



Solomon Islands Business Studies

Year **8**

Learner's Book



Solomon Islands
Business Studies
Year **8**

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Solomon Islands Curriculum Development Division

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Introduction

This Learner's Book provides a course in Business Studies for Year 8, the second year of secondary school. The book is divided into three, compulsory sections:

- Economics, Chapters 1–5
- Accounting, Chapters 6–7
- Start Your Own Business, Chapters 8–12.

This book is based on an interactive approach to learning. This means you are expected to learn things for yourself by doing activities and exercises, not just by listening to the teacher or reading the book. The activities are an essential part of the book and you must complete them to learn properly.

You will find a range of activity types to engage and challenge you. These include:

Thinking activities

These activities encourage you to think for yourself. You are expected to use your own knowledge or experience, or think about what you read in the book, and answer questions for yourself.

Practical activities

These activities are practical and often hands-on, such as a role-play on barter where goods are exchanged, doing research questions on the prices of goods, conducting interviews for a market survey, running a trade store or income-generating projects. These activities will help you to learn the practical skills that you will use when you leave school.

Writing activities

You will need to address each question and write the answers in your exercise book.

Group activities

In group work you are expected to discuss set topics or questions in groups and report back to the class. In this way you learn how to work together as a group to find the answer or solve a problem.

Field work activities

Field work allows you important opportunities to go out of the classroom and see how companies, industries and organisations are set up, how they are managed, and how they operate.

Remember not to write in this Learner's Book. You should write all your answers to activities in your exercise book, or as directed by your teacher.

Economics



The first five chapters of this book are about economics and are designed to build on what you learnt about economics in Year 7.

Economics is all about making choices. There are many things we would like and need, but we cannot have everything. We have to choose. Economics is about how we make our choices.

It is important to try and make good choices. Making good choices will give us the most enjoyment and satisfaction.

Specific learning outcomes

By the end of this chapter, you should be able to:

- explain the terms money, traditional money and coins
- state the advantages and importance of money over the barter system
- list the functions and characteristics of money
- explain the history and development of money (both traditional and modern money)
- know the various forms of traditional money used by societies in Solomon Islands
- understand the terms legal tender, bank notes, medium of exchange, store of value, measure of value, currency, foreign currency, milled and forging
- understand various forms of money used today
- explain the reasons for using modern money and traditional money in Solomon Islands
- understand that different countries use different currencies
- know how to convert one currency to another using the exchange rate
- appreciate the fact that money aids trade and commerce
- describe how money aids trade and commerce in Solomon Islands
- appreciate the fact that money leads to specialisation.

1 Introduction

Money plays a very important role in all human societies. It enables the **trade** of goods and services to take place.

Apart from things people make or grow for themselves, almost everything people acquire has been paid for with money, and almost every job that people do is rewarded with money. Every day people earn and spend money.

In this chapter you will learn what money is, its properties, features and characteristics. You will also study the history and development of both traditional and modern money. Discoveries in the development of money include different forms of traditional money in Solomon Islands, the arrival of modern money in Solomon Islands, various other forms of modern money and foreign currencies.

Money makes exchange much easier in the modern economic system than in the traditional barter system. Bartering requires a person to find the right partner to exchange goods with. With money, you can exchange with anyone who has what you want, even when that person wants something else.

Money aids trade, commerce and specialisation.

Stages in the evolution of money

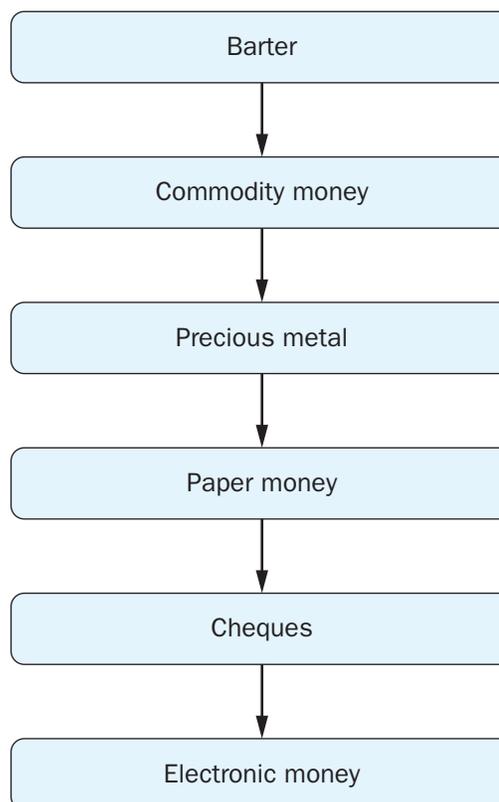


Figure 1.1 Stages in the evolution of money



Figure 1.2 Solomon Islands dollars

Key properties of money

For money to be successful in a society, it must have six properties. It must:

- ▶ be recognised
- ▶ be difficult to collect or make
- ▶ be easy to carry
- ▶ last a long time
- ▶ be acceptable by all of the community
- ▶ be divisible into smaller units.

Activity 1

What do you already know about money?
Discuss the following questions as a class.

- 1 What is money?
- 2 Do you know how and where modern money (notes and coins) is made?
- 3 Why do we need modern money?
- 4 How can we earn modern money?
- 5 Why did modern money replace our traditional money?

2 What is money?

Money is usually described as anything that is accepted as payment for goods, services and debts.

In the past, traditional money was used to pay for things such as goods, services, bride price, and settling of disputes. Different societies in the world have used different things as traditional money, such as elephant tusks, feathers, cowry shells, curved stones, dogs' teeth, pigs' teeth.

The role of money

In the past, people used the barter system where they exchanged goods for other goods. In the barter system, you must find someone who has what you want, and who wants what you have.

Let us look at Figure 1.3. Teo has a pig and wants to exchange it for some fish. Reti has fish but wants to exchange it for taros. Biri has fish and wants to exchange it for a pig. Only Teo and Biri can exchange their goods. Reti cannot barter because he cannot find a partner who wants what he has to exchange.

The existence of money solved this problem of barter. With money Teo can exchange his pig for money. He can exchange his money with anybody who has fish: Reti or Biri. Reti or Biri then get the money and they exchange it with someone who has what they want.

For money to be effective and useful it must have the following functions.

- 1 A **medium of exchange**: goods and services are exchanged between buyers and sellers.
- 2 A **measure of value**: we use money to value things. We give a price to things.
- 3 A store of wealth: it can be saved for future use.
- 4 A means for future payments: we can settle our debts.



Figure 1.3 Teo, Reti and Biri exchange their own goods for other goods.

How money works

Money helps trade. It comes between the goods that are being exchanged. We say it is a medium of exchange. Here is an example of Joe using traditional money.

Joe gets five shell necklaces. He can exchange his shell necklaces for a pig, some potatoes, some taro and some salt. The shells are used as money. They are a medium of exchange. This is better than barter because it is a much simpler and quicker method of trading goods. Shells were good money.

The people who sold their goods to Joe all accepted the shells as money because they knew that other people would take them in exchange.

So money must be acceptable. The shells did not rot. They lasted a long time. Joe could keep the shells for a long time, until he needed something else. Money can be used to store wealth. People knew that one necklace was worth a certain amount of goods: a

certain number of potatoes, a certain number of taros or a certain amount of pig meat pig. Therefore, money is a measure of value.

Money can be used to settle debts. If Joe had no shell money, he may have been able to take a pig and agree to pay three shell money as soon as possible. Then, when Joe had earned some shell money from his work he could pay for the pig.

Activity 2

In your exercise book, copy these questions and write your answers.

- 1 What is barter? Identify and discuss the problems and difficulties associated with barter.
- 2 Discuss how money solved the problems and difficulties you identify in Question 1.
- 3 Copy the table below into your exercise book. At the top of each column, write the names of the different types of traditional money used in Solomon Islands. Under each heading answer the question with Yes or No. The first one has been done as an example for you.

Types of traditional money

	Tafuliae					
Is it easy to recognise?	Yes					
Is it easy to collect or make?	No					
Is it easy to carry?	No					
Does it break easily?	No					
Was it acceptable to all of the community?	Yes					

DO NOT WRITE IN THIS BOOK

- 4 Copy the table below into your exercise book. What would be the problems of using the following items as money? Under each item write Yes or No if it has the characteristics of money.

Characteristics of money

	Stones	Round pieces of timber	Chicken feathers	Pigs	Canoes	Fresh meat
Acceptability						
Easy to carry						
Lasts a long time						
Can be divided into smaller units						
Difficult to make						

DO NOT WRITE IN THIS BOOK

- 5 Why can't people use Santa Cruz feather money in other parts of Solomon Islands?
- 6 The definition for money states that it is anything that is generally accepted in payment for goods and services. When money (traditional or modern) is paid to settle a dispute, what goods or services are people buying?

3 Traditional money and modern money



Figure 1.4 Different types of traditional money in Solomon Islands

History and development of traditional money

In the past, skilled people in a community made artefacts and used their artefacts for traditional costumes and decorations. Other people liked these artefacts and wanted to own them too. In Malaita, for example, people of Langa Langa were skilled at making shell necklaces and shell money. These strings of colourful shell beads are made from special sea rocks and fish shells.

The first exchange took place between those skilful artists and others who wanted their products. For example, the people living on the mainland in Malaita exchanged their goods with the people of Langa Langa for their shell money. As the shell money spread to the mainland, people began to exchange goods for shell money among themselves. The widespread demand for shell money led to using the shell necklaces and strings to make payments for bride price, pigs and settling disputes. This is how traditional shell artefacts came into use as money.

The uses of traditional money

The common uses of traditional money were for body adornment, costume and decoration, making payments for pigs, bride price, a piece of land and settling disputes.



Figure 1.5 The bride and groom at a traditional wedding

Activity 3

... ..

Answer these questions.

- 1 Before people recognised traditional artefacts as money, what were they used for?
- 2 Explain in a few sentences how artefacts were used as traditional money.
- 3 What is money?
- 4 Name three forms of money that are traditionally used.

History and development of modern money

‘Good’ money must be difficult to collect or make. Other goods that are difficult to get are gold and silver. They are valuable because many people like them and they are rare. Gold and silver make a good medium of exchange because they:

- are generally acceptable
- are hard and last a long time
- are a store of wealth and used to measure value
- can be cut up into small pieces. Each piece can be the same weight and size
- can be carried about easily.

Coins

The first precious metals were used before the birth of Jesus Christ. They were made into **coins** by the Assyrians and their use spread over the world. These pieces of precious metal were made in the same shape, usually round. They were stamped with the face of the king to give them authority.

a



Figure 1.6(a) Old coin made by hand



Figure 1.6(b) Old coins made by machine

Coins were a very good form of money. But later, gold and silver became so precious that dishonest people tried to damage them. They shaved pieces off the edges and sold the shavings or made new coins with them. To stop this, the government milled the edges of the coins. This means they put small ridges on them so it was easy to see if people were shaving the edges.

Other people made their own coins illegally, often of cheaper metals. This is called forging. These days, if people are caught doing this they go to prison.

Later still, governments made coins from other, cheaper metals like copper and bronze, and added nickel to make them hard. If a precious metal is used for money, its size and weight shows its value. Big pieces were more valuable than small ones because it was the metal itself that was valuable.

Coins today are not made of precious metal. They can be made in any size, weight and shape. The value is not in the metal itself but is shown by the writing on the coins.

Legal tender

Legal tender is the **currency** that a government says is to be used as money for that country. Coins like the ones shown above are legal tender. They are a good medium of exchange because the government makes people accept them.

Money made of valuable materials is called **commodity money**. Gold, silver and traditional shell money are some examples. People liked them because of the natural value they have. However, money does not need to have natural value to serve as a medium of exchange. It is someone's willingness to accept it in payment that gives money its value in the exchange process.

Activity 4

Answer these questions in your exercise book.

- 1 Describe three characteristics of 'good' money.
- 2 List the coins we use in Solomon Islands.
- 3 Does the value depend on the size and weight of the coin? If your answer is no, then what is the value of the coins based on?
- 4 Why do coins have milled edges?

Paper money

Bank **notes** are a form of money. They are usually issued by a country's central bank, and they tell someone to pay an amount of money to someone else. On our bank notes the amount is shown in words and numbers, and the notes are signed by the chairman of the Solomon Islands' monetary authority. They also state that they are legal tender in Solomon Islands.

History of bank notes

Bank notes were first issued by **goldsmiths**. Goldsmiths make things out of gold. They used to keep gold safe for other people. Gold was used in trading, as money, so when a trader gave gold to a goldsmith, they would get a receipt. This was the first kind of bank note.

Received from John Bull
The sum of £20 twenty pounds in gold
This third day of May in the year of the lord 1720

J. Goldsmith

Figure 1.7 A receipt was given by a goldsmith showing the quantity of gold given.

In Figure 1.7, John Bull could collect his gold when he wanted it by presenting this receipt back to the goldsmith. Or he could pay a debt of £20 by giving the receipt to another person. This was acceptable. The man who took the receipt knew that the goldsmith would pay him the gold in exchange for the receipt. This was a safe way to use money without carrying around large amounts of gold.

One problem encountered with receipts was that the value on a receipt could not be broken into smaller units. For example, you have a receipt worth 10 kilograms of gold and you want to buy a cow worth only 8 kilograms of gold. The goldsmiths realised this and later gave out notes (receipts) for fixed amounts such as: £5, £10, £20, £50, £100.

These notes were made out to the ‘bearer’ instead of having the name of the person giving the gold. It meant that whoever owned the note could claim the money for it.

Activity 5

Work in small groups and discuss these questions. Write your answers in your exercise book.

- 1 Paper money does not last a long time. Why is paper money used today? What good qualities does it have?
- 2 Why are notes and coins legal tender?
- 3 List the Solomon Islands’ currency notes starting with the smallest unit.
- 4 What was the reason for having fixed amounts on the currency notes?
- 5 What would be the inconvenience if we only had \$5 notes?
- 6 What would be the inconvenience if we only had \$100 notes?

Denomination		Value
Bank notes	\$10	\$5,750,000
	\$5	\$1,500,000
Coins	\$2	\$4,400,000
	\$1	\$1,500,000
	20 c	\$600,000
	10 c	\$225,000
	5 c	\$59,650
	2 c	\$48,000
	1 c	\$17,800

Figure 1.8 First printing of Solomon Islands’ own currency (\$50 note, \$20 note and 50c coin were first issued in the 1980s)

Later, some goldsmiths stopped making things from gold and specialised in money. They became bankers. They issued the notes, promising to pay the bearer of the note the amount of money named on the note. These were like modern bank notes.

These days, only the monetary authority at the Central Bank is allowed to issue bank notes through the commercial banks in the country. These, too, are legal tender. In Solomon Islands, the monetary authority that is responsible for supplying notes and coins is the Central Bank of Solomon Islands.

4 History of currency in Solomon Islands

The King’s Regulation No. 10 of 1916 was passed by the Western High Commissioner on 14 September 1916 to create a board of commissioners of currency at Tulagi. It gave power to the commissioners to issue British Solomon Islands Protectorate (BSIP) paper currency in denominations of five shillings, ten shillings, one pound and five pounds. The currency was printed in London by Thomas De La Rue & Co. Ltd.

The initial shipment of notes and coins arrived in Tulagi on 9 July 1917. It consisted of 2000 five-shilling notes, 2000 ten-shilling notes, 5000 one-pound notes and 500 five-pound notes. These notes were delivered to the currency office, Tulagi, on 14 July 1917 and issued two days later.

The BSIP currency was in circulation alongside Australian coins and notes. In July 1932, a currency committee concluded that there wasn’t sufficient reason to keep BSIP currency as well as Australian currency. The King’s Regulation No. 2 dated March 1937 was passed by the Western Pacific High Commission to withdraw BSIP notes from circulation. From that point on the Australian dollar and coins were the main legal tender until 1975.

Current Solomon Islands notes and coins

On 23 April 1975, a memorandum called 'Solomon Islands currency arrangement' was drawn up. Following that, Solomon Islands first issued its own currency on 24 October 1977.

Security features

We can see several security features on a Solomon Islands note.

- ▶ The watermark depicting a flying eagle (on \$100, \$50, \$20, \$10, \$5 notes) and an eagle's head (\$50 notes) should be visible from both sides.
- ▶ A silver thread line embedded in the paper can be seen from both sides of the note.

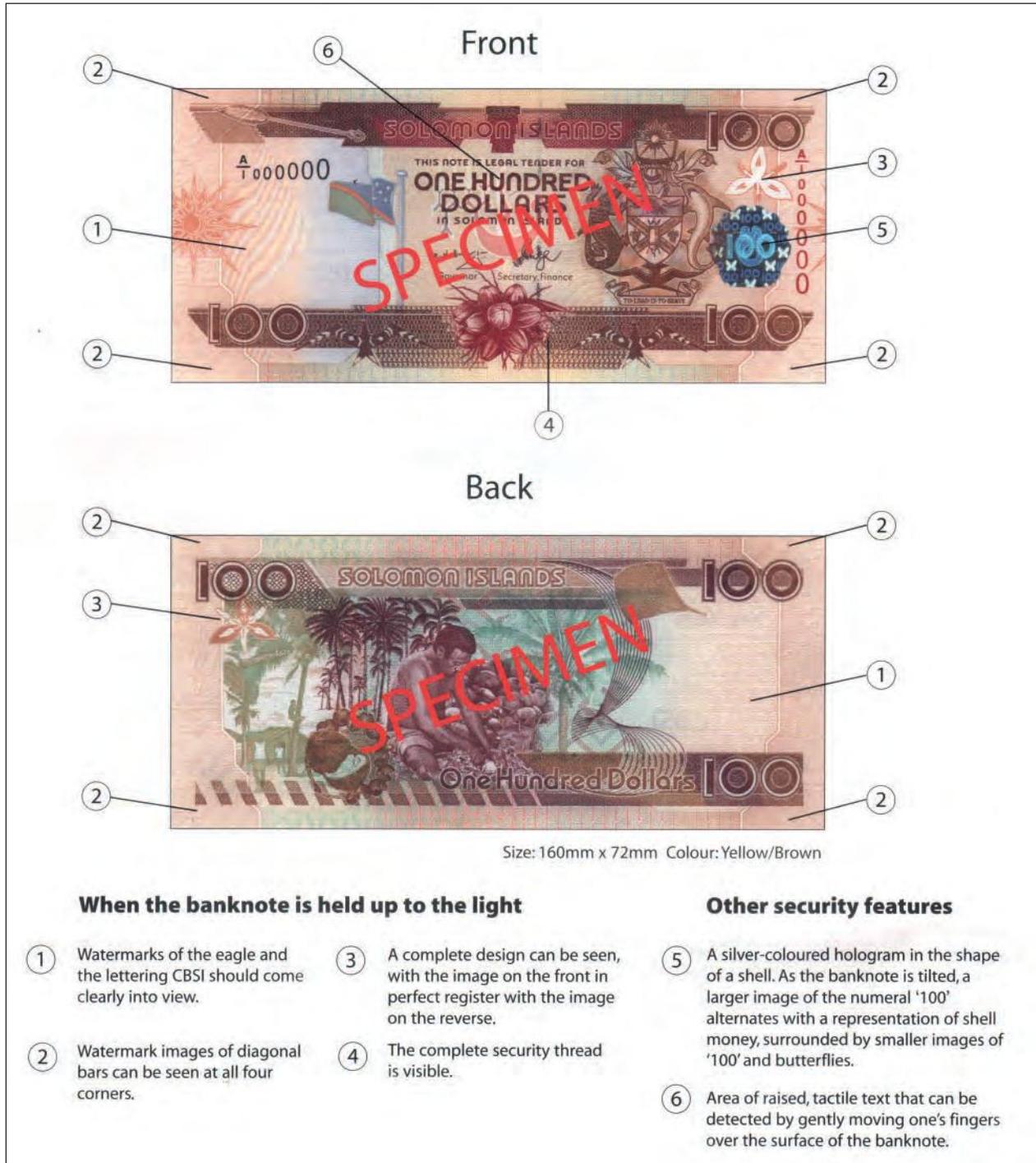


Figure 1.9 If you hold a bank note up to the light you will see many security features.

- The colour of the note and texture of the paper itself
- Size and edges of the notes (sharp)

For other features we need a device, for example, UV lights.

- A latent image on the front of the note
- Blocks of invisible ink
- Anti-scanner pyramid patterns
- Three intaglio colours on the reverse of the \$50 note

Counterfeiting refers to anyone who tries to make bank notes and coins illegally. It might include photocopying or scanning bank notes. Counterfeiting of currency notes is against the law (CBSI Act). Penalties include a \$50,000 fine or seven years imprisonment, or both.

Tips on detecting counterfeits:

- do not rely on one security feature
- always look out for as many security features as possible
- always take time to check your money.

Damaged currency notes

A damaged or torn currency note must still have the serial numbers near both ends of the note to be valid. You can take such notes to the Central Bank (CBSI) and exchange them for new ones. The Central Bank will not accept a damaged note without a serial number because they cannot track its serial number. All issued notes are recorded at the Central Bank, therefore any replacement of damaged notes requires the old serial number to be cancelled and the new one recorded.

Note: Our banknotes and coins are very expensive to produce, so great care should be taken of the notes and coins when they are in your possession.

Activity 6

Answer these questions in your exercise book.

- 1 What is counterfeiting?
- 2 Why are bank notes difficult to counterfeit?
- 3 If someone shows you a note, how do you know that it is not a counterfeit one?
- 4 What security features are on coins to avoid counterfeiting?
- 5 In a store I offer to pay for my food with a dirty \$5 note. The note is very dirty and the storekeeper will not take it as payment. Is he correct? Give your reasons.

5 Other forms of modern money

Besides notes and coins, there are other modern forms of money that some people accept as payment for goods and services and debts.

Cheques

A **cheque** is a written command from the cheque account holder telling their bank to withdraw money from the holder's account and give it to the payee or the bearer of the cheque. It is a quick and convenient way to pay bills as it can be sent in the mail, it records details of payments and is safer than carrying around cash. However, not all people or businesses will accept cheques as they sometimes 'bounce' – this means there is not enough money in the account holder's account and the bank does not honour (pay) the cheque.

Electronic money (or e-money)

Electronic money exists only in electronic form. All payments are done electronically, without cash. It has several advantages over cheques. It reduces costs for both the bank and the account holder, and payment is made more quickly than with cheques. Use of electronic money is increasing in Solomon Islands, now that the use of technology is increasing here.

