, the employees use financial information when negotiating remuneration increases.
3. **Suppliers/creditors**
   - The suppliers want to be assured that the business will be able to pay off the bills.
4. **Government/Trade partners**
   - It help the government/MRA to how much corporation tax, value added tax and PAYE, the business collects from employees on its behalf.
5. **Financial institutions/financiers**
   - Financial institutions do provide credit facilities to the business and they need financial information to be assured that the company will be able to pay back the loans on their due dates.
6. **Management**
   - Financial information act as a yard stick in assessing how the business is performing for planning purpose and decision making.
7. **Customers**
   - The information from the balance sheet will help them to be assured that the company is the secure and reliable source of supplies and hence cannot close down.

ACCOUNTING EQUATION

What is accounting equation?

It is the algebraic equation which expresses the whole of the financial accounting and include the expression of capital, assets and liabilities. The accounting equation is expressed as shown below

Assets = Capital + Liabilities

Explain the meanings of the following terms used in the accounting equation.

Basic elements of financial statements

1. **Capital-** The amount set aside by the owner to start business. Capital

represents the difference between assets and liabilities.

2. **Assets-** Assets are resources owned by the business which are expected to bring future economic benefits to the enterprise. Assets are categorized as current and non-current.
3. **Liabilities-** Liabilities is the amount which the business owes. Liabilities represents obligation to transfer economic benefits to other entities as a result of past obligations.

EXAMPLE

Suppose the company has assets totaling to K20, 000 and liabilities totaling K15, 000, calculate value of capital.

Assets = Capital + Liabilities

K20,000 = capital + K15,000

Capital = K20,000 – K15,000

= K5,000

DEPRECIATION OF ASSETS

What is depreciation?

Depreciation of refers to the part of the original cost of the fixed asset consumed during its period of use by the business. It is an expense charged to the profit and loss account reducing the net profit.

Explain five causes of depreciation.

1. **Wear and tear-** This means fixed assets wear out in value as they are used by the company.
2. **Erosion-** Some assets depreciate due to rusting, rotting or decaying**.**
3. **Absolescence-** Some fixed assets become out of fashion
4. **Inadequacy-** the asset is no longer used because of the growth and changes in the size of the firm
5. **Lapse of time of lease-** this means that when the years are finished, the lease is worth nothing

METHODS OF CALCULATING DEPRECIATION

The two methods used in calculating depreciation are

a. The straight line method/fixed instalment method

This is where the percentage charge for depreciation is ascertained and based on the original cost value of the asset

Example

Target Secondary School bought a computer for K40, 000 in January, 2014 and that depreciation was set to be charged at 20% straight line, ascertain the depreciation calculations for three years and its value after three years**.**

SOLUTION

Cost price of the computer Less provision for depreciation 1st year Cost of computer after 1st year	K40,000 20% x K40,000 = K8,000 K40,000- K8,000 =K32,000
Cost of computer at beginning of 2nd year Less provision for depreciation 2nd year Cost of computer at the end of 2nd year	K32,000 20% X K40,000 = K8,000 K32,000- K8,000 = K24,000
Cost of computer at the beginning of 3rd year Less provision for depreciation 3rd year Cost of computer after 3rd year	**K24,000** 20% X K40,000 = K8,000 K24,000- K8,000 = K16,000

Reducing balance method/diminishing balance method

This is used where the percentage charge for depreciating the fixed asset is determined and calculate depreciation based on the current 'Net Book Value', balance for each year.

EXAMPLE

Show the depreciation calculations using reducing balance method for the computer that was bought for K6, 000,000 and that depreciation charge was fixed at 40% per annum. Hence find the residual value of the computer after three years.

