

SS1 Commerce Lesson Note (Third Term) [year]

SS1 THIRD TERM COMMERCE LESSON NOTE

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WEEK 2

Topic- Documents Used in Foreign Trade

Contents-

1. The types of documents used in international trade

2. Means of payment in International Trade

Introduction

Export and Import Documents lies at the heart of all international trade transactions. It provides exporters and importers with an accounting record; shipping and logistics companies with instructions of what to do with freight information; and banks with instructions and accounting tools for collecting payments.

For an international trade to succeed and go smoothly, there is a need for some documents to be made available and provided, these documents are as follows:

- 1. Indent:** This is a document used in international trade; it is an order or privilege to buy goods conveyed by an importer to a potential buyer. Indent is an official order or requisition for goods; it gives details of the goods, approximate price, date of delivery etc.

It can be open or close. Open indent is the one that have to do with an order from abroad to a merchant with freedom to purchase goods from any manufacturer he pleases while closed indent the foreign buyer will specify the manufacturer from whom the goods are to be purchased.

- 2. Bill of lading:** A bill of lading is a document of title giving the holder a right to take possession of the goods to which it refers. A bill of lading is a contract of carriage of goods between an exporter and the shipping company.

Contents of a Bill of Lading

A bill of lading contains the following

- 1.The name of the ship carrying the goods.**
- 2.Description of the goods such as the quantity, type, weight etc.**
- 3.The shippers name.**
- 4.The names of the consignor and consignee**
- 5.Addresses of both consignor and consignee**
- 6.Addresses of both consignor and consignee**
- 7.The port of embarkation/port of loading**
- 8.Conditions of carriage e.g. that pays the fright charges.**
- 9.The port of disembarkation/port of unloading.**

10. Location of the goods in the ship

11. The expected time of arrival.

Types of Bill of Lading

There are two main types of bill of lading, which are:

1. Clean bill of lading: A clean bill of lading is one signed by the transporter. It shows that the goods are in good order or condition or are free from irregularities.

2. Dirty or foul bill of lading: A foul bill of lading is one which indicates some deficiencies, irregularities or damage on the goods.

3. Freight Note: Freight note is the note which shows the carriage charges for a particular cargo for a specified journey.

4. Dock warrant: Dock warrant is a receipt for goods delivered and stored in the warehouse. It entitles the holder to take possession of goods.

5. Bill of sight: Bill of sight is a document that a person importing goods who cannot fully describe them, gives to the customs authorities, allowing them to examine the goods when they arrive. Others are:

6. Dock landing Account.

7. Customs specification.

8. Insurance certificate.

9. Bill of exchange.

Other documents include:

Air Waybill

An Air Waybill AWB is a non-negotiable transport document covering transport of cargo from airport to airport. The Air Waybill must name a consignee (who can be the buyer), and it should not be required to be issued "to order" and/or "to be endorsed" as it is not a title of property of the merchandise. Since it is not negotiable, and it does not evidence title to the goods, in order to maintain some control of goods not paid for by cash in advance, sellers often consign air shipments to their sales agents, or freight forwarders' agents in the buyer's country.

Certificate of Origin

The Certificate of Origin certifies the country in which the goods originated or in which the preponderance of manufacturing or value was added. It also constitutes a declaration by the exporter. Virtually every country in the world considers the origin of imported goods when determining what duty will be assessed on the goods. Nevertheless the exporter's own certification on company letterhead will suffice. In most countries, Chambers of Commerce are the key agent in the delivery of certificates of origin. However, in some countries, this privilege may also be extended to other entities such as ministries or customs authorities.

Bill of Exchange

A Bill of Exchange is an unconditional order in writing, addressed by one person to another, requiring the person to whom it is addressed to pay a certain sum of money, either immediately or at a stated future date to the bearer.

Means of payment in International trade are:

1. Guaranteed Mail Transfer

2. Bank draft

3. Letter of hypothecation: This is a form of authority given to a banker, often in connection with a documentary bill, authorizing it to sell the goods that have been pledged to it if payment or acceptance of the bill is refused. Others are:

4. Travelers' cheques: These are orders drawn on commercial bank with travelers and businessmen in other countries can use to settle their bills.

5. Mail Transfer: Mail transfer is a means of payment in which an order to pay a foreign creditor a sum of money is given.

6. Factoring: A firm can purchase the trade debts of its client and then claim payment for them. It is a means of financing export.

7. Documentary Credit

8. Telegraphic Transfer.

Test and Exercise

1.The indent in which the foreign buyer will specify the manufacturer in which goods are to be purchased is (a) open (b) closed (c) general (d) special.

2.—— is a document of title giving the holder a right to take possession of the goods to which it refers (a) bill of lading (b) indent (c) shipping note (d) freight note.

3.All of the following are means of payment except (a) bank draft (b) mail transfer (c) documentary credit (d) all of the above.

4.Bill of lading is of ——types (a) 3 (b) 5 (c) 2 (d) 6.

5.The type of bill of lading that is signed by the transporter (a) clean bill of lading (b) dirty or foul bill of lading (c) unclean bill of lading (d) none of the above.

WEEK 3

Customs And Excise Authority

The customs and excise authorities assess and collect the customs and excise duties levied by the government as an important source of revenue. The customs and excise authorities make sure that the amount of certain imports does not exceed the quota or limit allowed to be imported within a specified period. Quotas are imposed to protect the local manufacturers from foreign competition and only a limited amount of foreign goods will be allowed into the domestic market to compete with the locally manufactured goods.