There are several forms of electronic money in use in the world today.

Credit cards include the brands Mastercard, Visa and American Express. A credit card holder makes purchases from shops without paying cash. The firm issuing one of these credit cards pays for the goods. The credit card holder later pays the credit card firm plus some interest. The credit card firm really makes a loan to the credit card holder.

Debit cards often look just like credit cards and can be used to make purchases in an identical fashion. However, a debit card purchase is immediately deducted from the card holder's bank account.

A smart card is a more sophisticated card with a stored value. It contains a computer chip that allows it to be loaded with digital cash from the owner's bank account whenever needed. Smart cards can be loaded from **ATMs** (automatic teller machines), personal computers with a smart card reader, or a specially equipped telephone. Digital cash is money that is recorded on a card but does not exist as real cash.

eCash is used on the internet to purchase goods and services. A consumer gets eCash by setting up an account with a bank that has links to the internet and then has eCash transferred to their computer. When they buy something online with eCash, the eCash is automatically transferred from their computer to the merchant's computer. The merchant then receives the funds from the consumer's bank account before the goods are shipped. You will learn more about the internet in your English lessons.

Activity 7

Answer these questions in your exercise book.

- 1 In one store I saw a woman pay for her goods by cheque. In another store I saw a woman who tried to pay by cheque, but was refused. Is a cheque a type of money? Is it legal tender? Explain why one woman's cheque might be refused.
- 2 Why is e-money not widely used in Solomon Islands? Discuss and give reasons.

6 Foreign currencies

Currency refers to the notes and coins used in a particular country, for example, dollars and cents. Currencies that belong to other countries are called **foreign currencies**.

Each country has its own currency, its own name, and its own way of being written. The table below shows the basic units of currency for some countries.

Importers and **exporters** need foreign currency to run their business. When an importer buys goods and services from other countries, they must pay for them in the currency of that country. For example, when a Solomon Islands importer buys goods from Japan they must pay in Japanese money – yen and sen.

Country	Name of currency		How it is written
	Larger unit	Smaller unit	
Papua New Guinea	kina	toea	K10.00
Australia	dollar	cents	AUD\$10.00
Japan	yen	sen	Y10.00
Philippines	peso	centavo	P10.00
Germany	euro	cent	€10.00
United Kingdom	pound	pence	£10.00
China	yuan	fen	10 Yuan
Vanuatu	vatu	–	VT10

Figure 1.10 Some foreign currencies used in trade in Solomon Islands

When an English business person buys copra from a Solomon Islands exporter, they usually pay in Solomon Islands dollars and cents, although some overseas currencies such as US or Australian dollars might be accepted as well.

Travellers must use the currency of the country they are traveling in. So, Americans use Solomon Islands dollars and cents here, and in Australia they would use Australian dollars, which are different from their American dollars.

You will learn more about this in Chapter 2.

7 The exchange rate

Usually the currency of a country can be used only in that particular country. People travelling to other countries have to change their money into the currencies of the countries they are going to visit. The amount of one country's currency that can be obtained for a stated amount of another country's currency is called the **exchange rate**.

Here are some examples using these exchange rates to show how foreign currency is converted.

- 1 If a Solomon Islands importer buys goods from Japan worth Y10,000, he cannot send Solomon Islands dollars to Japan. He has to go to the bank and buy Japanese yen. If $Y253 = \text{SI}\$1.00$, he will need $\text{SI}\$39.53$ to buy Y10,000 (i.e. $Y10,000 \div Y253 = \text{SI}\39.53).
- 2 When a tourist from Australia visits Solomon Islands, she must take her Australian dollars to the bank to buy Solomon Islands dollars. If she brings AUD\$250, she can buy $\text{SI}\$1670$ because $\text{SI}\$1670 \times 0.1468 = \text{approx. AUD}\250 .
- 3 A Solomon Islander travels to Papua New Guinea and before she goes she takes $\text{SI}\$175$ to the bank to buy Papua New Guinea kina. Her Solomon Islands \$175 will buy K59 (because $\text{SI}\$175 \times K0.337 = \text{approx. K59}$).

You will do more exchange rate calculations in Chapter 2.

SBD	AUD	0.14687	Solomon Islands Dollar to Australian Dollar
SBD	GBP	0.08109	Solomon Islands Dollar to Great Britain Pound
SBD	PGK	0.3371	Solomon Islands Dollar to Papua New Guinean Kina
SBD	CNY	0.86005	Solomon Islands Dollar to Chinese Yuan
SBD	EUR	0.10149	Solomon Islands Dollar to European Union Euros
SBD	HKD	1.07039	Solomon Islands Dollar to Hong Kong Dollar
SBD	INR	8.30064	Solomon Islands Dollar to Indian Rupee
SBD	JPY	14.08141	Solomon Islands Dollar to Japanese Yen
SBD	NZD	0.15862	Solomon Islands Dollar to New Zealand Dollar
SBD	ZAR	1.46003	Solomon Islands Dollar to South African Rand
SBD	CHF	0.12345	Solomon Islands Dollar to Swiss Frank
SBD	USD	0.13808	Solomon Islands Dollar to United States Dollar

Figure 1.11 An example of the Solomon Islands dollar exchange rate in June 2014

Activity 8

Answer these questions in your exercise book.

- 1 Which groups of people are mainly interested in foreign currencies? Why?
- 2 When travellers arrive in another country, where can they go to change their currency into the currency of that country?
- 3 If a Chinese store in Honiara imports shirts from a manufacturer in Singapore, what currency will it have to use to pay the exporter?

- 4 Why would a person travelling overseas need to have the currency of the country they are visiting?
- 5 A tourist to Solomon Islands wants to buy a radio at a store in Chinatown. He offers Australian dollars in payment. The manager refuses to accept the money. Is he right to refuse? Explain.

Calculations

- 1 If the exchange rate between Solomon Islands dollars and Japanese yen is $\text{SI}\$1 = Y250$, how many yen would you get in exchange for $\text{SI}\$5$?

continued next page

- 2 Suppose that SI\$1 = 10 pesos (Philippines). If a pair of shorts costs \$6 in Solomon Islands, how much would you expect the same shorts to cost in the Philippines?
- 3 Suppose that SI\$1 = HK\$6. A shirt costs HK\$72 in Hong Kong. How much would you expect the same shirt to cost in Solomon Islands?
- 4 If the exchange rate between the Solomon Islands dollar and the Australian dollar is SI\$1 = AUD\$0.14 and AUD\$1 = S\$17, work out how much money can be exchanged in the following situations:
 - a A Solomon Islands student travels to Australia. Her father gives her SI\$500 to take with her. How many Australian dollars will she get for SI\$500?
 - b A provincial premier travels to Australia. He takes SI\$3000 with him to buy books for schools in his province. How many Australian dollars will he get in exchange for SI\$3000?
 - c You received AUD\$300 from your friend in Australia. How many Solomon Islands dollars will you get in exchange?

8 Money helps trade

The existence of modern money makes trading much easier than trading that was done in the barter system. Trading refers to the act of buying and selling (exchanging goods for money). Today if you have money and you want something, you do not need to find someone who has what you want and who wants what you have. All you need to do is to go to the market, to the shop or to someone who sells the good(s) or service that you want and buy it with your money.

Today people do not exchange goods directly as was done with the barter system. First, they earn money in exchange for their goods or service (they sell their goods/service). They exchange the money they earn for the goods or service that they want (they buy different goods/service). In this process of exchange, money works as a medium: it comes between the goods or services being exchanged between producers and consumers.



Figure 1.12 The man in the blue shirt exchanges his money for watermelons. The man is the consumer and the woman is the producer of the watermelon.



Figure 1.13 The men with the bags exchange money with the van driver for the service of transporting them and their goods to the market.



Figure 1.14 The man buys goods from the store with his money.

Activity 9

Answer these questions in your exercise book.

- Traditionally, pigs have been used in exchange for goods and services. Do pigs have **intrinsic value**? Explain your answer.
- Imagine you lived by yourself on a small island, far from anyone else. One day, you found \$1000 hidden under a rock. What could you do with that money on your island?
- The main problem with barter was finding someone who had what you wanted and who wanted what you had. How does money solve this problem?
- Put the goods below in order of value. Put the most valuable thing first, and finish with the least valuable thing.

pencil	aeroplane	shirt	radio
shoe	car		

- Why did you put these goods in that order? What did you use to measure value?

- Copy and complete the sentences with the correct words from the boxes.

currency	shells	goods	accepted
money	medium of exchange	stones	
services	wealth	feather money	

- _____ is anything that is generally _____ for the payment of _____ and _____. Traditionally money, like _____ in the east and _____ on the coast, were regarded more as _____ than as a _____.

workers	money	barter	prisoners
goods and services	shells	notes and coins	

- We refer to _____ as modern money. It has replaced the _____ system. _____ receive an income in the form of _____. This is used to pay for _____.

compare	store of wealth	weighting
medium	measuring	money
buy	price	size
		much

- Today, instead of exchanging goods for goods, we work to earn _____. We use money to _____ the things we want. That is to say, we use money as a _____ of exchange. Money as a measure of value tells people how _____ goods and services cost. We know the value of goods and services by looking at the _____. If one shirt costs \$30, and another costs \$40, we can _____ their cost and make a choice about which to buy. When we look at the prices of goods, we are _____ their value. It is being used as a _____.

The role of money

People need money for many reasons. They need money to pay school fees and to buy radios, as well as to get food and clothing. Money has become important in people's lives. Without money, people cannot get the goods and services they want.

Money plays an important role in trade. It tells people the value of goods and services. The price that we give to things measures their value. Different prices allow us to compare the money value of different goods and services. This helps us to decide which things to buy with the money we have. The use of money to state how much things are worth is called 'measure of value'.

For example, if identical shirts cost \$10 in one shop and \$15 in another shop, we can compare their price value and make a choice about which one we buy.



Figure 1.15 The different sized melons are valued differently, so the prices are different.

An important role of money in trade is its ability to store value for future use. In the barter system you cannot preserve goods, especially food, for a long period because it will go bad. Money does not go bad. People can store up money to buy expensive goods or to start up a new business.

We can put our money in our pocket, in a box or in the bank and then we can use it when we need it. We can store it until we need it, and it is still valuable when we take it out of storage.

The hours we work or the things that we make or grow cannot usually be saved for long periods of time. However, the money we receive in exchange for our time, skills, goods or food, can be saved or stored for future use. Money is called a **store of value** when it is used in this way. Another way of saying this is to say that money is a form of wealth.



Figure 1.16 A customer deposits (or stores) money in the bank.

Today everybody has to produce goods or provide a service in exchange for money. People become specialised in different areas of production.



Figure 1.17 This man specialises in the production of chicken eggs. He sells the eggs, earns money and pays for the goods and services he wants.



Figure 1.18 This man earns money for his labour as a fuel service man.

Activity 10

In small groups, discuss these questions.

- 1 List at least three things your family earns money from.
- 2 Is it easy to find what you want to buy? Discuss.
- 3 Explain how people know about products that are offered for sale.
- 4 How do you get to people who want to buy what you sell?
- 5 How do you determine the price of the goods you want to sell?
- 6 You want to buy some bananas and several people are selling bananas in the market. List the factors that may help you determine which person to buy from.
- 7 Modern technology makes it much easier to bring the producer and consumer in contact. List at least two things that can bring together the producer and the consumer for trading.

Activity 11

Field trip

- 1 Gather into small groups based on your ethnic groups and discuss how your own traditional money was made. Interview your families or other relatives about how your traditional money was made. Present your findings as a group.

OR

- Your teacher will arrange a field trip to see how traditional money is made locally.
- 2 Visit the Central Bank of Solomon Islands or invite a guest speaker to explain how modern money is made and how to care for it.

Chapter summary

Chapter

1

Money is anything that is generally accepted in payment for goods, services and debt.

Money allows exchange to take place easily.

The six characteristics or properties of money are:

- its value must be recognised
- it must be difficult to collect or make
- it must be easy to carry
- it must last a long time
- it must be acceptable to all of the community
- it must be divisible into smaller units.

The four functions of money are: it's a medium of exchange, it's a measure of value, it's a store of wealth, and it's a means for deferred payments.

The forms of modern money are: silver, gold, coins and paper money. They are called legal tender.

Other modern forms of money are: cheques, electronic money or e-money, credit cards, debit cards and eCash.

Currency is the notes and coins used in a country, for example, dollars and cents in Solomon Islands.

Currencies that belong to other countries are called foreign currencies.

The exchange rate is the amount of one country's currency that can be obtained for a stated amount of another country's currency.

Traditional money is money that was used by certain communities or groups of people. For example, Tafuliae from North and Central Malaita, haatahana from South Malaita, biru, feather money is from Temotu, Mbakiha from Western Province, and Mbokolo from Choiseul and Ysabel.

Traditional money was used for body adornment, costume and decoration, payment for pigs, bride price, land, settling disputes, death and to mark an occasion such as the birth of a child, and coming of age.

The use of modern money has encouraged specialisation.

Consumers can buy the goods and services they want, provided of course that they have enough money.

Glossary

ATM automatic teller machine

cheque a written command from the cheque account holder telling their bank to make payment to the person whose name appears on the cheque

coins round metal discs recognised by the law as legal tender and used as money

commodity money a valuable material that is used as money, e.g. gold, silver, cone shell

counterfeiting the creation of false money

credit card a card used to make payments where the credit card company makes the payment and the card holder pays the money back to the credit card company

currency the notes and coins used in a country, e.g. dollars and cents

debit card a card used for making payments where the money is taken directly from the card holder's account

electronic money any transaction that is done by electrical means, e.g. computer, ATM, internet

exchange rate the rate at which one currency can be exchanged for another

exporters companies that make goods here and sell them overseas

foreign currency currencies used in other countries

goldsmith person who makes things out of gold

importers companies that bring goods from overseas to Solomon Islands

intrinsic value what the money is made of. People accept it because of the valuable material the money is made of and not because the government makes people accept it

legal tender the official money recognised by the government

measure of value something that can be used to compare the value of things

medium of exchange something that can be used for buying and selling goods and services

money anything that is generally accepted as payment for goods, services and debts

notes paper money that is recognised by the law as legal tender that can be used to buy goods and services, e.g. \$5 notes, \$10 notes and \$20 notes

store of value something of value that can be kept and used in the future

trade the activities of buying and selling between consumers and suppliers

Specific learning outcomes

By the end of this chapter, you should be able to:

- explain the terms finance and banking
- state the possible sources of finance for business
- state the functions and services of commercial banks, the Central Bank, savings banks and credit unions
- explain the terms savings account, cheque account and term deposit
- compare savings accounts, cheque accounts and term deposit accounts
- correctly fill in a deposit slip, withdrawal form and cheque
- explain the term currency and give examples of countries and their respective currencies
- use exchange rates to convert units of one currency into another
- explain the uses of debit and credit cards and mobile-phone banking
- discuss the roles of banks in commercial society.

What do you know already?

- Name any banks you know in your area or in town.
- Do your parents or relatives keep their money in a bank? If so, which one?
- Would you keep your extra money under your mattress, or would you rather keep it in a bank? Why?
- What is the name of the money used in Solomon Islands?
- Name currencies used in other countries in the world that you know of.

Activity 1

Work in groups to discuss the following questions.

- 1 What is a bank?
- 2 How many banks are operating in the country?
- 3 How many commercial banks are operating in the country?
- 4 Which of the commercial banks do you think offers the best interest and services?
- 5 Why does that commercial bank offer the best interest and services rather than other commercial banks?
- 6 Who own the Central Bank of Solomon Islands?
- 7 What type of services does the Central Bank offer?
- 8 Discuss the services you think banks offer to people in your area or town. Identify at least three services. Think of:
 - a farmer in a village who grows coconuts and sells copra
 - b teacher who earns a fortnightly salary
 - c trade store owner
 - d person working in a government job in town
 - e business person in town
 - f school receiving fees and a government grant
 - g local church.



Figure 2.1 People lining up to use the ATMs in Honiara

1 What are banks?

Banks perform several roles in our community. They hold people's money for safe keeping and lend money to people and businesses. They provide facilities, such as lockers where people can keep important documents safe. They provide services that include buying and selling foreign currencies, buying and selling shares, and providing advice and legal information.

Banks play an important role in helping businesses to prosper and trading activities to take place smoothly. They were originally started by rich merchants (traders) to keep money safe and to lend it to others who needed it.

These days, banks are very large businesses. And like other businesses, they aim to make a profit. In trying to make a profit, banks provide a number of services to their customers.

Types of banks

Commercial banks

These banks aim to make a profit by charging interest on loans and other activities. Four **commercial banks** operate in Solomon Islands: the Bank of South Pacific Limited (BSP), Pan Oceanic Bank Limited (POB), Australia and New Zealand Banking Group Limited (ANZ) and Westpac Banking Corporation. In Solomon Islands, BSP has the largest number of customers. You will learn more about the services that commercial banks provide in Section 6.

The Development Bank

This bank was set up by the government to lend money to locally owned businesses. The advantages of borrowing money from this bank were that a lower interest rate was charged and a longer period of time was given to repay the money borrowed. The **Development Bank** of Solomon Islands was closed down by the government in 2004, mainly because borrowers did not pay back their loans on time so the bank did not make any profits.

The Central Bank

This bank is often referred to as the government's bank. In other countries, it is called the Reserve Bank. There can only be one **central bank** in a country. In Solomon Islands, this bank is called the Central Bank of Solomon Islands (CBSI) and it was set up in 1982. It plays a very important role in the economy.



Figure 2.2 The Central Bank of Solomon Islands building in Honiara

The Central Bank helps the government by controlling the monetary system in Solomon Islands. It controls:

- the issue of notes and coins
- the rate of interest charged by other banks
- and manages the amount of money borrowed by the government
- foreign exchange
- how much money banks may lend to people and businesses.

2 Finance

The word **financing** means providing money to those who need it, such as individuals, businesses and government.

Individuals need money to buy things such as food or clothing, a car, house or to pay for school fees. Businesses may need additional money to increase their production of goods and services. This additional money may be used to build a new factory, buy new machines, or buy more of their product. The government needs money to build roads and bridges, to provide services such as health care and security through the police force.

Whatever the reasons for wanting extra money, there are different ways to finance the needs of these various groups. This is the link between finance and money.

Sources of finance

A source is where something comes from. Sources of finance are where people, businesses and government can get money. As a student, you rely on your parents, relatives or even friends to pay for your books, pens and bus fares. They are your sources of finance. Or you may have part-time work or sell goods at the market, to earn money to pay for the things you need. Your work or sales at the market are your sources of finance.

The three main sources of finance are:

- 1 your own funds (from earnings or savings)
- 2 commercial banks (BSP, POM, Westpac, ANZ)
- 3 **credit unions** (e.g. Solomon Islands National Teachers' Association (SINTA) Credit Union, Solomon Islands Public Employees Union (SIPEU). Note that only registered members can use these).

For most individuals, their main source of finance is their earnings. For most businesses, the main source of finance is commercial banks. Banks lend money to individuals, businesses and the government. This money is not given freely: it is borrowed and must be repaid to the bank later with **interest**. Commercial banks charge interest on loans to earn income.

Activity 2

Work in groups to discuss the following questions.

- 1 What is finance?
- 2 What are the main sources of finance?
- 3 Where do people, businesses and government sources get finance from to pay for the things they need and want? Explain.
- 4 What are the requirements for receiving money from those sources?

3 Savings accounts

Money that you do not want to spend can be saved. And the safest place to keep your money is to **deposit** it with one of the commercial banks.

To deposit your money, you need to open a savings account, where you can:

- ▶ deposit money at any time
- ▶ **withdraw** money when you want to
- ▶ earn interest on your deposits.

How to open an account

To open a new savings account, you need to go to a commercial bank of your choice and ask for help at the enquiries counter.

You will be given a form to fill in and will need to provide a **specimen signature**. Your signature is your name written in a certain way that would make it difficult for other people to copy. This is important so that other people cannot take money from your savings account without your permission. You should practise your signature before opening a savings account. The signature that you choose to use is the one that you will sign as your specimen signature when you open your account. Thus, whenever you want to withdraw money from your savings account, your signature should be the same as your specimen signature kept by the bank.

When you hand in the completed application form, you must show proof of your true identity. The bank officers may ask you to provide documents such as an identification card, birth certificate, passport, driver's licence or letter from your school, employer or community leader.



Figure 2.3 You will need to provide a specimen signature to open any kind of bank account.

SD530		GIVEN NAMES		SURNAMES		Account No.	
(MR MRS. MS. MISS)							
Full address						Black Light	
and						Yes/No	
changes of							
address						Agency (Where applicable)	
Phone No.	Priv. Bus.			Occupation			
For joint accounts requiring only one signature for operation. Until written notice to the contrary from us or any one of us is received by the Bank South Pacific one of us may in any manner withdraw money's from the joint account opened in our names and any one of us may in any manner close the account and the Bank is authorised to accept for the credit of our joint account any cheque or other negotiable instrument payable to any one or more of us and cheques and any other negotiable in instruments lodged for credit of the joint account may be endorsed by any one or more of us						Method of operation Joint A/cs	
Name of Village		Name of next of kin		DATE and BRANCH A/C OPENED			
Name of Island		Relationship of					
Name of Father		Name of mother					
Signature(s) or Keyword		Date of Birth		Initial Deposit			
of				CASH			
Depositor		Date of Birth		CHQS			
				TOTAL			
EZY CARD NO'S				INITIS			
DATE OF ISSUE				OPENING OFFICER			
Identification PERSONAL ID				EXAMINER			
PASSPORT NO.				CHECKING OFFICER			
LICENSE NO.							

Figure 2.4 An example of an application form for opening a savings account

Activity 3

Copy the application form in Figure 2.4 into your exercise book and use your name, address and today's date to complete it.

Your teacher will bring some application forms from BSP Bank or other banks for you to complete.

As you can see from the application form above, you need to write:

- given name and surname
- full address of where you live or work
- the kind of work that you do (occupation).
If you live in a village, you may just put farmer or fisherman

- the names of your village and island
- the names of your father and mother
- the name of your next of kin, that is a close relative which can be your brother, sister, uncle or aunt, etc.
- date of birth
- your specimen signature
- passport number and licence number (if any).