SOLUTION

Cost price of the computer Less provision for depreciation 1st year Cost of computer after 1st year	K6,000,000 40% x K40,000 = K2,400,000 K6,000,000- K2,400,000 =K3,600,000
Cost of computer at beginning of 2nd year Less provision for depreciation 2nd year Cost of computer at the end of 2nd year	K3,600,000 20% X K3,600,000 = K1,440,000 K3,600,000- K1,440,000 = K2,160,000
Cost of computer at the beginning of 3rd year Less provision for depreciation 3rd year Cost of computer after 3rd year	K2,160,000 20% X K2,160,000 = K864,000 K2,160,000- K864,000 = K1,296,000

Therefore the residual value after three years will be K1, 296,000

THE ACCOUNTS FOR DOUBLE ENTRY

Each account should be shown on a separate page in the accounting books. The double entry system divides each page into two halves. The left-hand side of each page is called the **debit** side, while the right-hand side is called the **credit** side. The title of each account is written across the top of the account at the centre.

THE DOUBLE ENTRY RULES FOR BOOKKEEPING

Accounts	To record	Entry in the account
Assets	an increase	Debit
	a decrease	Credit
Liabilities	an increase	Credit
	a decrease	Debit
Capital	an increase	Credit
	a decrease	Debit

In terms of the assets, liabilities, and capital:

- to **increase** an **asset**we make a DEBIT entry
- to **decrease** an **asset**we make a CREDIT entry
- to **increase** a **liability/capital** account we make a CREDIT entry
- To **decrease** a **liability/capital** account we make a DEBIT entry.

DOUBLE ENTRY SYSTEM FOR DEPRECIATION

Three accounts are opened in respect to the double entry records for depreciation. These are

a. Asset account
b. Profit and loss account
c. Provision for depreciation account

The double entry is

Debit- profit and loss account
Credit- provision for depreciation account

GENERAL RULES FOR DOUBLE ENTRY

DEBIT	CREDIT
Expenses	Revenues
Losses	Profits
Assets	Liabilities
	Capital

EXAMPLE

Suppose in a business with financial year ending 31 December, 2014, a motor van was bought for K3, 000,000. Depreciation is agreed to be set at 30% pa straight line.

Required. Prepare

a. Asset account
b. Provision for depreciation account
c. Profit and loss account
d. Balance sheet

MOTOR VAN ACCOUNT

DATE	DETAILS	AMOUNT	DATE	DETAILS	AMOUNT
2014 **Jan 1**	 **Bank**	**K** **3,000,000**	**2014**		**K**

DR PROVISION FOR DEPRECIATION A/C-MOTOR VAN CR

DATE	DETAILS	AMOUNT	DATE	DETAILS	AMOUNT
2014 Dec 31 2015	 Balance c/d	K 900,000	2014 Dec 31 2015 Jan 1	 Profit & loss Balance b/d	K 900,000 900,000
 Dec 31 2016	 Balance c/d	 1,800,000 1,800,000	2015 Dec 31 2016	Balance b/d Profit & loss Balance b/d	900,000 900,000 1,800,000 1,800,000
2016 Dec 31 2017	 Balance c/d	 2,700,000 2,700,000	 Dec 31 2017 Jan 1	 Profit & loss Balance b/d	 900,000 2,700,000 K2,700,000

PROFIT AND LOSS ACCOUNT

DATE	DETAILS	AMOUNT	DATE	DETAILS	AMOUNT
2014 Dec 31	 Depreciation	K 900,000			
2015 Dec 31	 Depreciation	K 900,000			
2016 Dec 31	 depreciation	K 900,000			

BALANCE SHHET EXTRACT

	K	**K**
AS AT 31 DECEMBER, 2014 Motor van at cost Less depreciation to date	 **3,000,000** **900,000**	 **2,100,000**
AS AT 31 DECEMBER 2015 Motor van at cost Less depreciation to date	 **3,000,000** **1,800,000**	 **1,200,000**

AS AT 31 DECEMBER 2016 Motor van at cost Less depreciation to date	 **3,000,000** **2,700,000**	 **300,000**

BOOKS OF ORIGINAL ENTRY

Books of original entry are the books in which we first record transactions, such as the sale of the four computers.