Functions of the customs and excise authority

1.i) Collection of Tariffs: It assesses and collects revenue from tariffs and excise duties.

2.ii) Supervision of Warehouse: The customs department supervises bonded warehouse.

iii) Compilation of Statistical Records: The department compile statistics on export and import trade which is supplied to the government.

1.iv) Prevention of Smuggling: The customs authority prevents smuggling and seize contraband goods.

2.v) Supervision of Foreign Trade: It supervises foreign trade by ensuring that only licensed goods are imported and exported.

3.vi) Enforcement of Ban: The customs authority ensures that bans on prohibited goods are enforced.

vii) Provision of Quarantine Facility: It provides appropriate quarantine facilities for the importation of livestock.

viii) Completion of Documents: The customs will ensure that customs declaration forms and other documents are completed.

Preventive services and tax duties

The service is mandated to collect Import and export duty tax, petroleum tax and import excise. It promotes the protection of revenue through the prevention of smuggling of goods across the country's borders. The service protects the boundaries of the country by preventing external aggression and promotes territorial integrity of the country. Import and export restrictions and prohibitions are supervised by the service.

Nigerian Export Promotion Council

Nigerian Export Promotion Council (NEPC) was set up to assist exporters in the course of exporting goods and to set out procedures for export trade. The council also assist in assessing the performance of Nigeria's export commodities in foreign market.

Functions of the Nigerian Export Promotion Council

The following are the functions of the Nigerian Export Promotion Council

- **Trade information service:** The Nigerian Export Promotion Council establishes and operates international trade information centres to provide prompt information service.
- **Organize training Activities:** NEPC organizes training programs, seminars, conferences, and workshops in export management and international marketing.
- **Creation of awareness:** The council produces publicity materials to publicize the export potentials of the country and by so doing create awareness for them and the council's activities.
- **Export development activities:** The NEPC helps to give advice on quality control, packaging, and product design to ensure acceptable standard of exportable goods.
- **Export Financing and Incentives:** It assists in financing export by evolving measures designed to make available export financing facilities, investment etc.

- **Trade Enhancement Activities: NEPC reviews all liberalizes export procedures and documentation to enhance clearance at the port.**

The Roles of Custom and Excise Duties in Foreign Trade are

- 1.Collection of Various dues like import duties (money paid on imported goods) and excise duties (money paid on exported goods).**
- 2.Control of the flow of goods in and out of the country. Goods needed in the country are not allowed to be taken out**
- 3.Collection of information and facts about trade to help planning by the government**
- 4.Supervision of bonded warehouses (where imported goods are kept till duties are paid on them). The custom and excise department is in charge of bonded warehouses.**

EVALUATION

- 1.Give three functions of each of the following: (i) Ports authority (ii) Customs and excise authority**
 - 1. State four facilities provided by a good seaport (SSCE Nov., 1999).**
 - 2. Explain five terms of quoting price in foreign trade**
 - 3. What is bill of lading? (b) state six contents of a bill of lading (c) Distinguish between a clean bill of lading and a foul bill of lading.**

WEEK 4

Nigerian Ports Authority

Nigerian Ports Authority is an establishment owned and managed by the government. Their responsibility is to manage, provide adequate facilities at the port and being in charge of the administration of the port.

The facilities provided are;

Berths, cranes, trailers, forklift, radar, tractors, boat quay, wharf, warehouse, vessels etc

Examples of seaports in Nigeria are; Apapa, Warri, Port-Harcourt, Sapele and Calabar.

Functions of Nigerian Ports Authority

- 1. Dredging of Seas: They dredge rivers and seas to enable ships to sail and birth easily.**
- 2. Provision of warehouse facilities: Nigerian Ports Authority provides storage and warehousing services. Both ordinary and bonded warehouses are provided for the keeping of goods until they are cleared or shipped abroad.**
- 3. Provision of office facilities: It makes available office accommodation for customs, ship companies, police, etc.**
- 4. Provision of repair and maintenance: Nigerian Ports Authority provides space and other facilities where ships can be repaired.**
- 5. Collection of revenue: They are charged with the responsibility of collecting duties for the government. These are dock and labour dues.**
- 6. Provision of equipment and port facilities: They provide port facilities such as cranes, forklift, tractors and quay.**
- 7. Provision of security: Security personnel who monitor and safeguard lives and properties and also maintain law and order at the ports are provided.**
- 8. Issuance of licenses: Licenses for clearing and forwarding agents and stevedoring operators are being issued by ports authority.**

EVALUATION

1. Give three functions of ports authority

2. Identify the relationship between Nigeria Airport Authority with Nigeria Airways.

3. Describe Nigerian Port Authority

WEEK 5

Business Organisation sole Proprietorship

- **Definition**
- **Types (forms) of business units**
- **Sole proprietorship**

Forms of business units

Business units can be divided into two broad classes namely, the private sector or private enterprise and the public sector or public enterprise. The private sector or enterprise is made up of all the business enterprises owned and controlled by private individuals whereas the public sector or enterprise covers all enterprises owned and controlled by the government.