Other information on the form will be completed by the bank officer who assists you to complete the form.

The Bank, Solomon Islands - DEPOSIT		THE BANK, SOLOMON ISLANDS			
Date <input type="text"/> / <input type="text"/> / <input type="text"/>		Transaction Deposit		<input type="text"/> / <input type="text"/> / <input type="text"/>	
Account Name <input type="text"/>		ACCOUNT TYPE: Cheque <input type="checkbox"/> Savings <input type="checkbox"/> Loan <input type="checkbox"/>		Bank Use Only	
Account No. <input type="text"/>		Branch Name <input type="text"/>		\$100 <input type="text"/>	
Teller <input type="text"/>		Account Name <input type="text"/>		\$50 <input type="text"/>	
Stamp <input type="text"/>		Account No. <input type="text"/>		\$20 <input type="text"/>	
		Depositor's Signature <input type="text"/>		\$10 <input type="text"/>	
				\$5 <input type="text"/>	
				\$2 <input type="text"/>	
				Coin <input type="text"/>	
				Total <input type="text"/>	
				Teller's Initial & Stamp <input type="text"/>	
				Notes <input type="text"/>	
				Coins <input type="text"/>	
				Cheques <input type="text"/>	
				\$ <input type="text"/>	
				No of Cheques <input type="text"/>	
<small>Proceeds of cheques are not available until cleared</small>		<small>Please record details of cheques of deposited on reverse. Proceeds of cheques will not be available until cleared</small>			

Figure 2.5 Example of a deposit form

Deposit forms

A deposit form is used to put money into a savings account. To deposit means to pay money into a bank account. It is important to fill in the following:

- date – the date the deposit is made
- account type – there are three types: cheque, savings and loan. To deposit money into a savings account, tick the middle box next to savings
- branch name – the location of the BSP office where the deposit is made
- account name – the name of the person who has the savings account
- account number – the number of the savings account, given by the bank
- depositor's signature – the signature of the person making the deposit (note that people other than the account holder can deposit money)
- the amount of money in notes and coins, or cheques, that is being deposited, written in figures
- the total amount of money that is being deposited, written in figures.

Other details on the deposit form are completed by the bank teller or officer. When the bank teller has completed recording the deposit into its records, the smaller part to the left of the dotted lines is torn off and given to the depositor. This is the depositor's record of the amount deposited.

Take note that if you want to deposit a cheque into your account, you need to write in the cheque details on the back of the deposit form, for example, whose cheque it is and in which commercial bank the cheque account is kept.

Activity 4

- 1 Copy the deposit form in Figure 2.5 into your exercise book and use the information given below to complete it. Your teacher will also bring some deposit forms from the banks for you to try them.

You have a savings account at Bank South Pacific Ltd. You want to deposit some money you received from selling bags of peanuts. You have \$24 in notes and \$7.50 in coins. Your account number is 05 564123800 11 and the date of your deposit is today's date.

- 2 Your uncle Joe Wore asks you to deposit some money for him into his savings account at Bank South Pacific. He has \$410 in notes and \$40 in coins and his account number is 05 311042800 11. How would you complete the deposit form, using today's date?

THE BANK, SOLOMON ISLANDS / /

Saving Transaction Withdrawal

Kundu Account Achiever Account Smart Saver Account

Branch Name: Branch No.

Account Name: Account No.

Amount in Words:

Signature: \$:

Figure 2.6 An example of a withdrawal form

Withdrawal slip

This is a form that you fill in each time you take money out of your savings account. To withdraw money means to take an amount of money out of your bank account.

When filling in a withdrawal form, include the following:

- date – the date the withdrawal is made
- type of savings account – tick only one box. There are three main types of savings account at BSP Ltd. The most common is Kundu account
- branch name – the location of the bank office where the withdrawal is made
- account name – the name of the person who has the savings account
- amount in words – the amount of money withdrawn, written in words
- signature – it must be identical to the specimen signature kept by the bank (note that ONLY the account holder can withdraw money)
- branch number – if you do not know the branch number, the bank teller can write it in for you
- account number – this is the number of the savings account
- the amount of money withdrawn, written in figures.

Activity 5

Imagine you have some money in your savings account at Bank of South Pacific. Your Kundu account number is 06 422061 800 11, on today's date you want to withdraw \$75 at your nearest BSP Ltd branch office to buy some books and pens. Copy and fill in the withdrawal form.

Getting a loan

Getting a loan from a commercial bank involves a number of steps. You must have a savings account at the bank where you want to apply for a loan. So to borrow money from BSP, you need to have a savings account at BSP. This also applies to borrowing money from Westpac Bank and ANZ Bank.

Step 1 Loan proposal: you need to fill in a form with details about yourself.

Step 2 Interview: a loans officer from the bank will interview you. This officer will ask about:

- the purpose of the loan. Why are you seeking money from the bank? What do you intend to do with the money borrowed?
- whether you earn a regular income (salary, wages, or profits from a business)
- what valuable things or asset(s) you own that you can offer as security for the loan. Security refers to the asset(s) that you could sell to repay the loan if you find it difficult to repay the loan from your income. Examples of assets include house, car, land, money saved at the Solomon Islands National Provident Fund (SINPF), and so on.

Step 3 Lender (the bank) gives money to you, the borrower, upon approval.

As you will learn in Section 6 below, providing finance is the main activity of commercial banks. They do this by accepting money from those who deposit it into savings accounts, and lending it to people and businesses.



Figure 2.7 A person applying for a loan from a bank

4 Savings and loan societies

These are smaller businesses that may be formed by twenty or more people who want to save money for a common purpose. People who save their money in a savings and loan society become members of that society. Members make regular payments (deposits) to these businesses. In this way, their savings increase over the years. Members can also borrow money. Any money borrowed must be repaid with interest. The interest received by the society is used to pay for its expenses. If profits are made, some of it is paid out to the members. The amount of money each member gets depends on the amount of money they have saved in the society. An example of a business in this category is a credit union. A credit union is a cooperative that is formed by members who share something in common. For example, in the Solomon Islands, teachers have a credit union called the SINTA Credit Union.

5 National Provident Fund (SINPF)

The Solomon Islands National Provident Fund (SINPF) is a compulsory savings scheme for employees. An **employee** is someone who works for another person who is called an employer. Employers pay their employees an income called wages. By saving part of their wages in the SINPF, employees have some money when they leave paid employment or retire from work.

The SINPF was established in October 1976 and is controlled by a group of people called the board of directors. The law requires that everyone working for a wage on a regular basis must be a member of SINPF.

SINPF contributions are fixed by the government and paid to the fund by the employer. At present, 5 per cent of wages is deducted from employees' pay and another part, equal in value to 7.5 per cent of wages, is paid by the employer. An employee's account in the SINPF shows all the contributions made to their name, plus the interest paid annually.

Money saved through the SINPF has benefited a lot of retired workers over the years as some have very little money saved in commercial banks. Money saved in the SINPF can also be used as a security if applying for a loan from a commercial bank.

Activity 6

... ..

Answer the following questions.

- 1 What is the National Provident Fund?
- 2 What is the purpose of the National Provident Fund?
- 3 Who owns the National Provident Fund in Solomon Islands?
- 4 What type of benefits does the National Provident Fund give to its customers or members?
- 5 Why does the National Provident Fund have a policy that an employee must reach a certain age before they can withdraw their contribution?

6 Commercial banks

There are four different commercial banks in Solomon Islands.



Figure 2.8 (a) Bank South Pacific Ltd; (b) Westpac Bank; (c) The ANZ Bank; the fourth bank, Pan Oceanic Bank, opened in 2014.

If you live in town, you may have seen the three businesses in Figure 2.8. If you live in the provinces, you may have seen offices of these businesses located at your provincial centre.

Shareholders from other countries own these commercial banks. A shareholder is a person or business who invests money in a company. Because shareholders have invested their money in a company, they are regarded as the owners of the company.

Activity 7

If you live near a commercial bank, your teacher will arrange for a speaker from one of the commercial banks to talk about their services, interest rates and other charges. If this is not possible, your teacher will get the relevant information from the banks and present to the class.

Or

Work in groups of five or more to research and discuss the services that commercial banks provide for their customers, as well as the interest and other charges that they impose. Each group presents their answers to the class.

As businesses in the finance industry, the three commercial banks compete with each other to attract customers to use their services. The main services they offer are:

- accepting money deposited by customers for safe keeping
- providing cheque facilities
- lending money to people and businesses
- providing business advice
- providing travel advice
- providing foreign currencies to businesses and travellers
- distributing notes and coins for the government and people of the country through their branches and agencies
- providing safe storage for valuable items.

Interest and other charges

Commercial banks charge people and businesses interest and fees for their services. For example, banks charge interest on money borrowed. The interest charged is a percentage of the total amount of the money borrowed, and needs to be repaid in addition to borrowed money. It is a fee for borrowing money. Commercial banks normally charge interest ranging from 10–20%. If you borrow \$100 for a year at 10% interest, the amount of interest is \$10. This means you will need to repay \$110 (\$100 + \$10).

Banks also charge fees for their services. For example, a fee is charged to buy the currency of another country. There are also fees on certain types of accounts like cheque accounts. These are the main ways that they earn their revenue.

Banks also reward people and businesses that deposit money by paying them interest. For example, you deposit \$1000 into your savings account and keep it there for one year. If the interest rate is 3%, you will earn \$30 interest by the end of the year. The amount of interest earned depends on two things: the interest rate and the amount of money saved. The higher the interest rate and the amount of money saved, the more money earned as interest.

The interest paid to depositors is an expense for the bank. The bank subtracts its expenses from its revenue to determine its profit or loss.

Automatic teller machines

In Honiara and some provincial centres, you may have noticed people taking money out from a machine placed in the wall of a commercial bank building or another building. This machine is called an automatic teller machine (ATM). Today, customers who have savings accounts in commercial banks can easily withdraw money by using an ATM. ATMs have become increasingly popular because account holders no longer need to enter a bank to withdraw money. Savings account holders can withdraw money at any time, whether it's late at night or at weekends when banks are closed.



Figure 2.9 ATMs (automatic teller machines)

To use an ATM, you will need a plastic card called an ATM card instead of a withdrawal form. Because these cards are small and easy to carry around and use, they are usually referred to as handy cards. Each handy card has a unique PIN (personal identification number) that is known only to the owner of the card. This PIN code will allow a person to withdraw money using an ATM. It is important to keep your ATM card in a safe place and never let other people know the PIN code. This will ensure that they cannot withdraw money from your savings account or borrow money without your permission.

ATMs can also be used for other purposes. Account holders can check the balance of their savings account and purchase prepaid mobile phone credit. Commercial banks like ANZ have programmed their ATMs so that account holders can pay their bills, such as their telephone and electricity bills, electronically. This means that they do not need to go to an Our Telekom office or Solomon Islands Electricity Authority (SIEA) to pay their bills. Instead, account holders use an ATM to transfer money from their savings account into the bank accounts of Our Telekom and SIEA.

In other countries that have more complex ATMs, people can deposit money into their savings account using ATMs.

Debit cards

Activity 8

... ..

Discuss the following questions in small groups.

- 1 What is a debit card?
- 2 Have you seen a debit or credit card being used? Explain where and how it was being used.

As explained in Chapter 1, a debit card (also known as a bank card or check card) is a plastic payment card that allows the card holder to pay for something electronically. The card holder must have enough money in their bank account to cover the payment, otherwise the payment will not be successful. The card, where accepted, can be used instead of cash when making purchases. The money is immediately transferred out of the card holder's account and paid to the merchant.



Figure 2.10 Debit cards used in Solomon Islands for BSP Ltd and Westpac Bank Ltd

Some cards are smart cards. With these cards, a person pays a set amount onto the card, and each time the card is used to make a payment, money is taken away from that set amount.

Debit cards usually also allow for instant withdrawal of cash, acting as an ATM card. Merchants may also offer cash back facilities to customers, where a customer can withdraw cash when they pay for their purchase.

In many countries, debit cards are used more than cheques and, in some instances, cash transactions.

Although some debit cards can be used around the world, like Visa or MasterCard, other types of debit card are accepted only within a particular country or region, for example Switch (now Maestro) and Solo in the United Kingdom.

Credit cards

A credit card allows you to borrow money in small amounts at local businesses or traders. You use the card to make your purchases. You generally have around 30 days to make a full payment to the credit card company. After that, the credit card company charges interest on any debt you have not paid.



Figure 2.12 An example of a smart credit card with embedded microchip

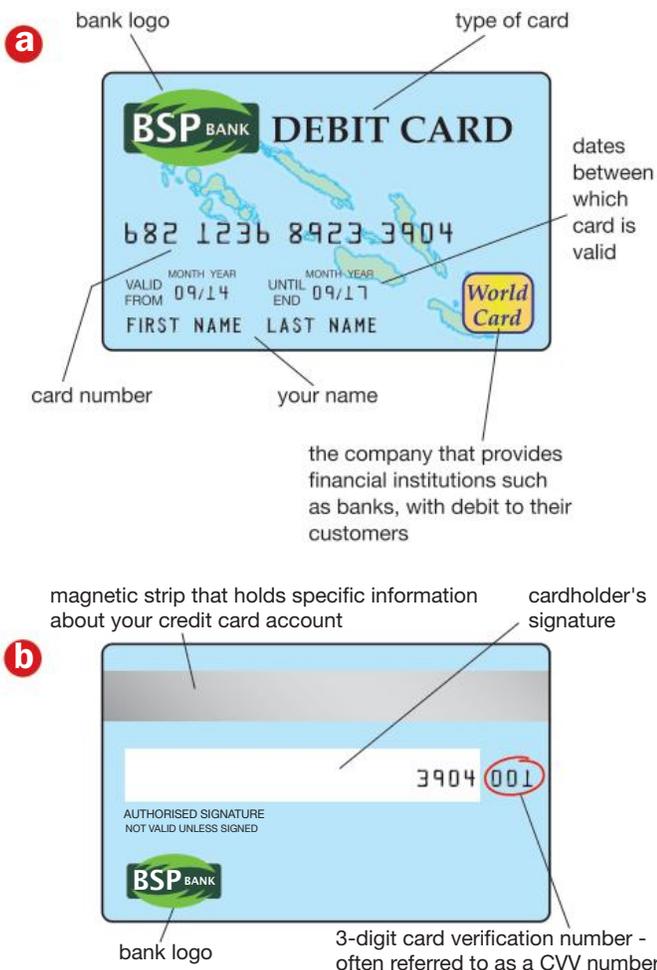


Figure 2.11 The front (a) and back (b) of a typical debit card

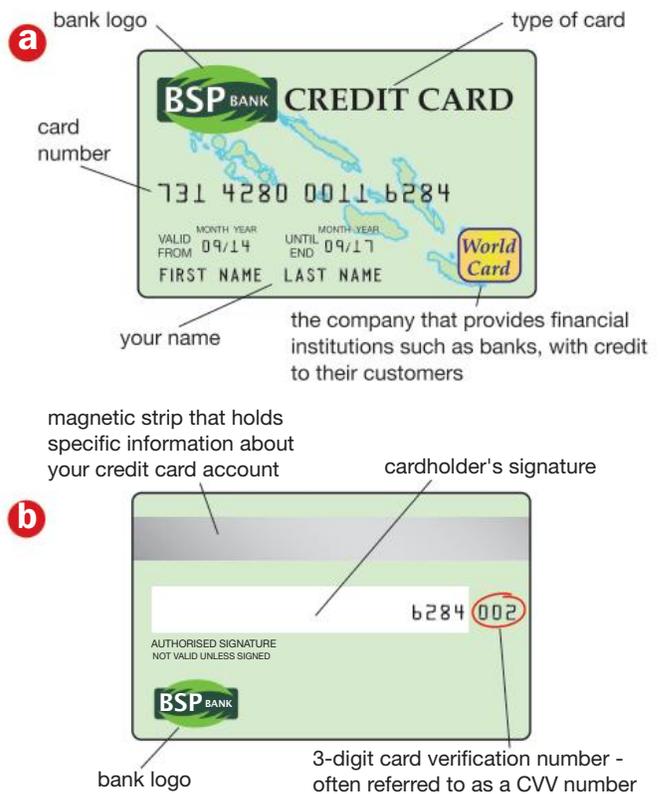


Figure 2.13 Understanding each part of a credit card

Differences between debit and credit cards

Debit cards and credit cards are accepted at the same places. Debit cards all carry the symbol of one of the major types of credit cards on them, and can be used anywhere that credit cards are accepted. They both offer convenience. The fundamental difference between a debit card and a credit card account is where the cards take the money. A debit card takes it from your bank account and a credit card charges it to your line of credit.

Activity 9

Work in small groups to answer these questions.

- 1 What is the difference between a debit card and a credit card?
- 2 When you go to any commercial banks in your area you will see some pictures at the ATM machines. What types of cards can you see in the photos? List the names of the cards.
- 3 List examples of where people in your area can use a debit or credit card.
- 4 What are some disadvantages of using mobile phone banking?

Mobile phone banking

Mobile phone banking offers a range of services, products and tools that can be accessed on some mobile phones. This is a very new form of banking and is designed to allow customers to access their bank accounts and bank services without going into the bank.

Activity 10

Discuss the following questions in small groups and share your answers with the rest of the class.

- 1 Have you ever heard of mobile banking?
- 2 If yes, explain what mobile banking is and what services it offers customers.



Figure 2.14 Banking using a mobile phone

The key services offered by mobile phone banking include being able to:

- ▶ view account balances and transactions
- ▶ transfer funds between accounts
- ▶ pay bills and schedule regular payments in the future
- ▶ send money to friends and family.

There are three main ways to access mobile phone banking:

- ▶ downloading to an android mobile phone or iPhone
- ▶ via a mobile phone's web browser to access online banking on a bank's website
- ▶ via an SMS or text message on your phone.

In a country like Solomon Islands with a population that is widely spread across many islands and where the majority of people live in rural areas, mobile phone banking can offer many important advantages. The main advantage is that it allows access to banking services to people in areas where there are no bank branches. However, the availability of mobile phone banking in Solomon Islands depends on local banks making the service available and telecommunication companies providing the necessary infrastructure. The mobile phone devices that are needed for this kind of service are also expensive and not yet widely available.

One of the biggest concerns about mobile phone banking is whether it is secure. Online and banking apps are accessed through passwords and PIN codes and are generally considered very secure. Care must be taken not to reveal your password or PIN code by telling people or writing it down where someone can find it and access your phone.

Term deposits

If you have money that you do not need to use for some time, you can use a service called a **term deposit**.

A term deposit is where money is deposited in a bank for a fixed period of time (or term). At the end of this agreed period of time, the money is withdrawn and the bank pays an agreed percentage of interest. This interest is higher than the interest paid on a savings account.

Note that a minimum amount of money must be kept as a term deposit, and the interest paid varies from one commercial bank to another. The bank charges fees if you want to withdraw the term deposit before the agreed date.

Term deposits	Interest on term deposit
1 month	0.10% per annum
1–3 months	0.25% per annum
3–12 months	0.50% per annum
12 months to 2 years	0.75% per annum
Greater than 2 years	2.00% per annum

Source: Bank South Pacific (SI Ltd), 1 March 2014

Figure 2.15 Term deposit rates offered by the Bank of South Pacific in March 2014

In Figure 2.15, you can see the interest rate figures are *per annum*. An *annum* is a 12-month period, which is one year. So *per annum* is the same as per year. Interest rates on term deposits change from time to time, depending on the economy.

You will also notice that when money is kept for a longer time as a term deposit, the interest rate increases. For example, in March 2014, if you deposited money as term deposit for less than three months, you would receive only 0.5 per cent interest per annum. If you wanted to keep your deposit for more than two years, you would receive 2 per cent interest. As well, the larger the amount of money deposited, the higher will be the amount of interest received.

Activity 11

Your teacher will find out and give you the current minimum amount of money required for a term deposit from commercial banks in Solomon Islands. Use this figure, and the interest rates in Figure 2.15 to calculate the amount of interest you will receive if you deposit this minimum amount for:

- a** 2 months **b** 1 year **c** 2 years.

7 Cheque accounts

You learnt about cheque accounts in Year 7. Cheques are used to operate cheque accounts. A cheque account (also known as a current account) is useful because it is easy to allow large payments for goods and services. Payments can be made without carrying around large amounts of notes and coins. A cheque book contains many cheque leaves so many different payments can be made from the one cheque book. Unlike a savings account, a current account is not good for saving money.

Activity 12

Work in small groups to answer these questions.

- 1 What is a cheque?
- 2 What is the difference between a crossed and an open cheque?
- 3 What are some advantages of using cheques?
- 4 What is the purpose of the cheque butt?
- 5 Why is it important for a cheque to be signed by the drawer?
- 6 Why is a dishonoured cheque sent back to the owner or drawer?
- 7 Who is the only person who can receive the money from a 'not negotiable' cheque?

Before looking at an example of a cheque leaf, you need to understand three terms related to cheques.

- *The drawer* is the person who owns the cheque account and fills out the cheque. As the owner of the cheque account, the drawer needs to sign the cheque for the cheque to be valid.
- *The drawee* is the commercial bank where the cheque account is kept.
- *The payee* is the person or business who receives the amount of money written on the cheque.

A cheque has two parts: the cheque butt (sometimes called the counterfoil) and the actual cheque leaf. After the drawer fills in the information on the cheque leaf and the cheque butt, the cheque leaf is torn off and given to the payee.

The payee then gives the cheque leaf to the drawee (the bank) to receive the payment. The cheque butt remains in the cheque book and provides a useful record of payments made for the person who owns the cheque account.

Open cheques

An open cheque has no crossed lines and can be exchanged for cash at the branch named on the cheque. For this reason, it is not as safe as a crossed cheque. An open cheque can be crossed by drawing two parallel lines across it.