We have a separate book for each kind of transaction. Thus, the nature of the transaction affects which book it is entered into. **Sales will be entered in one book, purchases in another book, cash in another book,** and so on. We enter transactions in these books recording:

- The date on which each transaction took place – the transactions should be shown in date order;
- Details relating to the sale (as listed in the computer example above) are entered in a 'details' column;
- A folio column entry is made cross-referencing back to the original 'source document', e.g. The invoice;
- The monetary amounts are entered in columns included in the books of original entry for that purpose

TYPES OF BOOKS OF ORIGINAL ENTRY

Books of original entry are known as either 'journals' or 'day books'.

The commonly used books of original entry are:

1. **Sales Day Book** (or *Sales Journal*) – for credit sales.
2. **Purchases Day Book** (or *Purchases Journal*) – for credit purchases.
3. **Returns Inwards Day Book** (or *Returns Inwards Journal*) – for returns inwards.
4. **Returns Outwards Day Book** (or *Returns Outwards Journal*) – for returns outwards.
5. **Cash Book** – for receipts and payments of cash and cheques.
6. General Journal (or **Journal** if the term 'Day Book' is used for the other books of original entry) – for other items.

THE SALES DAY BOOK AND THE SALES LEDGER

MAKING ENTRIES IN THE SALES DAY BOOK

From the copy of the sales invoice, the seller enters up the transaction in the Sales Day Book. This book is merely a list of details relating to each credit sale:

- Date
- Name of customer
- Invoice number
- Folio column

- Final amount of invoice.

There is no need to show details of the goods sold in the Sales Day Book. This can be found by looking at copy invoices.

EXAMPLE

Sales Day Book			
	Invoice No	Folio	Amount
2018			K
Sept 1 D Poole	16554		560
8 T Cockburn	16555		1,640
28 C Carter	16556		220
30 D Stevens & Co	16557		1,100
			3,520

POSTING CREDIT SALES TO THE SALES LEDGER

- The credit sales are now posted, one by one, to the debit side of each customer's account in the Sales Ledger.
- At the end of each period the total of the credit sales is posted to the credit of the sales account in the General Ledger.

Sales Day Book
Book for original entry for credit sales

Each sales is posted separately

Sales ledger	
Customer's account	
Debit	Credit

Total sales only to sales account

General ledger	
Sales Account	
Debit	Credit

Example

Sales Day Book			
	Invoice No	Folio	Amount
2018			K
Sept 1 D Poole	16554	SL 12	560
8 T Cockburn	16555	SL 39	1,640
28 C Carter	16556	SL 125	220
30 D Stevens & Co	16557	SL 249	1,100
			3,520

GENERAL LEDGER

D Poole

2019 **1SEPT** **560**	**Folio** SL 12		

T Cockburn

2019 **8SEPT** 1,640	**Folio** SL 39		

C Carter

2019 **1SEPT** 220	**Folio** SL 125		

D Stevens & Co

2019 **28 SEPT** 1,100	**Folio** SL 249		

General ledger

Sales

	2018 **Sept 30** **Credit sales for month**	**Folio** **SB 26**	K 3,520

THE PURCHASES DAY BOOK AND THE PURCHASES LEDGER

MAKING ENTRIES IN THE PURCHASES DAY BOOK

The double entry is as follows:

1. The credit purchases are posted one by one, to the credit of each supplier's account in the Purchases Ledger.
2. At the end of each period the total of the credit purchases is posted to the debit of the purchases account in the General Ledger.

Purchase Day Book
Book for original entry for credit purchase

↓ ↓

Total sales only to purchase a/c a/c

General ledger	
Purchase s account	
Debit	**Credit**

Each purchase is posted separately

purchase ledger	
Supplier's Account	
Debit	**Credit**

Purchase Day Book
Book for original entry for credit purchase

Total sales only to purchase a/c a/c — **Each purchase is posted separately**

General ledger	
Purchase s account	
Debit	**Credit**

purchase ledger	
Supplier's Account	
Debit	**Credit**

AN EXAMPLE OF POSTING CREDIT PURCHASES

Purchases Day Book				
		Invoice No	*Folio*	*Amount*
2019				K
Sept 1	J Blake	9/101		560
8	B Hamilton	9/102		1,380
19	C Brown	9/103		230
30	K Gabriel	9/104		510
				2,680

Required

a. Enter up the purchases day book for the month.
b. Post the transactions to the suppliers' accounts.
c. Transfer the total to the purchases account

RETURNS INWARDS AND CREDIT NOTES

When the seller agrees to take back goods and refund the amount paid, or agrees to refund part or all of the amount the buyer paid, a document known as a **credit note** will be sent to the customer, showing the amount of the allowance given by the seller. It is called a credit note because the customer's account will be credited with the amount of the allowance, to show the reduction in the amount owed.