There are five main forms of business units under the private sector or enterprise, namely:

- 1.The sole proprietorship – i.e. the sole Trader or One-man business**
- 2.The Partnership**
- 3.The Private Limited Liability Company**
- 4.The Public Limited Liability Company**
- 5.The Co-operative Society**

Public enterprises (also called Public Corporations or Statutory Corporations) as mentioned earlier are owned, controlled and financed by the government.

Factors influencing the form of a business unit

- 1.The amount of capital available for setting up the business**
- 2.The personal ability or experience/skill of the entrepreneur**
- 3.Type or nature of the business**
- 4.Size or extent of the market (i.e. the demand for the products of the business**
- 5.Degree of risk or uncertainty involved in the business**
- 6.Personal interest/motive/objective of the entrepreneur**
- 7.Government policies – i.e. the economic legal social and industrial policies of the government.**

Sole proprietorship

This is a business established and being controlled by a person who provides all the capital. It is a type of business unit in which one person provides the capital bears the risks and takes full responsibility for the firm. The sole proprietorship is the oldest and simplest form of business organization.

Features or characteristics of a sole proprietorship

- 1.Ownership, management and control is by one person**
- 2.Unlimited liability: the liability of an owner of a one-man business is unlimited. It extends to even their private property.**
- 3.Not a legal entity: Legally, the business is not separate from the owner i.e. the business is not a separate entity**
- 4.There is no perpetual existence: The sole proprietorships existence lacks continuity since the death or retirement of its owner may lead to the folding up of the business**
- 5.Capital is provided by the owner**
- 6.The owner bears all the risks alone**
- 7.There is usually no formal procedures for its formation except in business like pharmacy, bars etc. where a license is required**
- 8.The owner enjoys all the profits alone**
- 9.It is common in small retail businesses and artisanship**
- 10.The motive of its formation is to make profit**

Advantages of a sole proprietorship

- 1.It is easy to set up**
- 2.It requires small capital**
- 3.The decision-making process is fast i.e. the owner can make a quick business decision**
- 4.It is easy to run or manage**
- 5.Flexibility in business operations**
- 6.The owner takes (enjoys) the profits alone**
- 7.The owner enjoys privacy in his business activities**

8.Pride of ownership is enhanced i.e. The owner enjoys a feeling of independence

9.There is a close and cordial relationship with workers and customers

Review questions

1.Explain five characteristics of a sole proprietorship

2.What are the advantages of a sole trade business

Disadvantages of a sole proprietorship

1.Inability to raise enough capital or finance

2.Unlimited liability of the owner

3.It is not a separate legal entity

4.The owner bears all the risks and losses alone

5.Limited scope for expansion of the business

6.Lack of continuity i.e. the death of the owner may force the business to liquidate

7.Limitation in the scope of decision/policy making

8.Difficulty in facing stiff competition due to its small size

9.Lack of holiday/leave/period of rest and late retirement for the owner etc.

Sources of capital/finance for a sole proprietorship

1.Personal savings of the owner

2.A loan from friends/relatives

3.Loan and overdrafts from banks

4.Trade credits i.e. credit purchases

5.Retained profits (or ploughed –back profits)

6.Grants from friends/relations

7.Grants/loans from the government or its agencies e.g. NAPEP, NDE

8.Other credit facilities e.g. hire purchase

Review questions

1.State five disadvantages of a sole proprietorship

2.Explain four sources of capital available to a sole proprietorship business.

General self-evaluation

1.Explain five activities involved in Commerce

2.Explain five advantages of home trade over foreign trade

3.State five advantages of air transport

4.Explain five factors affecting the choice of transport of frozen products

5.With the aid of diagrams, show five examples of the channel of distribution

Theory

1.Mention five factors that will determine the form a business unit will take

2.State two imitations that a sole trader is likely to meet as his business continues to expand

Reading assignment

1.Essential Commerce for SSS by O.A. Longe Page 65-68

Comprehensive Commerce for SSS by J.U. Anyaele Page 149-153

WEEK 6

Partnership

Partnership (Definition, Types of Partnership, Kinds of Partners)

Meaning of Partnership

Provision of section 1 of the act of 1980, defined partnership as a relation which subsists between persons carrying on a business in common with a view of profit. The relationship is voluntary and membership is between two to twenty people. These people combine their money, skill, goodwill, etc for the purpose of carrying out a business.

When partners are involved in banking enterprise, the number required by law is between two and ten.

Types of Partnership

- 1. General/Ordinary/Unlimited Partners:** These partners have unlimited and may be personally liable for the debts of the business. They take an active part in the management of the business. Their powers and control of the business as agents are equal.
- 2. Limited Partners:** The partner's liability is limited to the amount of capital contributed and as stated in the deed of partnership.

Kinds of Partner

- 1. The general, active or unlimited partner:** this partner contributes capital and takes an active part in the management of the partnership business.
- 2. The Dormant, Sleeping, or silent partner:** he only contributes his capital to the business. He does not contribute to the management and control of the business.
- 3. The Nominal Partner:** he does not contribute to the capital neither does he take part in the management of the business. He allows his name (goodwill) to be used since the public will like to associate with the firm because he is a part of it.
- 4. The Secret Partner:** he contributes his capital, takes an active part in the management of the business but hides his identity from the public. He may be the brain of the success of the business but hidden in the eye of the law.