DATE <u>21 / 02 / 2013</u>	The Bank, Solomon Islands	CHEQUE 0778196	STAMP DUTY PAID
PAYEE <u>Graham Hiele</u>		DATE <u>21 / 02 / 2013</u>	
DETAIL <u>Salary</u>	PAY <u>Graham Hiele</u> OR BEARER	\$ <u>350.00</u>	
FWD. \$	THE SUM OF <u>Three hundred and fifty dollars only</u>		
CHQ. \$ <u>350.00</u>	MARY SUSAN		
BAL. \$	200880523		
0778196			

Figure 2.16 A cheque and, on the left, the cheque butt

DATE <u>2 / 03 / 013</u>	The Bank, Solomon Islands	CHEQUE 041235	STAMP DUTY PAID
PAYEE <u>John Mani</u>		DATE <u>2 / 03 / 013</u>	
DETAIL <u>Salary</u>	PAY <u>John Mani</u> OR BEARER	\$ <u>200.00</u>	
FWD. \$	THE SUM OF <u>Two hundred dollars only</u>		
CHQ. \$ <u>200.00</u>	Rosaria Sikri		
BAL. \$	2000340101		
041235			

Figure 2.17 This open cheque can be exchanged for cash at a bank branch.

The Bank, Solomon Islands		384224
		<u>21st March 2013</u>
PAY <u>Adrian Paul</u>	OR BEARER	SBD 400.00
*** <u>Four Hundred dollars and 00 cents</u>		
TREASURY		
ACCOUNT No. 4003406		
384224		

Figure 2.18 A crossed cheque can only be paid into a bank account.



Write the cheque.



Tear the cheque out of the cheque book.



Anyone can take the cheque to a bank.



The cheque is presented at the bank.



The person who presents the cheque is given cash to the value written on the cheque.

Figure 2.19 The stages in the life of an open cheque

The Bank, Solomon Islands		281228
PAY JOHN KASUSU OR BEARER		14 February 2013
*** Six Hundred dollars and 00 cents		SBD 600.00 ***
TREASURY		NOT NEGOTIABLE
ACCOUNT No. 4144596		
281228		

Figure 2.20 The only person who can get the money from this not negotiable cheque is John Kasusu.

The Bank, Solomon Islands		CHEQUE 0342190	STAMP DUTY PAID
DATE 22 / 04 / 2013	PAYEE _____		DATE 22 / 04 / 2013
DETAIL <i>Wages</i>	<i>Rosemary Tiki</i> OR BEARER	\$ 400.00	
THE SUM OF <i>Four hundred dollars only</i>			
FWD. \$ _____	Willie Sasi		
CHK. \$ _____	100330541		
BAL. \$ 100.00			
0342190			

Figure 2.21 A dishonoured cheque

Crossed cheques

A crossed cheque has two parallel lines drawn across its face, with the words 'not negotiable' written between them. This means that it must be paid into the bank account of the person named as the 'payee' only, and it cannot be exchanged for cash.

If a cheque is lost or stolen, the bank should be told these details at once:

- the number of the cheque and date it was issued
- the payee's name
- the amount of the cheque
- the name of the drawer.

If the cheque has not already been paid by the bank, the payment can be stopped.

'Not negotiable' is a term written inside the two crossed lines which makes the cheque very secure: only the payee is entitled to the money.

Endorsing a cheque

Cheques can normally be passed from the payee to another person. For example, if you receive a cheque for \$100 and you owe the canteen \$100, you can transfer the cheque to the canteen as payment.

To do this the cheque must be endorsed, by the payee signing it on the back. For example, in Figure 2.18, Adrian Paul has received a cheque for \$400. He can sign this cheque on the back to endorse it, and can then pass it to someone else who can deposit it at the bank.

Dishonoured cheques

A dishonoured cheque is when the drawee (the bank named on cheque) does not pay out the money and writes on the cheque 'refer to drawer', then returns the cheque to the payee.

In Figure 2.21, the drawee, The Bank, is refusing to pay the \$400 to Rosemary Tiki. This happens when the drawer of the cheque, Willie Sasi in this example, does not have enough money in his current account to cover the cheque. Now, The Bank will return the cheque to Rosemary Tiki. The words 'Refer to drawer' are asking Rosemary Tiki to contact the drawer, Willie Sasi, to advise him that she has not been paid. Because Rosemary Tiki has had the cheque returned to her after she paid it into her account, it is sometimes called a 'rubber' cheque because it 'bounces' back.

Activity 13

Work in small groups to answer this question.

Assume that you have a cheque account at BSP. The number of the cheque account is 2963418491. Copy the outline of a cheque and fill it in using the following information.

You want to buy a wheelbarrow that costs \$380 from ITA Hardware Ltd in Honiara. On today's date, you go to the hardware store. After choosing the design you like, you write a cheque leaf as payment for the wheelbarrow. The number of the cheque leaf is 082348.

8 Currencies

Currency is money that is commonly used in a particular country to buy goods and services in that country. For example, the currency of Solomon Islands is the Solomon Islands dollar. One dollar is equal to 100 cents.

Do you recognise any of the paper currencies in Figure 2.22? You will notice that they are different from the paper money that we use in Solomon Islands. If you take a closer look at each picture you will be able to tell which country each currency belongs to.

Activity 14

In small groups, identify the countries that use the currencies in Figure 2.22. Then name each currency.

Other countries also use dollars as their currencies, such as Australia, New Zealand, United States of America and Singapore. However, the values of these currencies are different from our currency.

Many countries have their own names for their currencies. In Papua New Guinea, kina and toea is used instead of dollars and cents. So the currency of Papua New Guinea is kina. The currency used in Vanuatu is called vatu.

Activity 15

Find the names of the currencies for the following countries.

Tonga	Kiribati	Malaysia
India	Indonesia	South Korea
Marshall Islands	Mexico	Russia

From Activity 15 you have learnt that except for Kiribati, the other countries have different names for their currencies. Kiribati uses Australia's currency as its currency. Kiribati used to have its own currency but its value was too low to help in buying and selling goods and services from other countries. So it is using the more highly valued and stable currency of the Australian dollar. Tuvalu is also using the Australian dollar for the same reason.

Who needs foreign currencies?

As you learnt in Chapter 1, a foreign currency is the currency of another country. Foreign currencies are needed when goods and services are traded between countries, and when you travel from one country to another. Trading between countries involves **exporting** and **importing** goods and services. Exporting means selling goods and services to another country. A business that sells goods or services to another country is called an exporter. Importing means buying goods and services from another country. An importer is a business that buys goods or services from another country.

Exporters in Solomon Islands want to be paid in Solomon Islands dollars when selling goods to other countries. Buyers in other countries therefore need to change their foreign currencies into Solomon Islands dollars to pay for the goods or services coming from Solomon Islands. For example, Arania Enterprises Ltd in Solomon Islands exports cocoa beans to buyers in Australia. The Australian buyers of the cocoa beans therefore need to change their Australian dollars into Solomon Islands dollars in order to pay Arania Enterprises Ltd.

Importers in Solomon Islands need foreign currencies to buy goods from other countries. This is to pay the sellers in other countries in their own currencies, not in Solomon Islands dollars. For example, if a business in Solomon Islands wants to import cars from Japan, it will need to change Solomon Islands dollars into Japanese yen to pay the Japanese supplier.

Similarly, if you travel overseas, you will need to have foreign currencies in order to pay for things in those countries. So if you travel to the Fiji Islands for a holiday, you need to change some of your Solomon Islands dollars into Fijian dollars. If you plan to have your holiday in New Zealand, you will need New Zealand dollars.

Every day, millions of dollars of foreign currencies are changed into other currencies in order for trading between countries to take place, and for people to travel from one country to another. For this reason, it is important to know how units of one currency can be converted into units of another currency.



Figure 2.22 Examples of money used in other countries

It is also important to understand that Solomon Islands, as a developing country, needs to export a wider variety of goods and services. If we do this, the money earned from our exports can be used to pay for our imports.

We can only obtain foreign currency to pay for imports if we export goods ourselves. If we do not export anything, we cannot buy anything from overseas.

Exchange rates

Currencies have different values. Some currencies have a high value while others have a low value. Currencies such as the US dollar, the Euro and the yen have a high value compared to the Solomon Islands dollar. Because of this, a unit of one currency is not equal to a unit of another currency. For example, the value of one Solomon dollar is not equal to the value of one Papua New Guinea kina. Similarly, the value of one Papua New Guinea kina is not equal to one British pound. They have different values.

How then can you determine the value of one currency in relation to another currency? The answer is to use the exchange rate. The exchange rate shows the value of a unit of one currency in terms of another currency. It is the rate at which one currency can be converted into another currency.

You already know that currencies have different values. Those with higher values are sometimes called strong currencies. Others that have a lower value are called weak currencies. If you convert some units (money) of a strong currency into units of a weak currency, you will have more units of the weak currency. Why is this so? Because a strong currency has higher value. It will take more units (money) of the weak currency to equal the higher value of the strong currency.



Figure 2.23 If you travel to another country, you will need to exchange Solomon Islands dollars for the local currency.

Units of Solomon Islands dollar (SBD) per foreign currency

Currency	Exchange rate
US dollar (USD)	7.27
Australian dollar (AUD)	6.50
Great British pound (GBP)	12.14
New Zealand dollar (NZD)	6.09
Euro (€)	10.02
Yen (Y)	0.07

Source: Bank South Pacific (SI Ltd)

Figure 2.24 The exchange rate in March 2014 of the Solomon Islands dollar in terms of the currencies listed

From Figure 2.24 you can see the rate at which each foreign currency can be converted into SBD. How much is 1 USD worth in SBD? Using the exchange rate table, 1 USD is worth 7.27 SBD (\$7.27). This means that each USD costs 7.27 SBD. Thus, if you want 10 USD, you need 72.70 SBD. You can also find the value of 1 SBD in terms of USD. By dividing 1 by 7.27, the value is 0.134 USD (13.4 cents). Thus, 1 SBD is equivalent to 13.4 US cents.

If you want to convert 20 US dollars into SBD, how much SBD will you get? Multiplying 7.27 by 20 will give you your answer: 145.4 SBD (\$145.40).

In terms of the British pound, 1 GBP is worth 12.14 SBD (\$12.14). Again, you can find the value of 1 SBD in terms of GBP. By dividing 1 by 12.14, the value is 0.082 GBP.

How much is 50 GBP worth in SBD? Multiply 50 by 12.14 – the answer is 607.0 SBD (\$607.00).

The exchange rate enables you to compare the values of different currencies and the prices of goods and services in other countries. It is also important to note that exchange rates change from time to time.

Activity 16

Using the information in Figure 2.24, calculate the equivalent amount in SBD.

- 1 Convert NZD 10 into SBD.
- 2 Convert USD 10 into SBD.
- 3 Convert Euro 10 into SBD.
- 4 Which currency in the table has the highest value in terms of the SBD? Why?

Activity 17

Copy these sentences into your exercise book, and complete them using words from the box.

withdrawal form	money	payee
monetary system	banks	
plastic money	deposit form	

- 1 Banks are important in a society because they look after people's _____.
- 2 Another name for credit card is _____.
- 3 Lending money is one of the services providing by _____.
- 4 The Central Bank of Solomon Islands controls the _____ in the country.
- 5 The form used to withdraw money from a savings account is called a _____.
- 6 The form used to put money into a savings account is called a _____.
- 7 The person who receives money written on a cheque leaf is called a _____.

Activity 18

- 1 Work in small groups to discuss the statement.

'Cheque accounts are a waste of time. They cost more than they are worth.' Present a well-rounded argument against this statement.

Answer these questions individually.

- 2 How can a commercial bank help people in Solomon Islands?
- 3 State three activities that a central bank carries out in an economy.
- 4 What is the exchange rate? Give an example.
- 5 If the exchange rate is such that 1 Fijian dollar is equivalent to 4 Solomon Islands dollars:
 - a How much SBD will you get for 30 Fijian dollars?
 - b How many Fijian dollars will you get for SBD 50?

Chapter summary

Chapter

2

The finance industry plays a very important role in making money available to people, businesses and governments.

The most important sources of finance are banks and there are three main types: commercial banks, the Central Bank and credit unions.

Banks provide a variety of services to customers. Commercial banks provide savings and cheque accounts and term deposits.

The Central Bank mainly controls the amount of money in the economy, issues new notes and coins, controls the activities of commercial banks, and helps in the export and import of goods.

The Development Bank used to provide loans to local Solomon Islanders at lower interest rates to start or expand their business projects.

Credit unions provide loans to their members to help them to save money.

A currency is money commonly used in a particular country. Countries have different names for their currencies and they have different values. Strong currencies such as the Euro, British pound and US dollar have higher value. Weak currencies are those that have lower values, such as the Solomon Islands dollar.

The rate at which one currency can be exchanged for another currency is called the exchange rate. Using the exchange rate enables you to convert units of one currency into another currency. This allows the export and import of goods and services to take place and for people to travel from one country to another.

Glossary

Central Bank a bank owned by the government that controls the money system in a country

commercial bank a business that provides various services for a fee. It is the main source of finance by giving loans to people and business

credit union a type of bank that keeps money safe for its members. It also gives loans to its members

deposit to put money into a bank account

Development Bank until 2004, a bank that gave loans to people in rural areas and to some business people in urban areas to support their business projects

employee someone who works for a business or an employer

exporting selling and sending goods and services to other countries

financing providing money to those who need it

interest money paid by borrowers of loans

importing bringing goods and services to Solomon Islands that were bought from other countries

specimen signature the signature of the depositor given to a commercial bank when opening a new savings account. The signature of the depositor should match this signature whenever they withdraw money from the savings account

strong currency a currency that has a high value, e.g. the Euro or GBP. On the other hand, a weak currency is a currency that has a low value, e.g. SBD

term deposit money deposited in a commercial bank for a fixed period of time. Interest received is higher than interest on savings accounts

withdraw to take out money from a savings account

Specific learning outcomes

By the end of this chapter, you should be able to:

- explain the terms income and wealth
- explain types of income and wealth
- list the different ways of earning an income including working for others, owning a business, investing by depositing money in the bank, lending money to others and buying shares in companies
- differentiate between individual and community wealth
- calculate the interest on money kept in banks
- discuss the types of work that people do to earn salaries and wages
- explain the reasons why people do certain jobs.



Figure 3.1 This girl is working on a cocoa plantation to earn an income to become wealthier.

Activity 1

Thinking of your family at home, answer these questions.

- 1 Do you earn an income at home or at school? As a class, work out how many of you earn an income.
- 2 Maybe you sell some vegetables, or maybe you sell goods in your store. What do you do to earn an income?
- 3 What other activities could you do to earn an income at school or at home?



Figure 3.2 Different ways of earning an income

1 Income

In Solomon Islands most people live a partly subsistence life. They grow much of their own food and build their own houses from bush materials. However, most people still need some cash to buy basic goods such as clothing, rice, tinned food and modern tools. Cash is also needed to pay school fees. This chapter is concerned with how people get cash. The cash a person gets is called their **income**.

Income is the amount of money a person receives from working, running a business or investing money.



Figure 3.3 These farmers can earn an income from selling vegetables and root crops.

2 Wealth

Our income is not the only way to measure our **wealth**. Wealth is measured by both the amount of money an individual or community has as well as the value of things that they own and can use or enjoy. For instance, a farmer in the highlands of Malaita who owns land, has lots of pigs and yams and enjoys fresh air and good healthy living, would be considered wealthier than a wage earner who works as a shop keeper in Honiara and may not receive enough to support his family properly.



Figure 3.4 Expert carvers can become wealthy when their carvings are highly sought after by people because the carvings become expensive to buy.

Types of income and wealth

People earn an income in many different ways. Some people receive an income from working for others. Some receive an income from investing their money in a business or bank. And other people receive an income from running a business. Let's take a closer look at the types of income people receive in the commercial society we have today.

3 Income from working for others

People who work for others are called **employees**. People who pay other people to do work for them are called **employers**.

A company such as Solomon Telekom has many people working for it. These people or employees receive an income from Solomon Telekom.

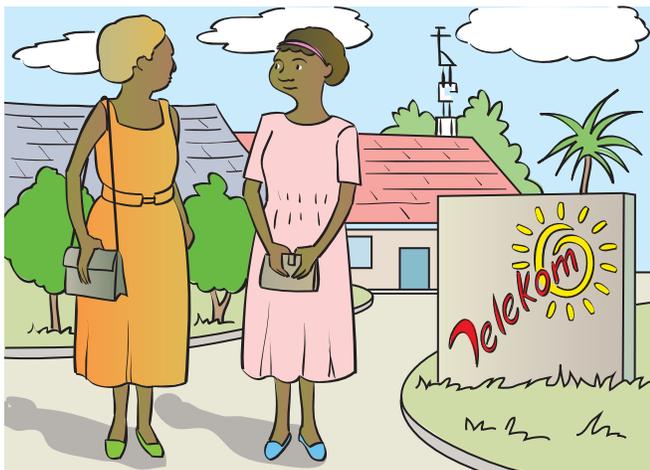


Figure 3.5 These women work for Solomon Telekom and receive a salary from the company.

Activity 2

Answer these questions in your exercise book.

- 1 Can you name three local businesses from which their owners earn an income?
- 2 How do they earn an income?
- 3 List five different jobs where people work for others and receive an income. For example, a school teacher works for the government under the Ministry of Education and Human Resources.

Wages and salaries

Employees are paid money by their employers for the work that they do. There are two ways in which people are paid: they get either a **wage** or a **salary**.

A wage is an income received by a person who works for another person, a business or for the government. Wages are paid according to the amount of time a person works, for example, per hour, per day or per week. A wage earner can usually be dismissed without notice. Examples of wage earners are carpenters, electricians, motor mechanics, farmers, truck drivers, storekeepers and cleaners.



Figure 3.6 Mechanics work on engines and vehicles and usually earn a wage.

The government has set the number of hours that different workers should expect to work each week, through the Government Labour Division. A wage earner may be asked to work more hours by their employer, especially when there is a lot of work to be done. If the worker agrees, then they are paid an hourly overtime rate for the extra hours worked. According to the labour laws in Solomon Islands today, if a worker works during 12–1 pm or after 4.30 pm each working day and on Saturdays, these workers are paid at one and half times their hourly rate.

If a worker is asked to work on Sundays and public holidays, then they are paid twice their hourly rate. This extra money is called **overtime pay**. For example:

Mr Timo works for Y. Sato as a cleaner and his pay is \$4 per hour. He works 7 hours a day from 8 am–4 pm excluding the lunch hour (12–1 pm). When calculating the weekly pay for Mr Timo, we work out the normal hours worked per week \times rate of pay, i.e. 7 hours \times 5 days = 35 hours. 35 hours \times \$4 is \$140 pay per week.

If Mr Timo works overtime Monday–Friday 4–6 pm and Saturday 8 am–12 pm, his overtime pay is as follows.

Monday to Friday overtime:

2 hours per day \times 5 days = 10 hrs

Saturday overtime: 4 hours

Total hours worked overtime: 14 hours \times $1\frac{1}{2}$ rate of pay

= 14 hours \times ($1\frac{1}{2} \times \$4$)

= 14 hours \times \$6

Overtime pay = \$84.00

Therefore Mr Timo's total weekly pay = normal pay + overtime pay

= \$140 + \$84

= \$224

The minimum wage

The national government has set up the **Minimum Wages Board**. The board decides on the lowest amount that employers can pay their employees in wages. By law, employers must pay at least the minimum wage to their employees. In 2014 the minimum wage in Solomon Islands is SI\$1.50 per hour. This applies to urban centres like Honiara, Auki, Gizo, Munda, Noro, Tulagi, Choiseul Bay, Kirakira and Lata only. This minimum pay changes from time to time and will eventually apply to the whole country.

Regulations also control the number of hours a wage earner is expected to work. If an employee is asked to work longer hours, they must receive overtime pay.

Salary

A salary is an income received by a person who works for somebody else. A person who receives a salary often gets their pay every fortnight, just like a wage earner.

People receiving a salary are usually paid according to the job they do, not the time they worked. Usually, people who receive salaries do not get overtime pay. If extra hours are worked during the fortnight, no overtime is paid to the employees.

Examples of salary earners are doctors, nurses, teachers, lawyers, police officers and civil servants.



Figure 3.7 Teachers earn a salary.

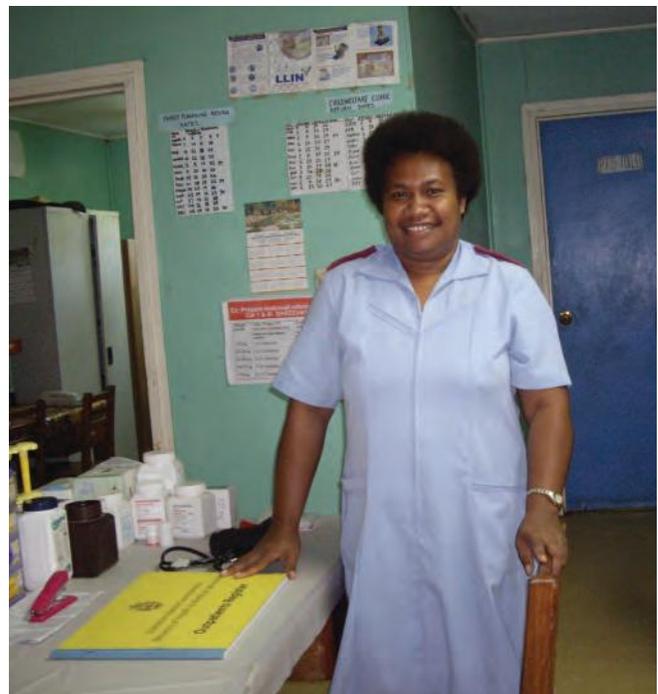


Figure 3.8 Nurses earn a salary.

What is a pay slip?

A worker who receives a wage or salary is given their net pay every fortnight. Along with the cash or cheque, they are also given a piece of paper that explains how their net pay has been calculated. This paper, called a pay slip, shows the **gross pay**, the deductions and also the net pay.

For a wage earner, it may also show the hours worked and any overtime pay. A worker should always look at their pay slips carefully to make sure that no mistakes have been made.

What is leave?

Leave is when a worker takes a break or a holiday from their job. Employers pay their employees during **annual leave**, and for some **sick leave**, if the employee is too ill to work. All employers must by law allow their workers to take annual leave every year.

If a wage or salary earner wishes to work during the time that they are allowed to take annual leave then they must be paid overtime.

Another type of leave is **compassionate leave**. Once a year, workers are allowed to take time off work to visit their family if a close relative dies. Immediate family members include spouse, children (including legally adopted children), father, mother, brother, sister, uncle, niece, grandfather and grandmother.

Activity 3

Answer these questions in your exercise book.