THE RETURNS DAY BOOKS

The credit notes are listed in a Returns Inwards Day Book (or Returns Inwards Journal). This is then used for posting the items, as follows:

1. Sales Ledger: credit the amount of credit notes, one by one, to the accounts of the customers in the ledger.
2. General Ledger: at the end of the period the total of the Returns Inwards Day Book is posted to the debit of the returns inwards account.

EXAMPLE OF A RETURNS INWARDS DAY BOOK

RETURNS INWARDS DAY BOOK

	Note No	Folio	Amount
20X9 £			
Sept 8 D Poole	9/37	SL 12	40
17 A Brewster	9/38	SL 58	120
19 C Vickers	9/39	SL 99	290
29 M Nelson	9/40	SL 112	160
Transferred to Returns Inwards Account		GL	114

RETURNS OUTWARDS AND DEBIT NOTES

If the supplier agrees, goods bought previously may be returned. When this happens a **debit note** is sent by the customer to the supplier giving details of the goods and the reason for theirreturn.
The credit note received from the supplier will simply be evidence of the supplier's agreement, and the amounts involved.
Also, an allowance might be given by the supplier for any faults in the goods. Here also, a debit note should be sent to the supplier

RETURNS OUTWARDS DAY BOOK

The debit notes are listed in a Returns Outwards Day Book (or Returns Outwards Journal). This is then used for posting the items, as follows:

1. **Purchases Ledger**: debit the amounts of debit notes, one by one, to the personal accounts of the suppliers in the ledger.
2. **General Ledger:** at the end of the period, the total of the Returns Outwards Day Book is posted to the credit of the returns outwards account.

TRIAL BALANCE

Double entry book keeping demands that for every debit entry, there must be its corresponding credit entry and vice versa. This means that all the accounts on the debit side should be equal in total with all the accounts recorded on the credit side. To check this arithmetic accuracy, a trial balance is used. Therefore, a trial balance is the list of all debit balances on one side and all credit balances on the other side. When balances are added together, the figure should match the summation of all credit balances to those of debit balances.
A trial balance may be drawn up at the end of accounting period, six months period or a year period. To extract a trial balance, all the individual accounts must be balanced off in the ledgers.

MAIN ELEMENTS TRADING AND PROFIT AND LOSS ACCOUNT

1. **SALES**

This refers to revenue that the business realizes from selling its stock
The sales account and the **returns inwards account** deal with goods sold and goods returned by customers.

PURCHASES

- The purchases account and the **returns outwardsaccount** deal with goods purchased and goods returned to the supplier respectively.
- **Returns outwards** should be deducted to get the correct figure of purchases *kept* by the business organization. Both the returns accounts are included in the calculation of gross profit, which now becomes:
- **(Sales less Returns Inwards)** – **(Cost of Goods Sold less Returns Outwards)** = **Gross Profit**

2. COST OF SALES OR COST OF GOODS SOLD

This include the expenditure incurred by the business for the goods that have been sold.
When calculating cost of goods sold, the following must be taken into consideration:

- **Returns *inwards***should be deducted from sales in the *trading* account.
- **Returns *outwards***should be deducted from purchases in the *trading* account.
- **Carriage *inwards***is shown as an expense item in the *trading* account.
- Closing stock must be subtracted from purchases to arrive at cost of sales.
- Where the cost of goods sold is greater than the sales revenue, the result is a **gross loss**.
- **Sales** - **Cost of Goods Sold** = **Gross Profit**
- Gross profit is the excess of sales revenue over the **cost of goods sold**.