EVALUATION

- 1. Define Partnership**
- 2. State and discuss the advantages and disadvantages of partnership**
- 3. Describe the types of partners**
- 4. Distinguish between partnership and sole proprietorship**

WEEK 7 MID TERM BREAK

WEEK 8

MONEY

Money (Definition, Evolution & Functions)

Definition of Money

Money can be defined as anything legal which is generally acceptable by people in the settlement of debts. It is used to determine the value of goods and services and to promote exchange. Anything used as money must be backed by law.

Evolution of Money

The early man lived a subsistence life but as the society grew, he had numerous wants so he needed goods and services produced by others to satisfy his basic needs. This brought about the barter system of exchange. This is the exchange of goods for goods and services for services.

The barter system came with much difficulties such as double coincidence of wants e.g. to locate the things one wants is a problem you need yam while you have goat. The person who has yam may not want goat.

Later, different commodities were used as money until the collapse of the barter system. Then commodities such as beads, tobacco, salts, seeds, manila, metal, cowry shells, precious feather, textile materials, cows, etc were used as means of exchange.

The commodities for exchange were also relatively scarce which made them be valuable and acceptable. People used to keep their gold and other valuables with the goldsmiths when banks were non-existing. The goldsmiths issued receipts to the depositors of those valuable goods (gold, wills, etc). As time went go, people started using the receipts issued by the goldsmith for buying and selling of goods and services. It was these receipts issued by the goldsmith that gradually modernized and renamed as money. Today, money has solved that cumbersome means of exchange which is referred to as trade by barter.

Functions of Money

1. Medium of Exchange: money is used in payments for goods and services, buying and selling is facilitated by using this commodity called money.

2. Measure of Value: money is used as a yardstick for measuring and comparing the worth of goods and services as well as occupations.

3. Unit of Account: records of both receipts and payment can be conveniently kept in monetary units, records of business transactions can easily be kept in monetary units. Records of business transactions can easily be kept by fixing prices for goods and services.

4. Store of Value: to store surplus goods and wealth for future use, money has to be used. Money is able to perform this function well because it is fairly durable and cheap to maintain.

5. Standard for Deferred Payment: money has made it possible for goods and services to be bought and payment made at a later date. This is because money is homogeneous and fairly durable.

Qualities/Characteristics of Money

- 1. Portability:** anything that should be used as money must not be bulky to be carried about.
- 2. Acceptability:** the commodity to be used as money must be generally acceptable to people in a particular state or country.
- 3. Durability:** anything called money must be able to last for a long time without getting spoilt or damaged.
- 4. Divisibility:** Anything to be used as money must be capable to be divided into denominations. It will make it possible for payments to be made in small units.
- 5. Universality:** Money must be unique or special from all other commodities in order for people to differentiate it from other commodities.
- 6. Recognition:** People in a particular community state or country must be able to recognize what money is, so money must be identical in colour, size, etc
- 7. Scarcity:** It must be relatively scarce in order not to lose its value.
- 8. Homogeneity:** Each unit of money must be the same in size, colour, and quality
- 9. Stability:** The value of money must be stable. The stability of its value will help businesses to be predictable and encourage lending and borrowing of money.
- 10. No Intrinsic Value:** The commodity that should serve as money must have little or no value in itself as opposed to its value of exchange.

Forms/Types of Money

- 1. Coins:** coins are made up of precious metals in different shapes and sizes. It bears a country's official stamp as a legal tender. Coins can be standard coins or token coins. A standard coin has the same face value as the content while a token coin has the same face value as the metal content of the coin. This will discourage it from being used for other purposes.
- 2. Banknotes:** These are made of paper-and are issued by central bank with the amount written on it. Paper money that is not backed up by gold or any other valuable metal is known as "judiciary Issue" if all the paper money in a country is backed up by gold, the country is said to be a "gold standard".
- 3. Quasi Money:** These are near money but not legal tender. It can be converted into money. Examples of quasi-money are; money orders, postal orders, cheques, bills of exchange, promissory notes, etc.
- 4. Bank deposits:** This includes money deposited into the commercial bank which can be withdrawn with the use of cheques. Though it can be used for transactions, it is not legal tender. It is very important in making payments where large sums of money are involved.

Evaluation Questions

- 1. Define money**
- 2. Explain the history of money**
- 3. List the functions of money**
- 4. Explain the qualities of money**
- 5. Describe the various forms of money**

WEEK 9

BANKS

TOPIC: Banking

CONTENT: (a) Meaning of bank and origin of banking

(b) Function of Commercial banks

(c) Types of Account

Sub-topic 1: Meaning of bank

A bank is a commercial institution that performs various financial activities such as accepting and handling deposits and other valuables. Simply put, a bank is a place where money and other valuables like will, jewellery etc are kept.

Origin of Banking

Banking had its origin with the goldsmiths in London in the seventeenth century. The goldsmith had facilities for storing valuables; therefore, they accepted money and valuables from Merchants for safekeeping.

The first banking function was accepting deposit of cash from merchants who had no safe place to keep their money. The goldsmith demanded a charge for looking after their money. The second stage came when receipts for these deposits were being used as means of payment by merchants. The next stage was the development of money lending to customers with interest. This provided a profitable business; hence bankers began to offer inducement of interest to encourage merchants and others to increase their deposit.

The first known formal bank is the bank of Venice, in Italy which was established in 1157 to finance the monarch in his wars. The modern bank started with the English goldsmith. In 1894, the Bank of British West Africa (now First Bank) opened a branch in Lagos while Barclays Bank (now Union Bank) was established in 1925. Many more banks came up but after the 2006 reform, 25 banks emerged and got listed in the Nigeria Stock Exchange.