- 1 Calculate the total wage that Thompson will receive in each of the following fortnights.
 - a Thompson's normal hourly rate is \$5.00. He usually works 42 hours per week. How much does he earn in a normal fortnight?
 - b Suppose Thompson works an extra three hours one Saturday and four hours on Sunday. He is paid 1½ times for Saturday's overtime and 2 times for Sunday's overtime. What will be his overtime pay? How much will he earn altogether in a fortnight?
 - c Janet Sepo is a teacher and her salary is \$13,000 per year. How much will she earn a fortnight? Remember that a year has 26 fortnights.
- 2 Interview someone who is earning a salary and ask them about their salary. Calculate the person's salary for a year.

4 Deductions

The full pay that a person earns is called their gross pay. Janet Sepo's gross pay is \$300 per fortnight (see Activity 3). Any money that is taken out of a person's pay is called a deduction.

A deduction includes income tax, National Provident Fund (NPF) contributions and others. (The NPF provides savings for people when they retire.) Janet Sepo has deductions for tax and NPF taken out of her salary.

The owners of businesses also need to pay tax to the government.

Net pay

A worker's **net pay** is the money they receive after taking away all deductions. Sometimes the net pay is referred to as take-home pay simply because it is this net pay that the worker and their family will live on.

For example, David Kirori's salary is \$800 per fortnight. Out of this, \$24.20 is paid in PAYE income tax, \$50 is paid in rent, and \$40 is taken out and put into David's NPF fund. David's net pay is therefore \$685.80 (\$800 – \$24.20 – \$50 – \$40). Note that the \$50 rent deducted is because David is renting a company house. If David had his own private house or stayed with wantoks he would not have his rent deducted by the company.

Pay As You Earn (PAYE) income tax

The law says that any individual who is a wage or salary earner and who earns more than \$580 per fortnight must pay **PAYE income tax** to the government. The rate of PAYE tax that an individual wage or salary earner has to pay depends on their actual income. That is why this income tax is called Pay As You Earn.

An employee's net pay is their gross pay minus (PAYE plus NPF).

For example, to calculate Mr John Warwari's net pay:

$$\begin{aligned} \text{Gross pay per fortnight} - (\text{PAYE} + \text{NPF}) &= \text{net pay} \\ &= \$2976.92 - (\$635.69 + 5\% \text{ of } \$2976.92) \\ &= \$2976.92 - (\$635.69 + \$148.84) \\ &= \$2976.92 - \$784.53 \end{aligned}$$

$$\text{Net pay per fortnight} = \$2192.39$$

Level of pay per year	Balance of income above \$15,080	PAYE tax rate
0–\$15,080	–	Nil (Tax free)
\$15,081–\$30,080	\$1–\$15,000	11%
\$30,081.00–\$45,080	\$15,001–\$30,000	23%
\$45,081–\$75,080	\$30,001–\$60,000	35%
\$75,081 plus	Over \$60,000	40%

Figure 3.9 The PAYE tax rate as applied by the Inland Division, Ministry of Finance since 2012

Activity 4

Work in groups. Your teacher will help you to think of an example of an employee who earns a salary or wage or someone you might interview in person.

- 1 What job have you decided on, or who are you going to interview?
- 2 Research how much someone doing that job is likely to earn in a year. If you are interviewing a person, you can ask them what people in their job usually earn as a wage in a year.
- 3 Calculate the Pay As You Earn (PAYE) income tax that the person pays per year.
- 4 Use the example of Mr Warwari above to calculate how much someone in that job earns in net pay per fortnight.
- 5 Interview an employee who works for an organisation and find out about the benefits that employees can get there. For example, when an employee is on annual leave, how much leave can they claim?

National Provident Fund



Figure 3.10 The NPF building at Point Cruz, Honiara

Wage and salary earners also have to contribute some money to the **National Provident Fund (NPF)**. This fund was set up by the government as a retirement savings scheme for members when they retire at the end of their working life. By law, all wage and salary owners must pay 5% of their income (wage/salary) to the NPF. The employers must pay another 7.5 per cent onto their employee's contribution to the NPF. This is paid to the NPF within two weeks of paying the wage or salary to the worker.

For example, if Janet Sepo earns \$300 gross per fortnight, she must pay 5% of \$300 (which is \$15) to the NPF per fortnight. Because she works as a teacher for the Ministry of Education (employer), the Ministry of Education must pay 7.5 per cent ($7.5 \times \$300 = \22.50) into Janet Sepo's NPF contribution account. Therefore, Janet Sepo's normal NPF contribution per fortnight would be \$37.50. That is $\$15.00 + \$22.50 = \$37.50$.

However, on Janet Sepo's pay slip (a document that informs the wage or salary earner of the details of the payment made) only the \$15 is deducted from her \$300 gross pay. The \$22.50 that the Ministry of Education contributes to Janet Sepo's account is done administratively by the employer.

Activity 5

You will need to talk to an adult worker you know to answer these questions. Ask them:

- 1 What is the purpose of the National Provident Fund?
- 2 How much does your employer pay in to your NPF contribution each year?

5 Income from running a business



Figure 3.11 This man's business income comes from selling goods at his store.

Some people try to make an income for themselves by owning a business. **Profit** is the income received by the owner of a business. It is found by subtracting the expenses of a business from the revenue of the business:

$$\text{profit} = \text{revenue} - \text{expenses}$$

Revenue is the money coming into the business, from the sale of goods or services. Expenses are payments made by the business that are necessary to keep it going.

To own a business one needs money, or **capital**, to start with. For example, John Solomon has saved \$80,000 as a teacher. This year he has started his own store and his aim is to make a profit. Mr Solomon's starting capital is therefore \$80,000. He knows that by saving his \$80,000 in the bank, he will only get 1% **interest** per year. At the end of the year, Mr Solomon will be only get \$800 interest on his **investment**. His main aim, like any other business person, is to make a profit that is higher than the \$800 interest per year.

Mr Solomon also understands that running and owning a business is hard work and risky. He has to buy stock almost every day and he must transport it to his store. While he was a teacher, Mr Solomon usually had free time with his family after 4 pm each day. Now he has to look after the store from 6 am until 10 pm. Some days many customers come to buy from his store and other days only a few customers buy from his store. This is because there are also other stores like his in the area.

Mr Solomon also remembers that when he was a teacher, there was regular pay every fortnight. But now he must pay himself just enough money to meet basic family commitments per fortnight. If he takes too much money out of the business, it will collapse as he will not have enough money to buy more goods.

Types of businesses

The various types of businesses were discussed in Year 7. Here is a brief revision of them.

Sole proprietorship

A sole proprietorship is a business run by an individual. The owner takes all of the profits and losses of the business. The owner also has all the control and liability for the business operations. Business taxes are paid by the owner through their personal income tax return.

Partnership

A partnership is a business that operates like a sole proprietorship, but with several individuals running it. The partners share the profits/losses, have control and liability for business operations. Partnership taxes are paid by the partners on their personal tax returns, according to the amount of money they put into the business.

Activity 6

Answer these questions in your exercise book.

- 1 Do you think that people who run small businesses earn the same income each week? Explain why or why not.
- 2 List some examples of how people earn an income when running a business.
You will need to find a shop keeper to ask the following questions.
- 3 How much does a shop keeper typically earn fortnightly?
- 4 Do shop owners make an NPF contribution for the shop keepers that they employ?

6 Income from investing money

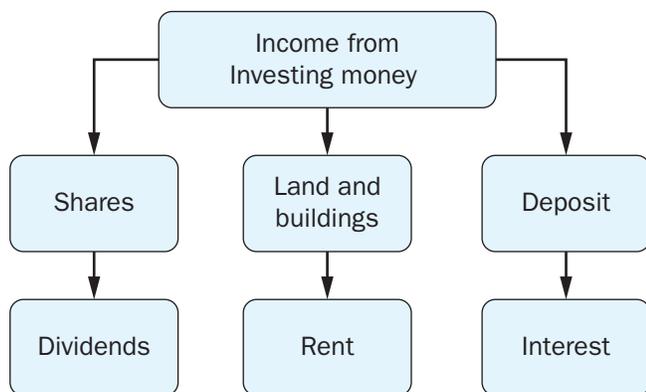


Figure 3.12 How income is earned through investments

Wages and profits are incomes that are related directly to the working efforts of people.

Investments are a different matter. They refer to the purchase of shares, or deposits of money in a financial institution such as a bank, or purchase of land and buildings which are then rented or sold to others. Investments are made as a way of earning money at a later date when the investment matures. The aim of an investment is to increase one's amount of money and to earn a profit. Both individuals and businesses can make investments to increase their wealth.

A person may have extra money that they do not need to use. They can earn an income from this money by letting others use it. The business or people who use this money pay interest on it.

When a person uses money to earn income in this way, they are making an investment.

Types of investment

Deposits in a bank

When a person puts money into a bank this is called making a deposit. The bank keeps the money safe until the person wants to take it out. The bank uses the money that has been deposited to earn profit for itself. To encourage people to make deposits with them, they pay some money, called interest, to those people.

The people who have made deposits with banks have really lent their money to the banks. The banks pay them interest for doing this.

Usually, commercial banks only give a small percentage of interest on deposits. If the interest rate offered by the bank is low, keeping money in a bank is not a good investment because people cannot earn a lot of income in this way. However, it is very convenient for people to keep money in a bank because they can withdraw it when they need to. It is also safer to keep money with a bank and not in the house.

Lending to others

People can lend money directly to other people or businesses and charge them interest. This can be risky, because when one lends to an individual or business they put their full trust in the person borrowing the money. It is important to only lend money to trustworthy individuals and businesses. The people who borrow the money usually pay back their money with interest. The interest rate is often higher than the rate the banks offer, because the risk is greater.

Buying shares in companies

Businesses can be private or public companies. Public companies are usually owned by many people. Companies get their money to start a business by allowing many different people to contribute. Each person who contributes money has a share in the ownership of the company. These people also share any profit that is made by the company. They are paid a **dividend**.

When a person buys a share, they buy part of the ownership of the company. A person who buys shares is called a **shareholder**. The shareholder is given a share certificate. This tells how many shares the shareholder owns.

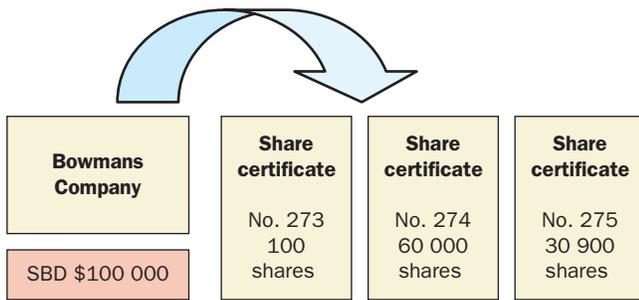


Figure 3.13 People can buy a small number of shares in a company, or a large number.

For example, Bowmans Company starts by selling 100,000 × SBD \$1.00 shares to different people.

One person may buy 100 shares. Another person may buy 60 000 shares. One person may buy 39 900 shares.

The person who buys only 100 shares does not have much say in the running of the company. However, even a small shareholder is a part-owner of Bowmans Company. Usually, they would not look on the company as ‘their’ company. They usually see the money that they have used to buy the shares as an investment.

A shareholder shares any profit that is made by the company. The amount of money that a shareholder gets depends on the number of shares that they own. The profit that a company makes is divided up by the total number of shares that have been sold to people.

Activity 7

Before doing this activity, you may need to discuss the questions below with your family.

In small groups, think about your family, or even your tribe or community, and discuss any investment that they may own.

- 1 Name the type of income.
- 2 What type of investment is it?
- 3 Who owns the investment?
- 4 If the family or tribe owns an investment, find out when it was started and who initiated it.
- 5 What are the family’s/tribe’s future plans for the investment?

7 Personal and community wealth

Personal wealth

Individual and **personal wealth** refers to what a person owns, including money and other things of value, such as land, pigs, houses, canoes, food crops, coconut plantations and personal belongings.

Community wealth

Community wealth refers to things of value that are owned and enjoyed by all of the people in the community or country. These include schools, roads, bridges, clinics, market areas, power facilities, water supplies and sanitation. They may have been built by village groups, area councils, provincial governments or the national government.

The national government needs to collect income tax so that it can build hospitals, clinics, roads, airports, wharves and schools. These hospitals, schools, roads and sports fields are for all people to use and become part of the community wealth.

Activity 8

Answer these questions in your exercise book.

- 1 Explain what individual wealth is and give an example.
- 2 Explain what community wealth is and give an example.
- 3 Think of ways you as an individual can contribute to something for your community to own.

8 Banks pay interest

As explained earlier, individuals and businesses can invest their money in commercial banks to earn an income, which is called interest.

Banks pay interest on savings to encourage people to deposit their money with them. They do this because they use the money which people deposit to make even more money for the bank.

For example, Cinthia has decided to deposit her \$2000 in a Savings Pass Book Account for one year. She earns 5% interest annually for doing this; 5% of \$2000 is \$100. After 12 months the bank will pay \$100 interest, which is added to Cinthia's account.

While Cinthia's money is in the bank, it might be used to fund bank loans to other people or businesses, for instance:

- Sam may receive a loan from the bank to buy a bicycle
- a business may receive a loan to expand its operations
- the government may receive a loan from the bank to help build a bridge or clinic.

Let us look at the example of Sam who wants to buy a bicycle. Cinthia deposited \$2000 in the bank. Her deposit of \$2000 is then lent to Sam who wants the loan money to buy a bicycle.

Let's say that Cinthia deposited her money on 1 January, and that she doesn't use any of this money for one year. (Remember, Cinthia earns interest at 5% which comes to \$100 at the end of the year.) Let's suppose that the bank lends this \$2000 to Sam in January the same year. Sam repays this loan with monthly payments. Sam also pays interest on the amount he has borrowed. This may be 17% per year or \$340 in one year.

At the end of the year, Sam repays \$2000 plus \$340 interest. The bank then repays Cinthia her deposit of \$2000 plus \$100 interest.

The bank has therefore made a profit of \$240:
 $\$2340 - \$2100 = \$240$.

Bank's profit = revenue – expenses
 $= \$340 - \100 .

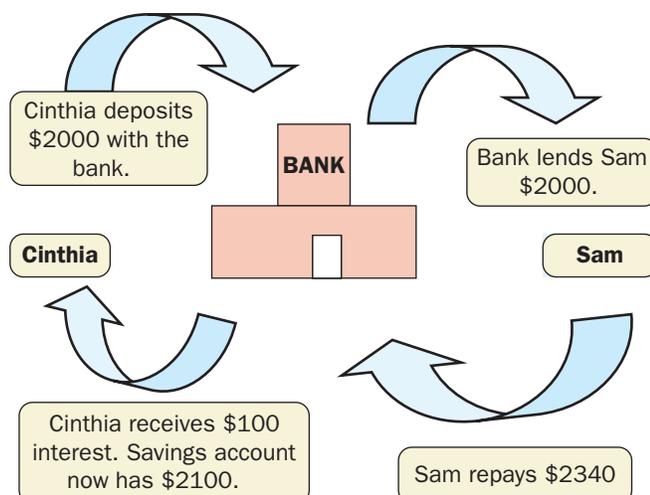


Figure 3.14 How banks make a profit

The profit that the bank makes on Cinthia's deposit might look small, but consider that the bank receives millions of dollars in deposits and loans each year. The profit that the bank receives is therefore also in millions of dollars each year.

However, this is a very simple example. Bank profits are more complicated than this because:

- the bank usually lends money to the public in amounts greater than the \$2000 used in this example
- the bank has other expenses: it has to pay rent, electricity and the wages of the people working in the bank
- the bank has other sources of revenue. It charges people for services such as transferring money to other places, changing foreign currency or operating a cheque account.

The formula should therefore look something like this:

PROFIT	=	REVENUE	-	EXPENSES
		<ul style="list-style-type: none"> ● Interest from loans ● Fees and commissions 		<ul style="list-style-type: none"> ● Interest to depositors ● Business expenses, e.g. wages, rent, stationery, postage, etc.

Interest-bearing term deposits

This is also known as a fixed deposit account.

Important characteristics of this type of account include the following.

- A minimum amount of money is needed to open and operate this type of account. (The minimum amount varies from bank to bank.)
- The amount deposited is for a fixed term, i.e. a certain period of time.
- The depositor gets a fixed rate of interest for the fixed term.
- The interest rate is higher if you save a large amount of money or save for a long period. It will be smaller if you save a small amount of money or save for a short period.

The depositor is normally not allowed to withdraw the fixed deposit amount before the end of the term of deposit. Sometimes banks allow their customers to withdraw the fixed term deposit early, but they lose the high interest rate and instead get only the lower saving bank interest rate.

There are different types of interest-bearing term deposit accounts. The minimum amount, term of deposit and interest rates vary from bank to bank, and change from time to time.

Activity 9

Answer these questions in your exercise book.

- 1 Why do banks pay interest on people's savings accounts?
- 2 Peter deposits \$1000 with BSP Bank and for one year he earns 4% interest. The bank lends this \$1000 to Mrs Joan in the same year. Mrs Joan has to repay this loan with monthly payments and she pays 10% interest a year on the amount she has.
 - a How much will BSP Bank repay Peter at the end of the year plus the interest?
 - b How much will Mrs Joan repay at the end of the year?
- 3 List some expenses that a bank must pay for before it can calculate its profit.

9 How much do you earn?

Some people earn the minimum wage, and others earn very high wages. Why is this? The answer depends on many things.

Activity 10

Work in groups to answer these questions.

- 1 Which types of jobs are not well paid? Name them.
- 2 Why do some people get higher wages and salaries than others?
- 3 Name some jobs where the workers earn a higher salary than others.
- 4 Why are some people never promoted in their job?
- 5 How can a worker be promoted at their workplace?

Training and skills or knowledge

Usually, the more training to acquire the necessary skills and knowledge that is needed to do a job, the higher the wage or salary that the worker receives. It takes many years of training to become a doctor and they earn a high salary as a result. No training is required to be a plantation worker. A chainsaw operator only needs a week of training to be efficient at cutting timber. A plantation worker or chainsaw operator earns a lower wage as a result.

Ability and experience

People who are good at their work are often given pay increases. If a worker is asked to do a more responsible job, they are usually given a pay increase. Being given a more responsible job is called getting a promotion.

Some people get a promotion because they have been doing a job for a long time. They have gained experience in that type of work. People with experience usually get paid more than less experienced workers.

Type of work

Some jobs are not nice to do. The removal of garbage and sewage is a good example. Some jobs are dangerous. For example, some people work with chemicals. Because many people may not want to do these jobs, employers may have to offer higher wages to attract people to do the work.

Location of work

Some jobs are in very remote places. Remote places may not have a trade store, hotels or movie theatres. Some mining jobs are like this. People who look for minerals have to live out in the bush. These people often get higher wages for working in such places.

Chapter summary

Chapter

3

Income is the amount of money a person receives as an employee, from investing money or from running a business. There are many ways people can get their income either from working for others or from investing their money in a business or bank.

The two types of incomes from working for others are called wages and salaries. The name of the income that people receive from running a business is called interest and dividend.

Investment is when a person uses money itself to earn an income. There are two types of investment: lending money to others and buying shares in companies.

Wealth is the amount of money an individual or community has. Personal wealth refers to what a person owns and includes money and other things of value such as land, pigs, houses, canoes, food crops, coconut plantations and personal belongings.

Commercial banks pay interest to their customers who deposit money, especially in term deposits.

The money that workers earn depends very much on training, ability and experience, types of work and its location.

The four types of leave are annual leave, sick leave, compassionate leave and long service leave.

Profit = revenue – expense.

Glossary

annual leave (holiday) time off work that an income earner takes from their job each year on full pay

capital the money that a person uses to start a business

compassionate leave time off work that workers are allowed, with or without full pay, for certain reasons such as a death in the family

community wealth things of value that are owned and enjoyed by all the people in a community

dividend the share of the profit that each shareholder gets from a company at the end of the year

employee someone who works for a company

employer a person, company or department that employs workers

gross pay the wage or salary that an income earner receives per fortnight before any deductions have been made

income the amount of money a person receives from working, running a business or investing

investment when a person uses money itself to earn an income

interest extra money that people receive on their deposit with a bank at the end of each year

Minimum Wages Board a committee set up by the government to decide on the minimum amount that employers can pay their employees in wages and salaries

National Provident Fund an institution set up by the government as a retirement savings scheme for members when they retire at the end of their working life

net pay what is left after taking away all deductions from an income earner's gross pay. Sometimes the net pay is referred to as take-home pay

overtime pay extra money that someone gets for working longer hours or at unusual times, such as in the evening or at the weekend

PAYE income tax a progressive tax system which increases the tax amount as people's incomes increase

personal wealth the things of value that a person or their family owns, including money

profit the income received by the owner of a business. It is found by subtracting the expenses of a business from the revenue

salary an income received by a person who works for somebody else; it is paid according to the job they do, not the time they work

sick leave leave that workers are allowed to take each year with full pay, if they are sick

shareholder a person who buys shares in a company as a form of investment

wage income received by a person who works for another person; paid according to the time a person works, e.g. per hour

wealth the amount of money an individual or community has

Specific learning outcomes

By the end of this chapter, you should be able to:

- explain the following terms: saving, inflation, commercial banks, investment, deposits and withdrawal
- describe the different types of savings accounts and their importance
- identify ways of saving in the past
- list the reasons why people save and methods of saving money
- state the advantages and the disadvantages of these ways of saving
- discuss how to calculate the inflation rate using the Honiara consumer price index
- describe the concept and values of saving in a bank
- explain the causes of inflation and describe its effects on saving.

1 Introduction

Have you ever dreamed that one day you would own a very good bicycle, an expensive watch, a fine musical instrument, an outboard motor or perhaps even a car? These are the things that most of us cannot have without some form of planned savings.

Even with limited income, however, isn't there a way to make some of these dreams come true?

Money can be saved under a mattress, in a hollow bamboo or in a box. But when you deposit money in a savings account in a bank or other **financial institution** such as a credit union, you are putting your money to work for you. A financial institution is a business (public or private) that collects funds (from the public or other institutions) and invests them in financial **assets**.

In this chapter, you will look at several types of **savings** and **investments**. You will also learn about their strengths and the effects of **inflation** on savings.



Figure 4.1 Money deposited at a bank usually earns interest.