3. Trading (operating)expenses

These are other expenses incurred by the business for the day to day running of the business and include the following:

- Lighting and heating expenses
- Rent
- Discount allowed
- Carriage outwards
- General expenses
- Carriage outwards
- Salaries and wages
- Sundry expenses
- Wages and salaries
- Business rates

- Communication expenses
- Commissions paid
- Insurance
- Telephone charges
- Office expenses

Total figure for trading expenses is subtracted from gross profit to give the net profit.

Net Profit = Gross profit + rents received or commissions earned/discount received minus total trading/operating expenses used up during the period

Net Profit is what is left of the gross profit after all other expenses have been deducted.

EXAMPLE

Suppose you are given the following trial balance of DK Suppliers as at 31st December, 2015.

	DR	CR
	K	K
Sales		18,600
Purchase	11,556	
Stock (1 Jan,2015)	3,776	
Carriage outwards	326	
Carriage inwards	234	
Returns inwards	440	
Returns outwards		355
Salaries and wages	2,447	
Motor expenses	664	
Rent	376	
Sundry expenses	1,202	
Motor expenses	2,400	
Fixtures and fittings	600	
Debtors	4,577	
Creditors		3,045
Cash at Bank	3,876	
Cash in hand	120	
Drawings	2,050	
Capital		12,844
	34,844	34,844

Additional information
Stock as at 31 December, 2015 was K4, 998.
Required
Prepare DK Supplier's trading and profit and loss account for the year ending 31 December, 2015.

SOLUTION

DK Supplier's trading and profit and loss Account for the year ending 31st Dec, 2019

	K	K
Sales	**18,600**	
Less returns inwards	**(440)**	
Net sales		**18,160**
Less **Cost Of Goods Sold**		
Opening stock (1 Jan,2015)	**3,776**	
Purchase	**11,556**	
Add Carriage inwards	**234**	
	15,556	
Less return outwards	**(355)**	
	15,211	
Closing stock (3 Dec,2015)	**(4,998)**	
Cost of sales		**10,213**
Gross profit		**7,947**
Less trading expenses		
Sundry expenses	**1,202**	
Rent	**576**	
Motor expense	**664**	
Salaries and wages	**2,447**	
Carriage outwards	**326**	
Total trading expenses		**5,215**
Net profit		**2,732**

BALANCE SHEET

Define the term balance sheet.

It is the financial statement that contains the details of assets, liabilities and capital of the business. The balance sheet is presented in the form of different headings for assets, liabilities and capital.
FIXED ASSETS

Fixed assets are assets that

- Were not bought primarily to be sold; but
- Are to be used in the business; and
- Are expected to be of use to the business for a long time.

Examples: buildings, machinery, motor vehicles, fixtures and fittings.

Fixed assets are listed first in the balance sheet starting with those the business will keep the longest, down to those which will not be kept so long.

CURRENT ASSETS

- **Current assets** are assets that are likely to change in the short term and certainly within twelve months of the balance sheet date. They include items held for resale at a profit, amounts owed by debtors, cash in the bank, and cash in hand.
- These are listed in increasing order of liquidity. That is, starting with the asset furthest away from being turned into cash, finishing with cash itself. For instance:

Current Assets

- Stock
- Debtors
- Cash at bank
- Cash in hand

LIABILITIES

There are two categories of liabilities, current liabilities and long-term liabilities.

CURRENT LIABILITIES

Current liabilities are items that have to be paid within a year of the balance sheet date.

Examples: bank overdrafts, amounts due to creditors for the purchase of goods for resale.

LONG-TERM LIABILITIES

Long-term liabilities are items that have to be paid more than a year after the balance sheet date.

Examples: bank loans, loans from other businesses.

CAPITAL

- This is the monetary value of an enterprise at a specific time. It consists of fixed capital for fixed assets and working capital for current assets. Some of the working capital will be in the business permanently. While other working capital will be needed to fund fluctuating levels of current assets needed to sustain short-term increases in requirements.
- The capital side of balance sheet compromises initial capital, net profit and

drawings.

- **Drawings** refer to goods or cash taken from business for private usage by the owner.
- In the balance sheet, drawings are presented as a deduction from capital.