TYPES OF BANKS

- 1. Commercial bank**
- 2. Central bank**
- 3. Merchant bank**
- 4. Savings bank**
- 5. Development bank**

COMMERCIAL BANKING

Commercial banks are financial institution granted licence by central banks to accept deposits and other valuables from the public for safekeeping with the sole aim of making profit.

Commercial banks are limited liability companies. Examples of commercial includes; united Bank for Africa (UBA) Plc, Guaranty Trust Bank (GTB), First Bank of Nigeria PLC etc

CHARACTERISTICS OF COMMERCIAL BANKING

- 1. Commercial banks are Limited Liability Company.**
- 2. It is profit oriented.**
- 3. They are incorporated.**
- 4. They are members of the money market.**
- 5. They accept deposit and valuable.**

EVALUATION

- 1. Give a brief history of banking in Nigeria**
- 2. Mention four types of banks in Nigeria**

Sub topic 2: Functions of Commercial Bank

- 1. Accepting deposit: Commercial Banks accept deposit from the public for safe keeping. This is the oldest function of Commercial Banks.**
- 2. Lending to customer: Commercial Banks grant loans and overdrafts with interest to people and firms for profitable investment.**
- 3. Agent of payment: Commercial Banks act as agent of payment on behalf of their customers by collecting and paying their cheques, paying insurance premiums, paying of salaries, pensions etc.**
- 4. Safe keeping of valuables: Commercial banks accept and keep valuables for their customers such as certificates, jewelry, wills etc.**
- 5. Discounting Bills: Commercial banks discount bills of exchange; i.e. they pay cash for bills of exchange before the maturity date of the bill.**
- 6. Issuance of Bank Statement: Commercial banks prepare and send the statement of accounts to their customers at intervals to show their transactions with the customers.**
- 7. Issuance of traveler's cheque: Commercial Banks can issue travelers cheque to their customers to facilitate their commercial transaction.**

8. **Foreign Exchange transaction:** Commercial banks make foreign currencies available to their customers. They process foreign exchange requests and help in transferring funds.
9. **Provide Financial/technical Advice:** They also encourage and advice their customers on projects or viable business they could invest in.
10. **Facilitate international trade:** Commercial Banks provide credits to exporters which facilitate payment in foreign trade.

ROLES OF COMMERCIAL BANK IN INTERNATIONAL TRADE

1. **Provision of documentary credits:** Commercial banks provide exporters with credit facilities which help in the payment of goods.
2. **Minimising default in payment:** They guarantee payments for goods bought in order to ensure that default in payment is reduced.
3. **Discounting documentary credit:** Commercial banks can provide credit to facilitate foreign trade by discounting documentary credit. This will ensure that sellers are paid at once.
4. **Act as Referees to Customers:** commercial banks act as referees to exporter by providing information to foreign businessmen about their credit worthiness.
5. **Foreign Exchange Transaction:** They help to arrange for purchase and sales of foreign currencies which are used to finance import and export.
6. **Issuance of traveller's cheque:** They facilitate foreign trade by issuing travellers cheque to business men going abroad.

CREDIT FACILITIES PROVIDED BY COMMERCIAL BANKS

(a) Loan: This is an amount of money that is lent out to customer at an agreed rate of interest for a specific period. The customer must have an account.

(b) Overdraft: This is a credit facility that enables the customer to withdraw above what he has in his account at an interest rate.

DIFFERENCES BETWEEN LOAN AND OVERDRAFT

LOAN OVERDRAFT

Collateral security required Collateral security not require

It attract lower rate of interest It attracts higher rate of interest

The money is repayable at a fixed time. There is gradual deduction from the persons account
A separate account called loan account is opened. No separate account is opened.

FACTORS FOR CONSIDERATION BEFORE GRANTING LOAN

- 1. Purpose of the loan:** The bank will want to know the purpose why a customer needs the loan
- 2. Financial position of the customer:** The bank is interested in knowing the financial capability of the customer to repay the loan. They will study and know the financial position of the customer.
- 3. Credibility of the customer:** The bank will study the credibility of the customer to ascertain his credit worthiness.
- 4. Source of income to repay the loan:** The bank will be interested in the source of income that the customer is using to repay the loan.
- 5. Total amount applied as loan:** The bank will also look at the amount applied for.
- 6. Provision of collateral security:** They will require collateral that will cover for the amount of loan. This is to enable the bank recover the money in case the customer defaults. The security will be converted to money to settle the loan taken.
- 7. Provision of referees:** The referee will be required to provide a land or security for the loan.
- 8. Viability of the business:** The bank will also look at how viable the business or project is.
- 9. Period of repayment of loan:** The bank is interested in knowing the duration of repaying the loan.

EVALUATION

- 1. Explain seven functions of commercial bank.**
- 2. Describe five ways by which commercial bank aid foreign trade.**
- 3. Differentiate between loan and overdraft**

Sub topic3: Types of Account operated in commercial banks

There are three types of accounts which customers can open in a bank. These are; current deposit and savings account.

CURRENT ACCOUNT

A current account is an account opened by customers in a commercial bank with the aim of making deposit and withdrawal by means of cheque. It is suitable for business and often used by individual, companies and organizations. The customer will be given a cheque book which he uses to withdraw money anytime. Holders of current account are not entitled to interest but are charged commission by the bank. They can obtain overdraft. Current accounts are accounts on which cheques can be drawn.