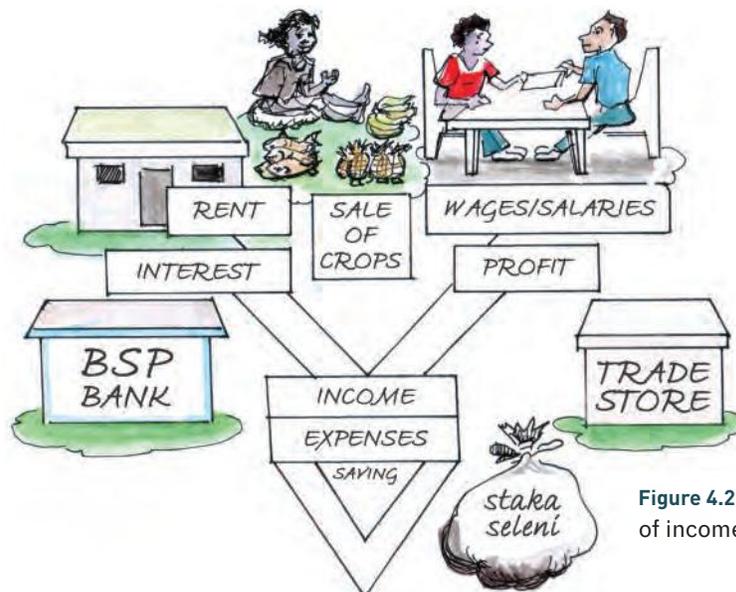


Figure 4.2 The main sources of income

Activity 1

Check the information on income in Chapter 3 to help you answer these questions.

- 1 What is income?
- 2 List the types of income we earn in Figure 4.2.
- 3 How do we get these incomes?
- 4 Explain the meaning of each picture in Figure 4.2.
- 5 What do the expenses in Figure 4.2 refer to?
- 6 What does saving mean?
- 7 Why is saving included in the diagram?

2 What is saving?

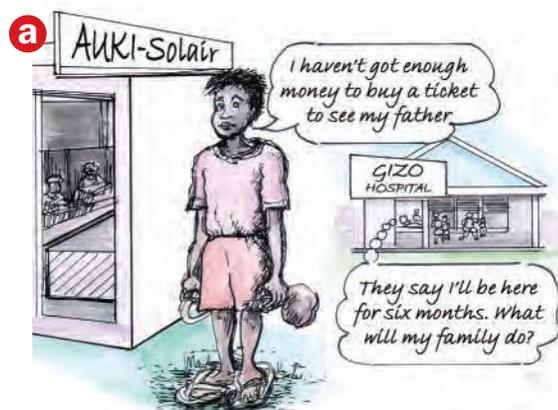
The term 'saving' means keeping something that has been earned instead of consuming it. It is a way to make the most of your present income for future use.

People save because they can use their saved money for future needs or to meet unforeseen circumstances. It is important to have savings to meet emergencies, such as (a) family sickness; (b) poor harvests; (c) unemployment; (d) natural disasters.

Activity 2

Look at the diagram in Figure 4.2. Discuss each picture with the person next to you. Write your answers in your exercise book.

- 1 How did people in the past save their traditional money?
- 2 How do people save their modern money today?
- 3 Why do we have planned saving?
- 4 Why should we save?
- 5 What are some disadvantages of not saving?



Family sickness



Poor harvests



Unemployment



Natural disasters

Figure 4.3 Emergencies can happen at any time.

Why should we save?

There are many reasons why we should have a planned savings program. Let's examine some of the most common reasons.

Savings help to pay for expensive things, such as (a) school uniforms; (b) rent; (c) weddings.

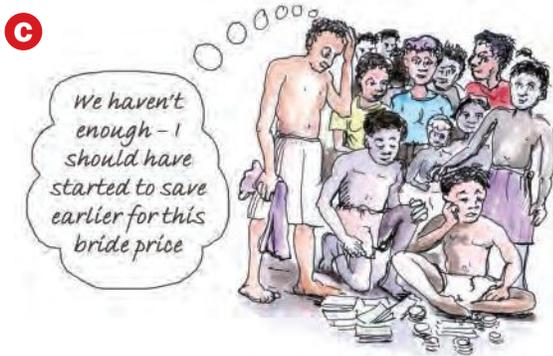
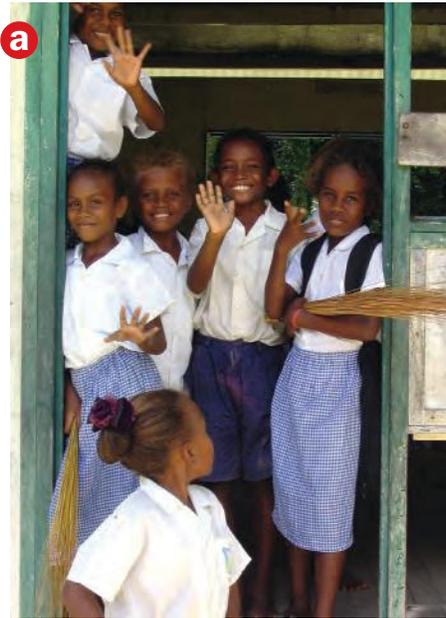


Figure 4.4 Every family has occasional special events which can be expensive.

Savings help to buy property, such as (a) a house; (b) a radio; (c) a bike; (d) an outboard motor; (e) furniture; (f) electrical goods.



Figure 4.5 Some products that make our lives easier can be expensive.

Savings mean we have some money for old age.



Figure 4.6 It is harder to earn money when we're old.

Use savings to start a small business, such as (a) a butcher's; (b) a car repair garage; (c) a market stall; (d) a fishing operation.



Figure 4.7 To make a living, we sometimes have to spend money first.

Or use savings to start a large business, such as (a) a sawmill; (b) a shipping company; (c) a factory; (d) a cocoa plantation.

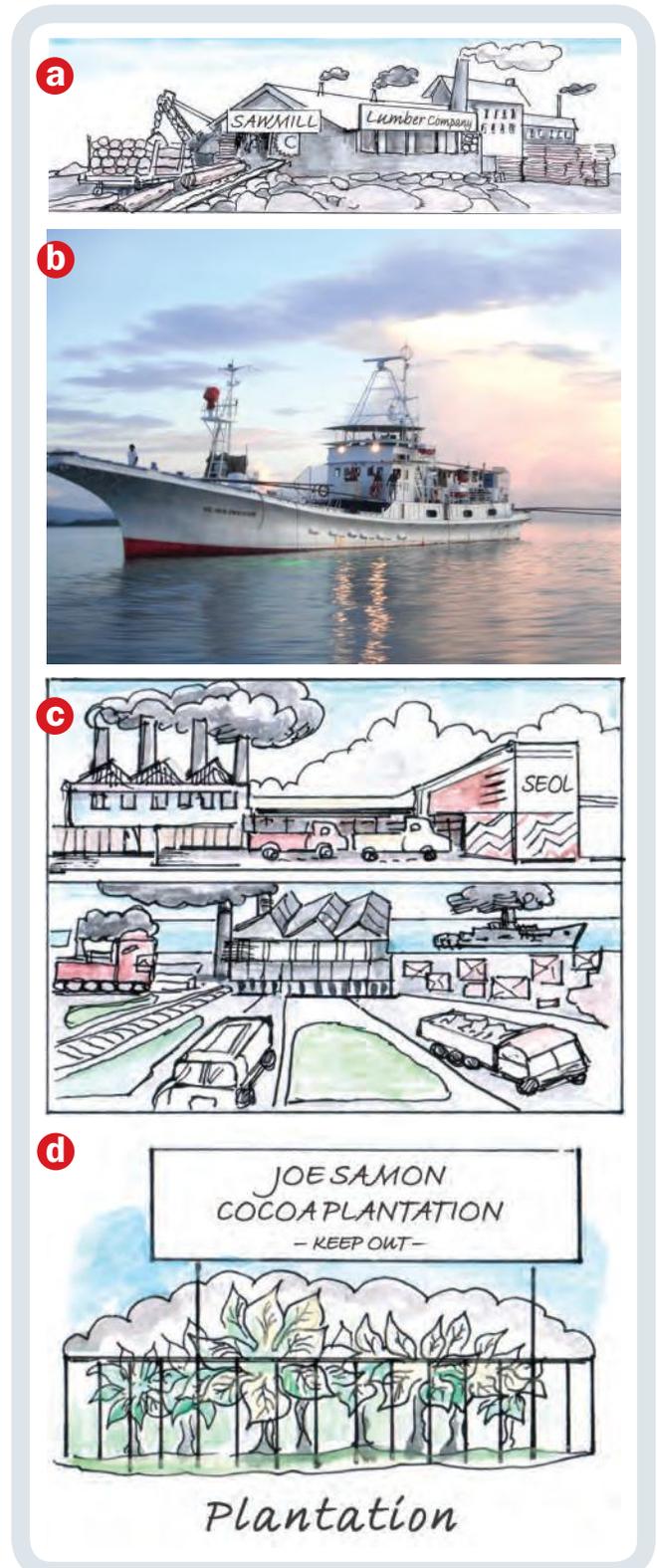


Figure 4.8 Large businesses require very large bank loans.

3 Advantages of saving

Saving is a good investment for the future. It helps individuals, family, society and the country as a whole. Saving helps people:

- to meet emergency needs
- to pay for a better education
- to pay for better food
- to improve their living conditions and thus improve the standard of living for society.

Activity 3

Work in small groups and discuss how people saved money, food or things in the past in the areas listed in the table. For example, in South Malaita the traditional way of saving root crops such as yam and pana harvests was to store the remaining crops in a small house, so the harvest could be used throughout the year and for replanting in the future.

Copy and complete the table below in your exercise book.

Provinces/ Islands	How people saved things in the past
Malaita (lau – northern)	Built yam house in the garden to save yam. Traditional money put in woven <i>kaufe</i> (a traditional mat used to store goods)
Western	
Makira	
Guadalcanal	
Isabel	
Choiseul	
Temotu	
Others	

DO
NOT WRITE
IN THIS
BOOK

4 Ways to save

Just as there are several reasons for saving, there are many ways in which one can save.

It is very important to keep savings safe. Traditionally in Solomon Islands, people saved food and traditional money. For instance, some coastal people smoke fish that can be kept for a long time. Some people in villages still save their money by hiding it in their house or in a tree, or putting it in a tin and burying it in the ground.

It is very unwise to save money in these ways because it is easy to lose it. People may forget where it has been hidden or it may have been put in a place where it can be easily stolen. It may be burned accidentally or rats and other pests may eat it. It is not productive either; other needy people are not getting the chance to use the savings.

Let us see how people in our modern world keep their savings. Our modern commercial system has introduced a better way of saving money. We use the services offered by banks and other financial institutions.

The advantages of putting money into these organisations are that interest is paid on the money and the money is safe from the problems mentioned about saving money in the village. Money still belongs to you and can be taken back when it is needed.

There are several methods available in Solomon Islands for saving money wisely:

- commercial banks
- saving and loan societies or credit unions
- National Provident Fund
- investment in businesses.

Activity 4

Answer these questions.

- 1 What happens to our money when it is put into the bank?
- 2 What is the safest way to keep money?
- 3 Why is it difficult to keep money in the home for a long period of time?
- 4 In the traditional system, some people hide their money in a tree or bury it in the ground. What could happen if money is hidden in this way?
- 5 Name any two government services that help us to save money.

5 Commercial banks

Commercial banks provide a lot of services for the people. Banks are different from other financial institutions in many ways.

A financial institution is an institution (public or private) that collects funds (from individuals or other institutions) and invests them. Financial institutions facilitate the flow of money through the economy. Most financial institutions are regulated by the government.

Broadly speaking, there are three major types of financial institutions.

- 1 **Depository institutions:** these accept and manage deposits and make loans, and include banks, building societies, credit unions, trust companies, and **mortgage loan** companies. (A mortgage loan company manages the conditional transferring of property as security for a loan.)
- 2 **Contractual institutions:** these are insurance companies and pension funds.
- 3 **Investment institutions:** these are investment banks, underwriters and **brokerage firms**. (A brokerage firm employs brokers who buy and sell goods or securities on behalf of others and are paid a commission or brokerage.)

They are the main places where people keep their savings, as well as money they may need for a business. They are also the main sources of credit to households and businesses.

The word 'commercial' is used to indicate that banks operate like any other businesses; in other words, they are businesses offering a service to the community. The reward they get for doing this is profit. You will learn more about profit in the next chapter.



Figure 4.9 Commercial banks that operate in Solomon Islands: BSP Bank, ANZ Bank and Westpac Bank (not shown is Pan Oceanic Bank)

Activity 5

Answer these questions.

Do you have an account with any of the commercial banks in the country?

If your answer is yes, what type of account?

If your answer is no, then imagine you open an account with one of the commercial banks.

What requirements do you need to fulfill?

Note: Each bank has different requirements.

Your teacher will help you.

Types of savings bank accounts

Commercial banks offer different types of accounts for people to save money.

Savings account

A savings account is a basic bank account that is good for day to day banking needs, such as making regular deposits and withdrawals. Automatic salary payments can be made to this account. It has several benefits:

- earns interest monthly
- easy access to money by presenting Ezy card for each **withdrawal**
- for added security, only the account holder may make withdrawals
- unrestricted number of withdrawals per day
- any small amount can be deposited at any time
- statements issued every six months, or on request.

SD530 (MR. MRS. MS. MISS)	GIVEN NAMES	SURNAMES	Account No.
Full address and changes of address			Black Light Yes/No
Phone No.	Priv. Bus.	Occupation	Agency (Where applicable)
For joint accounts requiring only one signature for operation. Until written notice to the contrary from us or any one of us is received by the Bank South Pacific one of us may in any manner withdraw money's from the joint account opened in our names and any one of us may in any manner close the account and the Bank is authorised to accept for the credit of our joint account any cheque or other negotiable instrument payable to any one or more of us and cheques and any other negotiable in instruments lodged for credit of the joint account may be endorsed by any one or more of us			Method of operation Joint A/cs
Name of Village	Name of next of kin	DATE and BRANCH A/C OPENED	
Name of Island	Relationship of		
Name of Father	Name of mother		
Signature(s) or Keyword of Depositor	Date of Birth	Initial Deposit	
	Date of Birth	CASH	
		CHQS	
		TOTAL	
EZY CARD NO'S	INITS		
DATE OF ISSUE	OPENING OFFICER		
Identification PERSONAL ID	EXAMINER		
PASSPORT NO.	CHECKING OFFICER		
LICENSE NO.			

Figure 4.10 An example of an application form to open a new account

The Bank, Solomon Islands - DEPOSIT		THE BANK, SOLOMON ISLANDS		Transaction Deposit		Date / /	
Date / /	Account Name	ACCOUNT TYPE:	Cheque <input type="checkbox"/>	Savings <input type="checkbox"/>	Loan <input type="checkbox"/>	Bank Use Only	Notes
Account No.	Teller Stamp	Branch Name				\$100	Coins
		Account Name				\$50	Chèques
		Account No.				\$20	\$
		Depositor's Signature				\$10	No of Cheques
						\$5	
						\$2	
						Coin	
						Total	
						Teller's Initial & Stamp	

Figure 4.11 An example of a deposit form

THE BANK, SOLOMON ISLANDS			Date / /
Savings Transaction Withdrawal			
Kundu Account <input type="checkbox"/>	Achiever Account <input type="checkbox"/>	Smart Saver Account <input type="checkbox"/>	
Branch Name:	Branch No.		
Account Name:	Account No.		
Amount in Words:			
Signature:	\$:

Figure 4.12 An example of a withdrawal form

Cheque account

The minimum opening balance for a cheque account is usually \$50. Using cheques is a convenient and secure way to pay bills.

The Bank, Solomon Islands		384224
PAY Adrian Paul		21st March 2013
OR BEARER		
*** Four Hundred dollars and 00 cents		SBD 400.00
TREASURY		
ACCOUNT No. 4003406		
384224		

Figure 4.13 An example of a cheque

Term deposit

An interest-bearing term deposit account is also known as a fixed deposit account.

People who do not need their savings for a while can use this type of account. This investment facility is for a fixed term, ranging from one month to two years, and offers a fixed rate of interest. The interest rate payable is subject to the term and amount. Interest is payable six-monthly or at maturity. The minimum opening balance is usually \$2500 and the benefit is that the interest is higher than for a standard savings account. Because the deposit is fixed for a set term, you do not usually have access to this money until the term is complete without paying a penalty fee. This means that you cannot be tempted to spend your savings, but it also prevents you from accessing the money if you really need it.

School fees saving account

This is a saving account designed for educational costs only. Withdrawals can only be made upon receipt of a letter or invoice from a school. There are several benefits:

- no bank cheque fee
- deposits may be made at any time
- periodical payments can be made directly from a salary account to a school fees saving account
- interest calculated daily and paid monthly.

Call account

This account enables your funds to remain on call while earning interest in the short term. Interest is accrued daily and paid at the end of each month. Individuals, businesses, religious and charitable organisations, societies and companies can open a call account. The minimum opening balance is \$5000. You can open a call account with any of the commercial banks.

Activity 6

Answer these questions.

- 1 Practise a simple and permanent signature. When you open a savings account you will need to have a stable signature.
- 2 Try to find out the minimum opening deposit for a bank close to your school. Try to find out about the interest rates given at this bank.
- 3 If you are at school near Honiara or in a main provincial town, find out the interest rates offered by different banks for saving bank accounts.

6 Savings and investment

So far we have talked about saving money. Money we keep for future use can be saved in banks or in other financial institutions. It is possible to earn profit, but the reason people save is usually to achieve goals, or to set aside money for emergencies.

If a person wants to use some money to earn extra money, then they make an investment. In Chapter 3, you learnt about financial institutions where we can invest to earn a higher income. We can also save money in bank accounts, where we earn a smaller interest.

Activity 7

Answer these questions.

- 1 Make a list of financial institutions in Solomon Islands where people can save or invest their money.
- 2 Explain the difference between savings and investment.
- 3 Why do we invest and save money?

Other financial institutions where you can invest are:

- savings and loan societies
- the National Provident Fund
- businesses
- companies (by buying **debentures**)
- cooperative societies
- a business of your own.



Figure 4.14 Some business people choose to invest their savings in their own business.

7 Inflation

Activity 8

Discuss these questions in small groups.

- 1 Have you ever heard of the Honiara Consumer Price Index? What do you know about it?
- 2 Look at the Honiara Consumer Price Index below. What do you notice about the prices?
- 3 Did the price increase for one particular item or for most of the items?
- 4 What do you think could have caused this price increase?
- 5 How do you think we measure the Honiara Consumer Price Index?

The Honiara Consumer Price Index by group (4th Qtr 2013 = 100)

Year/ Month	Food	Drinks & Tobacco	Clothes & Shoes	Housing & Utilities	Household Operations	Transport & Communication	Recreation Health & Other Services	Misc.	All items	% change
Weight	429	47	38	181	47	164	76	18	1000	
2012										
January	162.7	181.5	143.1	190.0	170.1	140.9	129.7	186.8	162.5	0.3
February	168.6	173.3	143.8	191.4	169.7	141.7	129.7	187.2	165.0	1.6
March	175.2	175.3	143.8	191.4	169.9	143.0	129.7	188.0	168.2	1.9
April	176.7	177.2	143.8	202.8	171.9	144.9	129.7	188.7	171.4	1.9
May	175.5	170.3	143.8	202.7	171.9	144.8	129.7	191.1	170.5	-0.5
June	170.2	173.5	143.8	202.7	172.1	143.7	129.7	192.3	168.3	-1.3
July	171.1	168.0	143.6	202.7	172.1	143.7	129.7	193.8	168.4	0.1
August	170.5	168.7	143.6	202.7	172.2	138.8	129.7	197.4	167.5	-0.6
September	168.5	170.9	144.0	204.0	166.7	142.9	129.7	197.4	167.4	0.0
October	167.0	170.8	144.0	217.0	166.7	145.6	130.9	197.4	169.6	1.3
November	165.8	192.4	144.7	216.8	166.5	146.3	130.9	197.0	170.1	0.2
December	167.5	193.1	144.7	214.2	167.0	144.4	130.9	194.3	170.2	0.1
2013										
January	170.0	208.6	155.6	230.6	176.2	144.4	127.7	195.1	175.6	3.2
February	173.3	210.2	155.6	231.0	176.3	145.1	127.7	197.9	177.3	1.0
March	175.2	201.7	155.6	231.1	176.0	146.6	127.7	197.9	177.9	0.4
April	177.1	194.8	155.6	232.7	176.8	147.9	127.7	197.9	179.0	0.6
May	177.1	191.6	155.6	232.7	177.2	145.9	127.7	197.9	178.5	-0.3
June	180.4	184.5	155.7	232.1	177.2	144.5	127.7	197.9	179.3	0.4
July	179.8	187.4	155.7	232.1	177.2	145.6	127.7	197.9	179.3	0.0
August	177.8	188.0	156.3	232.1	176.6	144.1	127.7	198.9	178.3	-0.6
September	175.7	188.7	157.5	231.2	176.2	145.4	127.7	196.8	177.4	-0.5
October	172.4	196.3	157.5	228.7	176.2	147.4	127.7	196.8	176.3	-0.7
November	167.6	205.4	157.5	228.8	176.2	147.3	127.7	196.8	174.6	-0.9
December	166.1	214.1	157.5	228.8	176.2	147.2	127.7	196.9	174.4	-0.2

Solomon Islands Government Statistical Bulletin: 1/2014 HONIARA CONSUMER PRICE INDEX (CPI) (Including Measures of Underlying Inflation) (November –December, 2013), Solomon Islands National Statistics Office Ministry of Finance & Treasury, Table 1, page 2
<http://www.spc.int/prism/solomons/index.php/sinso-documents?view=download&fileId=73>

Figure 4.15 The Honiara Consumer Price Index

What is inflation?

Inflation is the general increase of the prices of *all* goods at a particular time. Inflation does not happen when the price of just one particular good increases. Inflation is measured by checking the **consumer price index**.

The consumer price index

This is an index that shows variation in prices paid by typical consumers for retail goods and other items. The consumer price index (CPI) measures changes in the price of a standard basket of consumer goods and services purchased by households.

The consumer price index is measured by a percentage increase in the overall price of goods. For example, if the inflation rate is 10% per year, then you could expect a product costing \$100 this year to cost \$110 next year ($10/100 \times 100 = 10\%$). On the other hand, the inflation rate is the average increase in prices, so the actual increase in prices for any particular good could be lower or higher.