CIRCULATING (WORKING) CAPITAL

Working capital = Total current assets – Total Current Liabilities

RECORDING CASH IN THE CASH BOOK

The cash book comprises cash account and bank account combined.

Items entered in the cash books are as follows

1. Debit cashbook receipts by cheque in the bank column
2. Debit cash book receipts by cash in the cash column.
3. Credit cash book by cheque payment into the bank column
4. Credit cash book by cash payment in the cash more.

Example

Prepare GT Supermarket cash book from the following details.

2015		**K**
Sept 1	The proprietor put capital into the bank for business	**94,000**
Sept 2	Received cheque from Loveness	**11,500**
Sept 4	Cash sales	**10,200**
Sept 6	Paid rent by cheque	**3,500**
Sept 7	Bank cash from the business	**5,000**
Sept 15	Cash sales paid direct into the bank	**4,000**
Sept 23	Paid cheque to John	**27,700**
Sept 28	Withdraw cash from the bank for office	**12,000**
Sept 29	Withdraw cash from the bank for personal use	**2,000**
Sept 30	**Paid w**ages in cash	**11,800**

SOLUTION

DR	GT Supermarket cash book						CR
Date	Details	cash	bank	Date	details	cash	bank
2015				2015			
Sep 1	Capital		94,000	Sept 6	Rent		3,500
Sept 2	Loveness		11,500	Sept 7	Bank	5,000	
Sept 4	Sales	10,200		Sept 23	John		27,700
Sept 7	Cash		5,000	Sept 28	Cash		12,000
Sept 15	Sales		4,000	Sept 29	Drawing		2,000
Sept 28	Bank	12,000		Sept 30	Wages	11,800	2,000
				Sept 30	Bal c/d	5,400	69,300

		22,200	114,500			22,200	114,500
1st Oct	Bal b/d	5,400	69,300				

CASH FLOW STATEMENT

What is cash flow statement?

It is a financial statement which shows us exactly where the cash has come from (source of funds) and exactly what we have done with it (application of funds) during a given period. It recognizes cash in hand and at bank plus cash equivalent.

Explain two major parts of the cash flow statement.

1. Sources of funds	2. The application of cash funds
Sources of funds may be from a. Profits b. Sale of fixed assets c. Decrease in stock d. Decrease in debtors e. Capital introduced f. Loan received **g.** Increase in creditors	The application of cash funds may be as follows a. Losses b. Purchasing fixed assets c. Increase in stock d. Increase in debtors e. Drawings and dividends **f.** Decrease in creditors

EXAMPLE

Td Ltd would like to obtain funding from one of the banks in Malawi. The financier has requested TD ltd to produce a cash flow statement for the past six months. The financial accountant extracts the following details.

Sources of funds (2014)

	K
March sales	140,000
April sales	260,000
May sales	290,000
June sales	400,000
June cash on disposal	205, 500

Application of cash funds

Monthly salaries January to June for K200, 000 for each month.

Equipment bought in January K90, 000

Required

Prepare the cash flow statement for TD ltd.

SOLUTION

Td Ltd Cash Flow Statement For Six Months 2014 January-June

Cash sources	JAN	FEB	MARCH	APPRIL	MAY	JUNE

Sales	-	-	140,000	200,000	290,000	400,000
Profit on disposal	-	-	-	-	-	205,000
Total Revenue	-	-	140,000	260,000	290,000	605,000
Cash application						
Salaries	200,000	200,000	200,000	200,000	200,000	200,000
Equipment	90,000	-	-	-	-	-
Total payment	290,000	200,000	200,000	200,000	200,000	200,000
Monthly net cash	290,000	200,000	60,000	60,000	90,000	405,000
Balance	290,000	490,000	550,000	490,000	440,000	5,000

INTERPRETATION OF THE CASH FLOW

IN January and February, there are no revenue generated yet, the costs incurred sum up to K490, 000 for two months. Therefore, business from January to May incurs cash deficits. The business will get into a balanced situation in June when the deficit cumulative balance is wiped out and a surplus of K5, 000 is realized. Therefore, this business is not viable in the short run but in the long run.