FEATURES OF CURRENT ACCOUNTS

- 1. Money can be withdrawn frequently.**
- 2. Customers are entitled to the use of cheque.**
- 3. Commission is paid by the customer to the bank.**
- 4. Holders of this account are not entitled to interest**
- 5. Other people can withdraw money from the account on behalf of the customers.**

PROCEDURE FOR OPENING A CURRENT ACCOUNT

- 1. The customer will collect and fill the application form**
- 2. He will submit a prescribed number of passport photographs.**
- 3. Two guarantors, who are account holders in a bank, must be provided to recommend the applicant.**
- 4. The customer will submit his complete particulars to the bank, showing personal details.**
- 5. The bank will issue the customer a pay in slip booklet.**
- 6. An account number will be given to the customer**
- 7. He will pay in an initial deposit with the pay in slip.**
- 8. A cheque book will be given to the customer.**

SAVINGS ACCOUNT

Savings Account is operated by low income earners who are small savers. Customers pay small amount and it accumulate over time. Holders of such account are entitled to interest but cannot withdraw frequently. The customer will be given passbook with which to make occasional withdrawal from the account.

FEATURES OF SAVINGS ACCOUNTS

- 1. Money can only be withdrawn occasionally.**
- 2. It attracts a favourable rate of interest**
- 3. Holders are issued passbook.**
- 4. Withdrawal cannot be made by another person on behalf of the account holder.**

DIFFERENCES BETWEEN CURRENT ACCOUNT AND SAVINGS ACCOUNT

SAVINGS ACCOUNT CURRENT ACCOUNT

- 1. Customers are issues passbook Customers are issued cheque book**
- 2. It attracts interest No interest is given**
- 3. Only the holder can make withdrawal Cheque can be issued to anyone.**
- 4. Withdrawal is occasional Withdrawal is frequent**

DEPOSIT ACCOUNT

Deposit account is also called time deposit. It is an account in which money is saved in the bank for a fixed period of time to earn interest. Holders of such account earn higher interest than savings account. Customers can withdraw subject to seven days of notice. People save money in deposit account for a specific purpose and can be renewed on maturity. The customer will be issued a deposit account passbook. Fixed deposit account can only be withdrawn at the agreed time.

FEATURES OF DEPOSIT ACCOUNT

- 1. Money is deposited for a specific period of time.**
- 2. It attracts higher interest**
- 3. Notice of seven days must be given before withdrawal.**

SUB -TOPIC

TOPIC: Banking

CONTENT: (a) Forms of payment

(i) Automated Teller machine

(ii) Western Union money transfer

(iii) Money gram

(iv) Computer and the bank

(v) e banking

Sub-topic 1: Automated Teller machine, Western Union and Money Gram

Automated Teller machine,

The automated teller machine (ATM) or automated banking machine is a computerised telecommunication device that provides clients of financial institutions with access to financial services in a public area without the need of seeing a cashier, human clerk or bank teller. With most ATMs, the customer is identified using a plastic smart card that incorporates a chip containing a unique card number and some security data. Authorisation to use the service is provided by the customer entering personal identification number (pin).

Using an ATM a customer can access their bank accounts in order to;

vMake cash withdrawals.

vMake credit cash advances.

vCheck their account balances.

vRequest an account statement.

vPurchase prepaid cell phone credit.

vObtain local currency when abroad.

Western Union money transfer

The Western Union Company is a financial services and communication company based in the United States. It has been in operation for over 150 years and has over 400,000 agents.

Western Union money transfer is a means of sending and receiving money easily. A sender presents the fund at Western Union office or any of their location and provides the details of

the recipient. Western Union generate a 10 digits Money Transfer Control Number (MTCN) for the sender to be sent to the recipient. The recipient will go to the Western Union Agent Office at the designated location with the 10 digits MTCN and a photo identity card. Money is paid to the individual at the presentation of these details. Their services can be accessed via the internet, by phone, or by an Agent that could be a bank, travel agent etc.

Money gram

Money gram is a product of Money Gram International which transfers money around the world. It offers or issues money gram branded cash transfers and money order at some network of 244,000 local agents across 192 countries locations around the world. Money gram local agents in Nigeria include UBA, First Bank of Nigeria, Union Bank etc. A sender goes to a money gram office of its local agents to pay for money gram and a reference number is given to the sender to be transmitted to the recipient. The recipient presents some means of identification and the reference number and then completes a form before receiving money.

EVALUATION

1. Write short notes on the following

(i) Automated Teller Machine (ATM)

(ii) Western Union Money Transfer

(iii) Money Gram

Sub-topic 2: Computer and the bank and E- Banking

Computer and the bank

Computers are used to track most transactions and also to track customer information. It is used to keep record of all transactions daily. When a customer wants to withdraw cash from an account, the computer is used to verify the details and to instantly debit the account before the payment is made and when a deposit is made, the computer is used to credit the account instantly. Therefore, without computers, it would be very difficult for a bank to offer effective service to the customers. Computers are greatly helpful to banks. It makes bank transaction faster. It helps bank personnel operate more efficiently and effectively.