What causes inflation?

There are different reasons for inflation.

Increased demand for most goods

Imagine if the prices of all our main crops (copra, oil palm and cocoa) increased. People in rural areas would earn more money, and this would mean they would want to buy more things. When more and more people want to buy goods, we say that there is more demand for goods. If more people demand goods, this can lead to prices for the goods going up. This is inflation.

Increased cost of production

If the costs of producing goods or providing services increase, businesses have to put up the prices of their products. When the prices of goods rise, wage earners will often ask for an increase in their pay. They do this so that they will be able to buy the same amount of goods as before. For the same reason, factory owners or business people may want to make bigger profits. The increased prices of many goods could mean inflation.

Imported inflation

Solomon Islands buys many goods from overseas. If there is inflation in other countries, then importers have to pay higher prices for these goods. The higher prices are passed on to consumers here. This is called imported inflation.

Too much money in the country

If the government printed more money and gave everyone a big salary increase, people would become richer. However, the value of money depends on what it can buy.

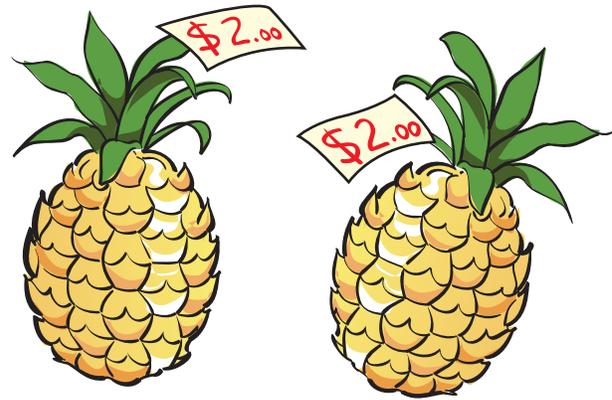


Figure 4.16 Each pineapple costs \$2.

For example, imagine a very tiny country. The government has printed only two \$2 notes. The only thing that has been grown in this country is two pineapples. If all the money is used to buy pineapples, each pineapple would cost \$2. Now, if the government decides to print more money, will the people be better off? The government prints two more \$2 notes so now there is now \$8 available to spend. But can it buy more? There are still only two pineapples. The only result is that each pineapple will now cost \$4. The price has gone up and no one is better off.

Solomon Islands will only become richer by producing more goods and services. If the government prints more money, but there has not been any increase in the number of goods and services produced, this leads to inflation.

Activity 9

Get into four groups. Discuss the following questions:

- 1 What is inflation?
- 2 What causes inflation?
- 3 How is inflation measured?
- 4 How does inflation affect consumers and producers?
- 5 How does inflation affect your savings in the bank?

Inflation and the value of money

If there is inflation and your income remains the same, you lose because you cannot buy as much with the same amount of money.

THE INFLATION PROBLEM



Figure 4.17 The inflation problem

In Figure 4.18 the man is not able to buy as much as he could before because prices have risen. He is angry because prices have increased. However, the store woman is pointing out that the coat will probably cost more next year.



Figure 4.18 The changing value of money

If a person saves their income by hiding it in their house, they will actually lose some of the value of the money when there is inflation. Suppose Joy hides \$1000 away for three years. When Joy tries to spend that money, she will find that she cannot buy as many goods with that money as she could have three years before: \$1000 may only be worth \$850 today.

Inflation and interest

If you earn interest on your savings, say in a bank account, this can help you fight against inflation. This only happens if the rate of interest you receive is greater than the rate of inflation. Therefore, if you save money quickly and then buy what you want, inflation may not be such a worry. However, when money is kept for many years, inflation may cause it to lose value. Inflation in our country is up to 15%, according to a statistics report from 2004 onwards.

Inflation in urban areas

In cities, there is little chance of self-sufficiency, that is, producing things for yourself instead of buying them. So money is needed to buy food, housing, transport and clothes. Therefore, if the prices for these goods and services increase, people living in town are worse off, unless their incomes also increase.

In rural areas people are not so dependent on money, as they can provide many essential items for themselves. Therefore, inflation may be more harmful for town people than for people living in rural areas.



Figure 4.19 People in towns buy their fruit and vegetables from supermarkets and markets. In rural areas people grow their own food.

Activity 10

Make a list of things that people living in a town might do to cut down the amount of money they need to spend. Think partly of ways in which they may become more self-sufficient.

Activity 11

Explain what Figure 4.20 tells us about saving. Write your answer in your exercise book.



Figure 4.20 How savings help our economy to grow

Chapter summary

Chapter

4

Saving is keeping aside money or something earned. It's a good investment for the future. Some common reasons to save:

- in case of an emergency, such as sickness in the family, poor harvest from the gardens, unemployment and cyclones
- to pay for something expensive in the future such as school fees, land rental, a wedding
- to buy property, such as a better house, a radio, an outboard motor
- to have some money for old age and even to start a business
- to improve living conditions and thus have a better standard of living.

In rural areas, food and money are saved by:

- hiding money in houses or in a tree
- putting savings in a tin and burying it in the ground
- smoking fish or other meat to keep it for a long time.

Disadvantages of saving money like this:

- people may forget where they put it
- it can be easily stolen
- it may be burned accidentally or rats and other pests may eat it
- other people cannot use it by borrowing.

Safe methods of saving money, even in rural areas, are available in financial institutions such as commercial banks, savings and loan societies or credit unions, National Provident Fund, and investment in businesses.

Financial institutions provide a range of savings accounts:

- Ezy accounts
- cheque accounts
- term deposits
- school fee accounts
- on call accounts
- ATM accounts.

Saving and loan societies accept some savings and investments, such as investment in business, investment in debenture and investment in cooperative societies.

Glossary

asset item of value owned by a person or business

brokerage firm a business that employs brokers who buy and sell goods or securities, on behalf of others and are paid a commission or brokerage

consumer price index (CPI) a list of the variation in prices paid by consumers for retail goods and other items

debenture a type of loan to companies

financial institution a business that collects funds (from the public or other institutions) and invests them in financial assets, e.g. banks, credit unions

inflation the general increase of prices of all goods at a particular time

investment paying money into a bank or an enterprise, usually to earn a profit

mortgage loan the conditional transfer of property as security for a loan, e.g. land

savings keeping money aside that was earned

withdrawal taking money out of a bank account

Specific learning outcomes

By the end of this chapter, you should be able to:

- explain the terms retailer, retail outlets, market sellers, trade stores, specialty stores and supermarkets
- describe various steps in the retail process
- identify examples of the retail process in Solomon Islands and state the value of a retailer
- know the difference between various types of retail outlets or businesses
- list and explain the types of retail outlets in Solomon Islands
- state the advantages and the disadvantages of any of the three types of retail outlets
- describe the means of purchasing goods and services
- discuss how retail businesses set their mark up to earn profit
- identify and explain the various methods of purchasing goods and services
- explain the factors that determine the success of retail outlets.

1 Introduction

In a subsistence society people directly consume what they produce. But in a cash society people mainly produce goods and services to sell to other people and then people consume the goods and services.

Many people and businesses in Solomon Islands sell goods and services. They often compete with each other. This strong **competition** usually means that consumers receive good value for their money when they buy anything.

There are many sellers who offer a wide variety of goods and services, which gives consumers choice. To be a wise buyer or consumer you need to make the right choice.

2 Retailers

Solomon Islands has many **retailers**. Retailers are people who sell goods or services to consumers.

Retailing is the selling of goods and services to consumers. There are many different retailers in Solomon Islands. How many types can you name?

Some retailers sell the goods that they produce themselves. For example: a person who produces goods like taro or potatoes in the garden and sells them at the market to consumers is a retailer. Other retailers buy the goods produced by other people and then sell them on to consumers. An example of this is your local trade store.

Goods usually do not go directly from producers to consumers. More often, the producers sell their goods to a business person, who then sells them to consumers.



Figure 5.1 A producer selling her goods to consumers

Activity 1

... ..

Answer these questions in your exercise book.

- 1 Who is a retailer?
- 2 Explain how competition among retailers usually means that consumers receive better value for their money when they buy a good or service.
- 3 In a subsistence society people mainly consume what they produce. Explain why.
- 4 When do we say that a producer is a retailer?

3 Retail outlets

A **retail outlet** is any place where goods or services are sold directly to consumers.



Figure 5.2 An example of a retail outlet

Activity 2

Answer these questions in your exercise book.

- 1 Name any retail outlets you know within your community or near your school.
- 2 List the types of goods and services sold by retailers in these outlets.

There are many types of retail outlets in Solomon Islands. Examples of retail outlets are:

- a market stall
- a trade store
- a street seller
- a specialty store
- a supermarket
- a department store.

Activity 3

Divide the class into six groups and assign a number to each group from 1 to 6. In your group, answer the following questions.

- 1 What is a retail outlet?
- 2 Explain the type of retail outlet you have been given, and provide an example of this retail outlet.
- 3 List and discuss the advantages and disadvantages of your group's example of a retail outlet.
 - Group 1: A market stall
 - Group 2: A trade store
 - Group 3: Street sellers
 - Group 4: A specialty store
 - Group 5: A supermarket
 - Group 6: A department store

Market sellers

A market is where things are bought and sold. Producers and consumers can also meet and talk there. A market seller can display their goods to sell directly to consumers.

One advantage for both sellers and buyers at a market is that they have an opportunity to exchange goods and services.



Figure 5.3 Buyers and sellers meet at the market.

Selling and shopping at a market offers the following advantages:

- Buyers and sellers can meet and talk.
- Bartering can take place.
- You can choose a variety of goods and services.
- You can compare market prices to get cheaper goods.

On the other hand, the market place also has some disadvantages.

- Weather can affect the quantity and quality of produce (price rises due to short supply in the market).
- Limited space to put the goods if there are too many sellers.
- You may have to travel far to a market place.

Activity 4

Answer these questions in your exercise book.

- 1 Explain why producers go to the market to sell their products.
- 2 Why is it an opportunity for both sellers and producers to meet at the market?
- 3 Who sells directly to consumers?
- 4 Give two examples of market sellers you know.

Street sellers

A street is a public road in a city or town that has houses and buildings. Street sellers are usually found on busy streets. There are many street sellers in our towns, and they provide services for consumers. They display a variety of goods and services such as baskets, soaps, carvings, and hand watches. Street sellers may have produced the goods they want to sell or they may get the goods from someone else and then sell them to consumers.

Street sellers put themselves where there are a lot of people along the streets. Sometimes they do not need to pay for a licence or fee. Sometimes they sell without permission from the local authorities so if they are caught they risk having to pay a fine. In contrast, market sellers pay a licence fee. The money raised by these fees is used to keep the market clean at all times.



Figure 5.4 Street sellers also sell goods directly to consumers.

The advantages of selling as a street seller are:

- they can move around anywhere they want to
- they pay no fee (though they should have a hawker's licence)
- they have easy access to customers because they are selling on the street and attract passers by.

On the other hand, there are some disadvantages to street selling.

- They have no proper shelves or table to put the goods on.
- Some of the goods are sometimes expired.
- They may cause overcrowding on the street.
- Criminals might destroy their product or service.

Activity 5

Copy the sentences into your exercise book and fill in the blanks using one of the words in the box below.

street sellers producers variety cheaply

- 1 Street sellers may also be the _____ of the goods they want to sell.
- 2 Street sellers display a _____ of goods such as baskets, biros and soap.
- 3 _____ sell directly to consumers.
- 4 Street sellers usually sell goods _____ because they do not have many extra costs.

Trade stores

Trade stores are a common feature of Solomon Islands towns. They sell a range of manufactured goods, including groceries and basic household items. Trade stores are usually owned and run by only one person, with a small amount of capital. They are run as a business to earn profit.



Figure 5.5 Trade store owners usually sell goods that have been produced by a manufacturer.

Trade stores serve only a small number of people within a village or community. Consumers may buy single articles, such as a packet of cigarettes rather than a carton, a kilo of rice rather than a larger bag.

Sometimes trade stores give **credit** to their customers. This means a trade store owner lets their customers take the goods and pay for them later.

But trade store owners should not always give credit, because they can never be sure when customers will pay for the goods they get. The store owner may also need the money to keep the business running. Trade store owners should put a limit on credit given to each customer.

The advantages of a trade store are:

- they sell goods that have been produced by a manufacturer
- consumers may buy single articles, such as a packet of cigarette or a kilo of rice
- sometimes they give credit to their customers
- they often operate in villages so it is convenient for people who do not live near towns.

The disadvantages of a trade store are:

- they stock only a small variety of goods
- they are not very large
- they serve only a small number of people within a village or community.

Activity 6

... ..

Answer these questions in your exercise book.

- 1 Write down any five manufactured goods you buy from a trade store.
- 2 Trade stores sell goods in single articles rather than in bulk. Why?
- 3 Why do you think trade store owners should not allow their customers too much credit?

Specialty stores

Specialty stores specialise in selling only a certain type of goods. Examples of specialty stores include hardware, pharmacy, clothing and book shops.

Specialty store owners usually buy their goods from a manufacturer and then sell them on to the consumer.

The advantages of specialty stores are:

- store owners are usually very knowledgeable about the products they sell
- the stores often have a good range of their product.



Figure 5.6 This specialty store sells clothing.

The disadvantages of specialty stores are:

- ▶ they do not offer a large variety of different types of goods
- ▶ if their specialty area is not in high demand for any length of time, they will not sell enough goods to make a profit.

Supermarkets

Supermarkets are very large stores that are usually found in towns. For example, in Honiara there is Wings, Nicky and Ausmart.

Supermarkets buy in bulk from wholesalers. Because they buy a large quantity in one order, the wholesaler sells for a lower price. This allows supermarkets to sell to the consumer at a lower price compared to trade stores.

The advantages of a supermarket are:

- ▶ there is more space inside to move around
- ▶ they offer a large variety of goods
- ▶ because they have a larger number of customers, they sell more goods so the goods are fresher
- ▶ consumers can buy all the groceries they want under one roof
- ▶ they offer self-service (customers choose what they want and pay at the checkout point or cashier)
- ▶ their prices are often cheaper than trade stores.

Disadvantages of a supermarket include:

- ▶ they are mainly in the centre of towns, so it is less convenient to reach them
- ▶ sometimes their prices are higher than those in trade stores.



Figure 5.7 The cash register machine quickly adds up the cost of the groceries.



Figure 5.8 Supermarkets mainly sell food and household items.

Activity 7

Discuss these questions in small groups. Then write the answers in your exercise book.

- 1 Why do you think supermarkets buy in large quantities from wholesalers?
- 2 Write down any two supermarkets you know that operate in Solomon Islands.
- 3 What is the difference between a specialist store and a supermarket?
- 4 List four reasons why supermarkets sell a lot of goods quickly compared to other retailers.

Department stores

A department store is a large shop that is mainly found in cities. It is made up of a number of small sections called departments, which specialise in a certain type of goods. For example, one department may have baby goods, another may have stationery and another department may have household goods. It makes it easy for customers to find what they want to buy at one shop. An example of a department store in Solomon Islands is Ausmart Company.

4 The steps in retailing

At the beginning of this chapter we saw some different ways in which goods can get from producers to consumers. In our modern commercial society, goods do not usually go directly from the producers to the consumers. Instead, they are bought and sold many times before they reach the consumers. Let's look at some ways in which goods can get from the producer to the consumer. This is called the chain of production.

One-step retailing

This is where the producer or manufacturer sells goods directly to consumers. You can see this at a market, where a farmer sells the crops they have grown to consumers.



Figure 5.9 One-step retailing

Two-step retailing

This is when the producer or manufacturer sells their goods to another person or business (the retailer). The retailer then sells the goods to consumers. This usually happens in towns, for example Gizo, Auki, Taro and Lata. It is common for goods like bread, vegetables, betel nut, limes and so on to be sold in this way.

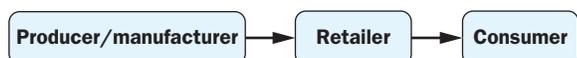


Figure 5.10 Two-step retailing

Three-step retailing

The three-step model is common in a small developing country like Solomon Islands. Goods are produced in large quantities in other countries. The manufacturer or producer sells in bulk to a wholesaler. The wholesaler sells smaller quantities of the goods to many retailers. The retailer then sells single items to consumers.

In Solomon Islands almost all goods manufactured overseas are sold like this, as most retailers cannot directly contact people overseas.



Figure 5.11 The three-step model of retailing

There may even be four stages:



Figure 5.12 The four-step model of retailing

Distribution

Distribution describes how goods get from the producer to the consumer. Wholesalers, retailers and producers all depend on each other to get the goods to the consumer.

If a manufacturer is in another country, a local business may make arrangements to import the products or goods. This local business is the distributor. The distributor stores the products in a warehouse and then sells them to other businesses around the country. A distributor does not necessarily want to sell the product directly to the consumer.

Local manufacturers may choose to sell their goods to the wholesaler, who performs much the same function as the distributors.

Activity 8

Answer these questions in your exercise book.

- 1 Why is the process of getting goods from the manufacturer to the consumer described as a chain of production?
- 2 What type of business is most likely to have a warehouse? Explain your answer.
- 3 What is the role of a wholesaler?

5 The value of the retailer



Figure 5.13 Retailers provide services to consumers.

Services to consumers

Retailers buy goods from wholesalers or manufacturers and sell them to consumers. Retailers provide several services to consumers.

- Stores stock a variety of goods in the one place.
- Sometimes consumers can get advice on the products and what is the best product for their needs.
- Sometimes the consumers can take the goods and pay later (i.e. have the goods on credit).

Activity 9

Answer these questions in your exercise book.

- 1 Rank the three services to consumers listed in the text above from most important to least important. Explain your reasons.
- 2 Think about any retailer around your area and describe two services that they provide for the community or customers.

Services to producers

Producers of goods are in the business of making products. To be efficient at making products, they do not want to spend time selling their products as single articles; they want to sell large amounts at a time.

The retailer provides the service of buying products from the producers in large quantities. It is the retailer's job to sell the products in single articles or small quantities to consumers.

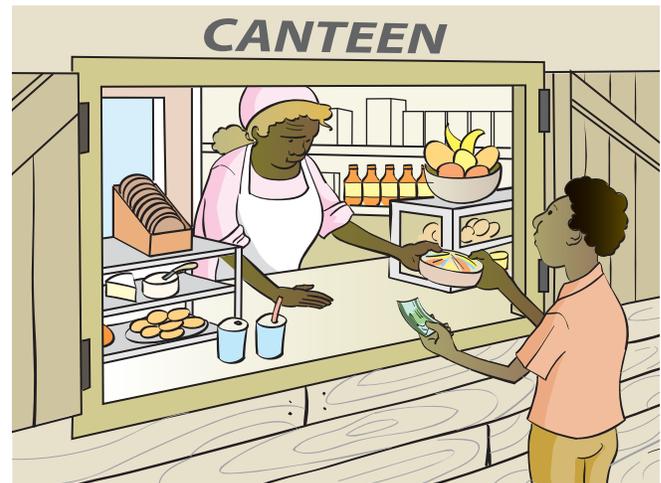


Figure 5.14 The school canteen buys products from the producer.

Activity 10

- 1 In your exercise book, copy the table below. Survey a nearby street seller or any retail store to find out where they get their goods from.
- 2 Ask them why they get their goods from these places.
- 3 Is there a relationship between the wholesaler and the canteen or retail store owner? Explain.

Product name	Producer	Type of product	Where they get supplies from (Producer or wholesaler)
Clean soap	Solomon soap	Washing soap	Ranadi



6 The wholesaler

The wholesaler is sometimes called a middleman, because they work between the producer and the retailer. Wholesalers make contact with producers all around the world, and buy from many different producers.

Services to producers

Wholesalers provide several services. They:

- ▶ buy the supply of goods and sell them to the retailer
- ▶ buy in bulk (i.e. buy in large quantities)
- ▶ store the goods, thus saving space for the producers
- ▶ often pay the producer for the goods in cash. This allows the producer to buy more materials and make more goods
- ▶ communicate with the retailers, allowing the producers to focus on making their product, not on selling it
- ▶ pass back information to the producer on how to improve the goods being made.

Activity 11

Work in groups to answer these questions.

- 1 Why is the wholesaler sometimes called a middleman?
- 2 What do you think would happen if the retailer bought goods directly from the producer?

Services to retailers

Wholesalers also work closely with the retailers. They:

- ▶ store goods until the retailers need them
- ▶ often allow retailers to buy goods on credit, which allows the retailer to operate on little capital
- ▶ sometimes deliver the goods to the retailer's store
- ▶ offer the retailer a wide variety of goods in the wholesaler's warehouse
- ▶ may even give the retailers a **discount** (if they happen to be a good customer). Discount means a reduction in the cost price.



Figure 5.15 Goods are stored in the warehouse ready for the retailer to collect them.

7 How to be successful in retail

We will now look at how some retailers try to make a profit when they start a trade store.

Retail outlet owners get their **revenue** from selling goods. Their main **expense** is the cost of buying the goods. To make a profit, their revenue must be greater than their expenses. Revenue is money coming into the business and expenses are the money going out of the business.

Many retail businesses today close down because they are not successful and do not make a profit. There can be many reasons for this. Let us look at some factors that are important for running a successful trade store.

Activity 12

Working in groups, think of three trade stores you know, or imagine three trade stores:

- a a very successful one
- b a less successful one
- c a store that had to close.

Discuss possible reasons for the success, or lack of success, of each example.

Competition

Competition is when one person tries to be better than others at the same activity. It is the same idea for commerce. If there is only one trade store in the area, all the consumers go to that store to buy their goods. But if there are many trade stores, consumers will choose which trade store they want to buy from. All the trade store owners must compete with each other to attract customers. If one trade store has no customers, it will close down. And if one trade store has most of the customers in the area, it will make more profit.

Therefore, before starting a trade store business it is important to find out whether there any other trade stores in the area. If there is competition, you may decide not to start up a trade store. But if there is no or very little competition, there is a high chance that a new trade store will make a good profit.

Location

The owner of a trade store needs to think carefully where they will build their store. To make a profit, they must start their business close to where there are many people who have money to spend. If there are not enough customers, the business will not make a profit.

Management

Management is controlling and organising the work a business does. The trade store owner can encourage customers to return again and again to buy their goods in many ways.