E- Banking

Electronic banking refers to the process of performing banking transactions through electronic medium without physically visiting the banking halls. Electronic banking involves personal computer banking, internet banking, virtual banking, online banking, phone banking etc. It

can be used for different forms of payment as it is used in conducting banking activity such as transferring funds, paying bills, checking savings account balances etc.

EVALUATION

1a. Itemize three benefits of computer to the banking industry

1. Explain the term E- Banking

GENERAL EVALUATION

Objective Test

1.E- Banking means a. enhanced banking b. enlightened banking c. electronic banking d. exemplary banking

2.The full meaning of ATM is a. Amplified Teller Machine b. Alternated Teller Machine c. Automated Teller Machine d. Accommodated Teller machine

3.Western Union Company headquarters is located in a. Addis Ababa b. Britain c. Greece d. USA

4.MTCN means a. Machine Teller Control number b. Money Transfer Control Number c. Mutilated Teller Control Number d. Money Telegraphic Control Number

5.The following are forms of E-Banking Except a. Personal computer banking b. internet banking c. online banking d. specialised banking

Essay Test

1.1a. Outline four forms of payment

1. List three benefit of computer in banking.

2.Briefly explain the procedure of transferring money from abroad using Western Union Money Transfer

3.A. Mention the names of seven banks acting as Money Gram Agent in Nigeria.

a. Identify the benefit of E – Banking in Nigeria

TOPIC: Banking

CONTENT: (a) Specialised Banking

(i) Development Bank

(ii) Mortgage Bank

(iii) Building Society

Sub-topic 1: Development Bank

Development Banks are specialised financial institutions which provide long term credit or loans to other enterprises for capital projects. They provide loans for projects in the area of agriculture, commerce, and industry. Examples of development banks in Nigeria are; Nigeria Industrial Development Bank, Nigeria Bank for Commerce and Industry and Nigeria Agricultural and Co-operative Bank.

FUNCTIONS OF DEVELOPMENT BANKS

1. Development Banks provide long term loans for capital projects in specific areas.
2. They make funds available to manpower training institute.
3. They also help in implementing government policies on industrial, commercial, and agricultural development.
4. Development Banks gives advice to the industrialist on the best way to invest.
5. They supervise industrial project in order to ensure the success of the project.
6. Development banks also underwrite security issues.
7. They undertake research to determine viable areas to develop.

EVALUATION

1a. What do you understand by the term Development Bank

1. Explain the function of a Development Bank

Sub-topic 2: Mortgage Bank

Mortgage banks are financial institution that specialise in granting loans to individual and corporate bodies for building purposes. Such loans are repaid by instalments and can be spread over several years.

Mortgage banks accept deposit from investing public at a rate of interest and use the fund to lend, at a higher rate of interest, to people who wish to own their houses.

The Federal Mortgage Bank was established to encourage people to save in order to own a house. It is the apex bank that is charged with the responsibility to supervise other mortgage banks.

FUNCTIONS OF MORTGAGE BANK

- 1. Mortgage banks accept deposit from customers in order to encourage savings towards owning a house.**
- 2. They can provide long term loans to people or developers to build houses**
- 3. They supervise and encourage the development of mortgage institutions.**
- 4. They give advice and assist the government on housing matters.**
- 5. Mortgage banks are involved in the construction of houses and then offer them for sale to people.**

EVALUATION

- 1. Enumerate five functions of a Mortgage Bank.**

Sub-topic 3: Building Societies

A building Society is a financial institution, owned by its members, that offers banking and other financial services, especially Mortgage lending. They are Limited Companies. Building societies like mortgage banks, accept deposit on which they pay interest and use the funds to finance mortgages.

EVALUATION

- 1. Write a short note on Building Societies.**

GENERAL EVALUATION

Objective Test

1. Development Banks are

a. specialized financial institution

b. investment houses

c. bankers bank

d. public corporation

2.-----bank encourages people to own a house

a. Merchant bank

b. Commercial bank

c. Cooperative bank

d. Mortgage bank

3.-----provide loans for projects in the area of agriculture, commerce, and industry.

a. Development bank

b. Merchant bank

c. Mortgage bank

d. Microfinance Bank

4.-----is a financial institution, owned by its members,

a. Mortgage banks

b. Commercial banks

c. Development bank

d. Building Societies

5. Nigeria Industrial Development Bank, Nigeria Bank for Commerce and Industry are examples of

a. Development bank

b. Specialised bank

c. Mortgage bank

d. Building Society

Essay Test

1. Write short note on the following;

(a) Development Bank

(b) Mortgage Bank

2. List and explain five functions of Development Bank.
3. Describe five functions of a Mortgage Bank.

CHEQUE

A cheque is an order written by the drawer to a bank to pay on demand a specified sum of money to the person named as payee on the cheque. To complete a cheque, the drawer inserts the name of the payee, the amount to be paid in words and figures, date and signature.

PARTIES TO A CHEQUE

1. **Drawer:** This is the owner of the account in the bank and he is responsible for drawing a cheque.
2. **Drawee:** This is the bank on which the cheque is drawn i.e where the cheque will be presented.
3. **Payee:** This is the person to whom the cheque is made payable i.e the person to whom the payment is directed to be made.

FEATURES OF A CHEQUE

1. A cheque is an order to pay.
2. It is an unconditional order.
3. The amount must be specified.
4. It must be written not oral.
5. The name and branch of the bank appear on the cheque.
6. The account number of the drawer is stated.
7. It is addressed by one person to another.
8. The name of the payee must be shown on the cheque.
9. A stamp duty is paid on the cheque.
10. Amount must be clearly written in words and figure.

ADVANTAGES OF PAYMENT BY CHEQUE

1. It is convenient to carry cheque than cash.

2. Cheque is a safe means of payment.
3. It can serve as a receipt and a proof of payment.
4. Using cheque to make payment saves time and energy of counting.
5. It is safe to carry cheque than to carry cash.
6. The counterfoil can be used to keep proper record.
7. It is easy to stop payment so as to prevent fraud.

PRECAUTIONARY MEASURES TO BE TAKEN WHEN DRAWING CHEQUE

1. The signature must be consistent.
2. The drawer must sign on any alteration.
3. The cheque must not be folded.
4. The amount must be written in words and figure.
5. The name of the payer should be properly written on the cheque.
6. The signature must be such that cannot be easily forged.

TYPES OF CHEQUE

1. **Order Cheque:** Order cheque is made payable to a person or firm named on it or an order which requires the endorsement of the payee unless he pays it into his own account.
2. **Bearer cheque:** Bearer cheque is payable to the bearer i.e. whoever present it. The bearer cheque is payable without any endorsement.
3. **Open cheque:** Open cheque can be presented and cashed over the counter of the bank which it is drawn.
4. **Crossed Cheque:** This is a cheque having two parallel lines drawn across its face. Crossed cheque cannot be cashed at the counter.

REASONS FOR CROSSING CHEQUE

1. To protect the owner against damage by loss or theft.
2. It prevents the cheque from being paid over the counter.
3. Crossing restricts a cheque to a particular bank.

4. The holder must pay it to his account.
5. It can help in tracing the culprit in case.

OTHER FORMS OF CHEQUES

1. **Stale cheque:** This is a cheque that is more than six months and the date have expired.
2. **Post dated cheque:** This is a cheque that have a future date and cannot be presented before that date.
3. **Certified cheque:** This is a cheque that has been ratified by the bank in order to guarantee that the drawer has sufficient funds to settle a debt
4. **Dishonoured cheque:** This cheque that a banker for some reasons refuses to pay on presentation.

BANK CLEARING HOUSE

Bank Clearing House is an institution established by member banks to simplify exchanging and obtaining payments for cheques that are paid into the banks' branches throughout the country. The Clearing House is used among banks to settle cheques drawn on them.

TYPES OF CLEARING HOUSE

1. **Local Clearing House:** The Local Clearing House takes care of clearance of cheques among various banks in the same town. All large towns have their own cleaning house where representatives of the various banks in the town meet each day to clear cheques.
2. **Head Office Clearing House:** Head Office Clearing System undertakes to settle cheques drawn by the customers of the various branches.
3. **Bankers Clearing House:** Bankers Clearing House is the ultimate clearance and settlement of cheque is carried out in the country. All banks in the country will come together to sort out cheques drawn on each other. The final settlement is through cheques drawn on the central bank

EVALUATION

1. Explain each of the following;

(i) Order Cheque

(ii) Bearer Cheque

2a. Define the term Clearing House

1. **Mention the types of Clearing House**

GENERAL EVALUATION

Objective Test

1. **The Correct name for the bank on whom a cheque is drawn is a. the payer b. the drawer c. the drawee d. the payee**
2. **When dealing with payments, it is the duty of the bank to carry out the instructions of the a. Payee b. drawer c. drawee d. debtor**
3. **A bank whose name is printed on a cheque leaf is known as the a. Drawer b. payer c. drawee. d. payee**
4. **It is important for banks to maintain a high percentage of cash ratios in order to**
5. **make high profits b. invest in long term venture c. encourage more tax deposits d. meet their customer demand at any time**
6. **Which of the following is not a reason for dishonouring cheque?**
7. **insufficient fund**
8. **different amount in words and figures**
9. **uninstalled alteration**
10. **Special crossing**

Essay Test

1. **Describe to Kola a new staff in your organisation, the steps he may take to open a current account.**
2. **List and explain five factors a manager of a bank should consider before granting a loan to a customer**
 1. **Outline five functions of commercial bank in Nigeria?**
3. **a. Differentiate between a ban loan and an overdraft.**
 1. **Highlight five benefit of using cheque for payment.**

WEEKEND ASSIGNMENT

Read Complete Commerce for Senior Secondary School by Alan Whitcomb and Adekoya Fatai Olusegun pages 146- 147

Read Commerce for Senior Secondary School Book 2 by P.S.Onuka, M.A.Adesola, O.O.Oyefesobi pages 143-148

Read Essential Commerce for Senior Secondary Schools by A.O LONGE pages 72-79

PRE – READING ASSIGNMENT

Read about forms of payment

WEEKEND ACTIVITY

- 1. List the forms of payment**
- 2. Describe two forms of payment**

REFERENCE TEXTS

1.Complete Commerce for Senior Secondary School by Alan Whitcomb and Adekoya Fatai Olusegun

2.Commerce for Senior Secondary School Book 2 by P.S.Onuka, M.A.Adesola, O.O.Oyefesobi.

4.Essential Commerce for Senior Secondary Schools by A.O LONGE

5.Extension Modern Commerce for Senior Secondary Schools by Bello A.A Echegile G. B. Mohammed B.A

WEEK 11 REVISION

WEEK 12 EXAMINATION

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