- ▶ Open the store at regular times. This means keeping to the same pattern. A good business person will open and close the store at the same time every day. Customers will get angry if they walk to the store and find it closed when they expect it to be open.
- ▶ Greet customers and don't argue with them.
- ▶ Keep the store and surrounding area clean and attractive at all times.
- ▶ Provide good quality and a wide range of stock and arrange it in an attractive way.

Keeping cash and stock safe

Cash should not be left lying around on the shelf because it can easily be stolen. It should be kept locked in a cash box. Only enough cash to give change to customers should be kept in the store. It is safer to put

any extra cash in the bank, or to buy more stock with it. The store itself should be locked when it is not open for business. All the stock should be kept safe and dry.

Selling at the right price

Deciding on a selling price for goods is very important. The difference between what the goods cost the retailer to buy from the wholesaler or producer and what they are sold for to the consumer is how the business makes profit.

For example, a trade store owner buys a shirt from a wholesaler to resell in their store. It costs \$20 to buy, so they need to charge more than that when they resell it in their store. Perhaps they charge \$25. The difference of \$5 is the profit. All their other expenses have to be paid out of this difference, before the final profit can be determined.

Profit = revenue – expenses (\$25 – \$20) = \$5

As well as ensuring that they make enough profit to cover their expenses, a retailer also has to ensure that they price their goods competitively. If they set the price higher than consumers are willing to pay or think the good is worth, they are likely to lose the sale. If they set the price higher than another retailer selling the same goods nearby, consumers will choose to shop elsewhere.

Activity 13

.....

Answer these questions in your exercise book.

- 1 How would you find out the competition in an area? Think of an area you know. How much competition is there?
- 2 Why does a trade store owner need to find a good location before starting their business? Think of an area you know. What would be a good location to start a trade store?
- 3 Write two ways in which a trade store owner can make a profit.
- 4 A trade store owner buys five packets of soap for \$10. She sells them in her store for \$3 each.
 - a How much did each packet cost the owner when she bought them?
 - b What would be her profit for the soap?

8 Calculating the selling price

Many retailers buy stock from wholesalers or directly from producers. What they pay is the cost price. When they sell the goods to the customers it is called the selling price. The extra money that they add onto the cost price to get the selling price is called **mark up**.

The mark up refers to the amount of money that is added onto the CIS (**cost into store**) of goods in order to find the good's selling price. The size of the mark up will change depending on the type of goods and where the store is. The mark up has to be big enough to help cover all the other costs of running the business, as well as leaving enough profit for the business person.

The mark up is usually expressed as a percentage. For example, the mark up on a range of products may be 30%. If a particular good has a CIS of \$100, then 30% is added on as the mark up. This means that the selling price would be \$130: \$100 + (30% of \$100).

As discussed earlier, a retailer cannot be too greedy when adding their mark up. There are two reasons: competition and price control.

Competition

If one retailer has a high mark up, their selling prices will also be high. If a nearby retailer selling the same goods has a lower mark up, its selling price will be lower, and people will buy their goods there.

Price control

By law retailers cannot mark up certain goods by more than a **fixed percentage**. Fixed percentage means a percentage that does not change.

It is important to add a fixed percentage to the buying price to cover both expenses and profit. Before the trade store owner adds the mark up, they must check what price other store owners in the area are selling their goods for.

So, if the price of the goods is too high, sales will fall. But if the price of the goods is too low, the trade store owner will lose money.

When calculating the selling price retailers are allowed to base it on the total cost of getting the goods into the store (CIS). It is made up of the wholesale cost plus the cost of freight, if there is any.

For example, imagine a retailer buys the following goods from a wholesaler:

5 cartons of tinned fish	\$300
2 bags of rice	\$170
4 cartons of biscuits	<u>\$100</u>
Total wholesale cost	\$570

However, the cost of transporting these goods to the retailer's store is \$40. How much of this \$40 should be added onto each tin of fish or packet of biscuits? This can be done by averaging the cost of freight over all the goods, as shown below:

$$\begin{aligned} \text{Average cost of freight on goods} &= \frac{[\text{freight}] \times 100}{\text{Total wholesaler cost}} \\ &= \frac{\$40 \times 100}{\$570} \\ &= 7\% \text{ (to the nearest cent)} \end{aligned}$$

If one carton of tinned fish cost \$60, the CIS of this carton would be:

$$\begin{aligned} & \$60 + (7\% \text{ of } \$60) \\ &= \$60 + \$4.20 \\ &= \$64.20 \end{aligned}$$

If there are 48 tins in a carton, then the CIS of each tin would be:

$$\begin{aligned} & \frac{\$64.20}{48} \\ &= \$1.34 \text{ (to the nearest dollar)} \end{aligned}$$

Based on this knowledge of the CIS of the goods being offered for sale, the retailer can now work out the selling price of each good.

Activity 14

Answer these questions in your exercise book.

- 1 Work out the freight as a percentage of total wholesale cost for the following situations.
 - a Martha bought 5 cartons of tinned fish at \$55 per carton; 4 cartons of tinned meat at \$50 per carton; and 2 cartons of biscuits at \$28 per carton. She paid \$50 freight for the goods to be taken to her store.
 - b Billy bought 10 cartons of box noodles at \$48 per carton and 10 cartons of snack foods at \$25 per carton. He paid \$60 to a Poma Ltd owner to take his goods to his trade store.
- 2 Calculate the CIS on the following: the freight percentage of total wholesale cost is 10%. A carton of tinned meat costs \$50 wholesale. There are 48 tins in a carton. How much is the CIS of each tin?

9 Record keeping

Retailers must keep records of the money they receive from selling their stock and the money they spend on expenses, such as buying the stock from a producer or wholesaler, rent for their store and any wages for staff. Each time they sell goods, they must record the amount in a book called a **cash book**. The cash book must be kept beside the cash box. When a sale is made, the money is put into the cash box and the amount must be written in the cash book.

At the end of the day, the amounts are added up.

A cash book shows two things:

- the money the trade store owner gets from their goods
- money paid out in expenses.

There are five columns in a cash book:

- 1 Date: shows the day that the money comes in or is paid out.
- 2 Details: says why the money is coming in or being paid out. For example, Sales (money coming in from selling goods)
- 3 Cash in: shows the amount of money that comes in
- 4 Cash out: shows the amount of money that goes out
- 5 Balance: shows the amount of money that is left

For example, the following information for Wendy Owen is written into a cash book, below. On 1 May she has \$200 balance. In the first week of May the following things happen:

3 May: she sells goods for \$25.50

4 May: she buys two cartons from ABA Distributors for \$38.40

4 May: she pays freight \$4.80

4 May: money from selling goods \$20.70

5 May: money from selling goods \$28

6 May: she pays herself wages of \$26

7 May: money from selling goods \$32.50

Date	Details	Cash in \$	Cash out \$	Balance	
May 1	Balance			200	00
May 3	Sales	25.50		225	50
May 4	Bought two cartons of stock from Abba		38.40	187	10
May 4	Paid freight		4.80	182	30
May 4	Sales	20.70		203	00
May 5	Sales	28.00		231	00
May 6	Wages		26.00	205	00
May 7	Sales	32.50		237	50

Figure 5.16 Cash book of Wendy Owen for the month of May 2014

Chapter summary

Chapter

5

The retailer provides a wide range of goods and services to consumers.

Two types of economy are: subsistence and cash economy.

In a subsistence society, people mainly consume what they produce themselves.

In a cash society, people mainly produce goods and services to sell to other people.

The market is one of the main places in Solomon Islands where buyers and sellers come together to meet and talk.

The steps of the retail process illustrate how goods reach the consumer from the producer.

A wholesaler is sometimes called a middleman, because they work between the producer and the retailer.

Retailers mostly provide manufactured goods for the consumer.

Trade store owners need to sell at the right price to be successful: if prices of goods are too low, the store will lose money. If the price of goods is too high, sales will fall.

Record keeping is an important part in running a business, and every transaction in a trade store should be recorded.

Glossary

cash book a book that records money the trade store owner gets from their goods and money paid out

competition a situation where people try to be more successful than other people

cost into store (CIS) the total cost of getting goods to a store, including wholesale price and freight

credit when consumers may take the goods and pay for them later

discount a reduction in the cost

distribution how goods get from producer to consumers

expense the money going out of the business

fixed percentage a percentage that does not change

management the activity of controlling and organising the work that a company does

mark up the amount of money that is added onto the CIS (cost into store) of the goods in order to find the selling price

retailer anyone who sells goods to consumers

retailing selling of goods and services to consumers

retail outlet any place where goods are sold directly to consumers

revenue the money coming into the business

Accounting



The next two chapters will build on your knowledge of accounting, which you first learnt about in Year 7.

Accounting is the process of keeping financial accounts or records. In other words, it involves keeping track of expenses, assets and income to ensure that any business decisions are informed by facts and the business owner or manager has a clear understanding of the state of their business at all times.

Single entry bookkeeping system

Specific learning outcomes

By the end of this chapter, you should be able to:

- explain the terms cash sales, cash sale book, cash book and stocktaking or inventory
- explain the purpose and importance of a cash book, cash sales book and stocktaking, journals, bank statement, profit and loss statement and **balance sheet**
- construct and prepare a cash sales book, cash book, profit and loss statement, journals and balance sheet using information from relevant sources like cash book, stock books and journals
- explain the terms drawing, refund, return, surplus, shortage, journal, profit and loss statement and balance sheet
- discuss how drawing, surpluses, shortages and refunds are recorded in a cash book
- explain how to prepare a profit and loss statement
- understand stocktaking procedure
- produce proper records of stocktaking or inventory, balance sheet and journals
- understand how to calculate the profit using goods sold and bought, goods at the start and goods at the end of the month
- draw and prepare how to calculate the profit and loss statement, journals and balance sheet for the month.

What do you know already?



Figure 6.1 Joan and her assistant

In the photo above, Joan and her assistant complete her records of goods bought and sold in her business.

- What does Joan need in order to record the goods sold and the goods bought in the business?
- Joan's business is successful. What do you think contributes to that?
- Who might have taught Joan how to record her cash coming in and out, and goods sold and bought?
- How is Joan keeping records of the goods sold and bought?
- What makes businesses fail?
- What does a store owner need to do to find the business profit and the expenses?
- Where can a store owner get training in bookkeeping and single entry?

1 Introduction

Business owners need to acquire basic knowledge about **bookkeeping**. They also need to teach their staff and provide exercise books, rulers and pens so that each day's **transactions** are written down.

This chapter looks at how to record the money coming into and going out of the business. Both cash and the goods sold and bought into the business need to be recorded in order for the business to know how much profit they earn each week or month.

2 Cash transactions

Activity 1

Discuss these questions in pairs and write your answers in your exercise book.

- 1 What is a transaction?
- 2 Can you name the two types of financial transactions?
- 3 What is bookkeeping?
- 4 How do you think a store owner keeps track of daily transactions?
- 5 What is the name of the book in which a business owner or bookkeeper records their daily sales and purchases of goods?
- 6 Why do you think a business needs to record their transactions each day?

A transaction is an event in business that causes change. Cash transactions are any type of financial transactions where cash is used to settle a payment at the time of transaction, such as in retail settings. This is different from a **credit transaction**, where a payment may be processed on the actual date of a transaction, but is not completed or settled until some point in the future.

With a cash transaction, the purchased **asset** is delivered immediately, payment is made, and both buyer and seller consider the transaction completed. An asset is something that a business owns.



Figure 6.2 Bus passengers enter a cash transaction with the conductor, exchanging money for a ride on the bus.

Cash sales

A cash sale is when cash or a cheque is exchanged for goods. Cash from these sales should be kept in a safe place such as a cash box, and a proper record of this money should be made. Most business owners take the money from their cash sales to the bank each day or week for safekeeping.

Owners must also be careful about the money they pay out. They must keep a record of how much they spend each day on buying goods from producers or wholesalers, or on other expenses such as bus fares. In these two cases a **cash book** is the most appropriate book to keep the recordings.



Figure 6.3 Cash is used in exchange for goods, in this case, vegetables.

What is a cash sales book?

A cash sales book is used to record money that the business receives from the sales of their goods. All money received in a day from sales should be recorded in the cash sales book. The total is then written in the cash column of the cash sales book.

Cash sales book – John Tano Store				
Date	Items	Tally	Price	Total
2014			\$	\$
Jan 1	Navy biscuit	IIII	2.00	8.00
	√ Packet coffee mix	III	1.00	3.00
	√ Sugar – 500 g	IIII	7.00	28.00
2	Rice – 1 kg	III	13.00	39.00
	√ Solomon Blue – medium	II	6.00	12.00
	√ Salt – 500 g	I	5.00	5.00

Figure 6.4 This is an example of a cash sales book kept by John Tano. Businesses normally sell more items in a day than is shown here.

Activity 2

- Copy the cash sales book above into your exercise book and add three more rows. Enter the following transactions and show the total for each day.
 - 3 January 2014, Noodles (Mamei) \$2.00 each packet, tally IIII
 - 4 January 2014, Waioka Taiyo (medium) \$6.00 per tin Taiyo, tally IIII
 - 5 January 2014, Corned beef \$15.00 each, tally III
- Jack found that he had written the sum of \$30 in his cash sales book for 2 February. He had put \$32 into his cash box that day. Explain how he may have made a mistake.
- Jenny added up her sales in her cash sales book on 3 February, and the total was \$29. She had put \$25 into her cash box. What was the most likely mistake she made?

Cash books

A cash book allows for more information to be recorded than a cash sales book. As well as recording the total money the business receives from the sale of goods, there is also a column to record the money paid out for goods and other expenses (cash purchases) each day.

Cash book – John Tano Store				
Date	Details	Cash in	Cash out	Balance
2014		\$	\$	\$
Jan 1	Balance (money in box)			384.50
	Goods sold	720.00		1,104.50
Jan 2	Bought goods from QQQ Wholesale Ltd		600.50	504.00
	Sold goods	520.60		1,124.60
Jan 3	Bought books and pencils from Auspac Stationery		230.00	894.60
	Sold goods	650.40		1,545.00
Jan 4	Bought goods from QQQ Wholesale Ltd		600.00	945.00
	Freight		40.00	905.00
	Sold goods	780.00		1,685.00
Jan 5	Bought goods from Abba Wholesale Ltd		650.00	1,035.00

Figure 6.5 An example of a cash book showing one week's transactions, kept by John Tano

In Chapter 5 you were shown an example of a cash book, as part of record keeping. Each day, as cash is put in the cash box, it is written into the cash sales book. The total is then written into the cash book. Money paid out is taken from the cash box. When it is taken out, the amount is written in the cash book.

Date	Details	Cash in	Cash out	Balance
Jan 1				384. 50
Jan 1	Goods sold	720.00		1104. 50
Jan 2	QQQ Wholesale Ltd		600.50	504. 00

Figure 6.6 An example of cash book entries

Activity 3

Use the cash book example in Figure 6.5 to answer these questions.

- 1 How much should be in John Tano's cash box at the end of 5 January?
- 2 How much did John Tano receive for the goods he sold over those four days?
- 3 How much did John Tano pay out for goods he bought those days?
- 4 Why did John have to pay \$40 for freight?
- 5 Copy Figure 6.7 (Henry Tawa's cash book) into your exercise book and complete the balance column.

Cash book – Henry Tawa Store				
Date 2013	Details	Cash in \$	Cash out \$	Balance \$
Feb 1	Balance			500.30
2	Bought goods from Y. Sato Co.		300.50	
	Goods sold	200.00		
3	Goods sold	150.00	30.00	
	Kerosene for lamp		50.00	
4	Goods sold	200.00		
5	Bought goods from Low Price Enterprises		500.00	
	Goods sold	150.00		

Figure 6.7 Henry Tawa's cash book

- 6 Use the information below to write out a cash book in your exercise book for Agnes Api Trade Store. Remember to split the money into two columns: cash in and cash out. And remember to add a column for the balance.

2014		\$
Mar 1	Balance	90.00
3	Goods sold	250.00
4	Bought goods from George Wu Trading	200.00
	Paid freight	30.00
5	Sold goods	200.50
	Bought goods from Abba Wholesale Ltd	250.00
6	Freight paid	25.00
	Sold goods	350.00

Figure 6.8 Agnes Api's cash book

As goods are sold, the amount received is written in the 'Cash in' column. There is a new balance afterwards. The amount received is added to the previous balance. So, in Figure 6.6, the first balance is \$384.50. Then, on the same day, 1 January, \$720 is received for goods sold in the store. This money is put in the cash box. Now there is \$1104.50 in the box. It is written in the detail column as 'Goods sold'. \$720 is written in the 'Cash in' column and the new balance is $\$384.50 + \$720.00 = \$1104.50$.

When money is taken out, the amount of money in the cash box is now less than it was before the amount is subtracted from the balance. For example: On 2 January, \$600.50 was taken out of the cash box to pay QQQ Wholesale Ltd for goods bought. The balance is now \$504.00.

Drawing

Drawing is when a retailer or business owner takes money or goods (**stock**) for their own use.

If they take money, they must record it in the cash book, in the 'cash out' column. If they take goods they must record them in the appropriate book and pay for them later. This is the correct way of doing it, to be fair to themselves and their business.

It is easier, of course, just to take the goods without paying for them. But this is like stealing from the business. If the trader is not careful about taking money out of the business, they may take too much out. Then there will be not enough money left in the business to buy more goods. Or if they take goods out without paying for them, there may be too little left to sell. The business will soon close down.



Figure 6.9 An owner who takes goods and cash for her own use may endanger her business.

Here is an example to show how drawings are recorded in the cash book. The following transactions occurred during the first week of March, 2013.

- ▶ On 2 March John Tano took \$100.00 from the cash box for own use.
- ▶ On 4 March John Tano took 2 packets of Solrice for his own use. The rice cost \$14 a packet.

Cash book – John Tano Store				
Date 2013	Details	Cash in \$	Cash out \$	Balance \$
March 1	Balance			250.30
March 2	Drawings		100.00	240.30
March 4	2 x rice		28.00	212.30

Figure 6.10 John Tano's cash book for March 2013

Refunds

From time to time consumers might return the goods they have bought and ask for their money back – in other words, a **refund**. This can occur because there is a problem with the goods, or sometimes because they have changed their mind about wanting it. If the retailer agrees to refund the money, this amount must be added to the 'cash out' column in the cash sales book.

A retailer might also **return** goods to the wholesaler if there is a problem with the goods. The goods might be bad, broken or the wrong size. The wholesaler will give a refund for those goods. A refund is entered in the 'Cash in' column of the cash book when the money is received and added to the balance.



Figure 6.11 Refunds are often given to customers if they return faulty goods.

Activity 4

Answer these questions.

- 1 What is drawing?
- 2 A retailer's son takes from his store 2 kilograms of rice and 1 tin of Waioka without paying for them.
 - What should the retailer tell his son?
 - How will it be entered in the cash book?
- 3 Copy the layout (the headings and columns) of Figure 6.12 into your exercise book. Copy the last line of transactions from Figure 6.12, then write the entry for 6 April, using the information below.

Cash book – Gabriel Ramo Store				
Date 2012	Details	Cash in \$	Cash out \$	Balance \$
April 1	Balance			250.00
	Goods sold	100.00		350.00
2	Goods sold	120.50		470.50
3	Bought goods from Sullivans		200.00	270.50
4	Goods sold	120.80		391.30
5	Bought brown paper bags		22.60	368.70
	Goods sold	200.50		569.20

Figure 6.12 Gabriel Ramo's cash book

- April 6 Bought goods from QQQ Wholesale Ltd \$275.00
Paid freight \$30.00
- April 7 Owner took \$80.00 cash out of cash box to buy some goods.
Goods sold \$156.50

- 4 Why should Gabriel Ramo be careful about taking money from his cash box?
- 5 Draw up a cash book page in your exercise book for Moses Kere showing these details.

2014		\$
Aug 11	Cash balance	150.60
	Goods sold	120.30
12	Bought goods from Y Sato Co	100.20
	Goods sold	90.50
13	Took cash from cash box for own use	60.00
	Goods sold	98.00
14	Bought goods from Y Sato Co	120.30
	Goods sold	90.50

Surpluses

When a trader finds that there is more money in the cash box than the amount in the cash book balance, this is a **surplus**. Each day, the trader must check their cash book balance against the amount of money in the cash box. Both amounts should be the same. If the cash book balance is \$42.20 then there should also be \$42.20 in the cash box.

However, mistakes may be made. The trader may give a customer short change. That means less change is given than should have been. If this happens, there will be more in the cash box than is shown in the cash book balance.

For example, the trader sells goods for \$5.60. The customer gives \$7.00 which the trader puts in the cash box. The customer is given change of 40c. The trader writes \$5.60 in the cash receipt book.



Figure 6.13 It is the trader's job to be certain that the correct money is received, the right change is given, and an accurate record of the transaction is kept.

The trader has put \$6.60 in the cash box, but has written \$5.60 in the cash sales book. At the end of the day, the amount added up will be less than the amount in the cash box. If the trader can remember who was short changed, the \$1 can be paid back. But if they cannot remember, they must write it in the cash book, in the 'Cash in' column as a surplus. This will make the balance the same as the amount of money in the cash box.

Shortages

A **shortage** is when the trader finds less money in the cash box than in the cash book balance. This might be because the trader has made a mistake. For example, a customer buys goods for \$2.50 and gives \$5. The trader puts \$5 in the cash box and gives change of \$3.50. They write \$2.50 in the cash sales book.

The trader adds up the cash sales at the end of the day and writes the total in the cash book, finding there is \$1 less in the cash box than the balance in the cash book.

This shortage must be written in the cash book as 'Shortage' and the amount in the 'Cash out' column: \$1.00. (See Figure 6.14 below.) Now the balance in the cash book agrees with the amount of money in the cash box.

Cash book		Robert Konea		
Date	Details	Cash in	Cash out	Balance
2014		\$	\$	\$
Aug 1	Balance			250.00
	Bought goods from Y. Sato Co		82.00	168.00
	Freight		5.00	163.00
	Goods sold	120.00		283.00
2	Goods sold	86.00		369.50
3	Returns by Y. Sato Co	5.00		374.50
	Goods sold	65.30		439.80
	Shortage		1.00	438.80
4	Bought goods from Poma		76.50	363.30
	Freight		12.00	351.30
	Goods sold	95.30		446.60
	Surplus	1.00		447.60
	Goods sold	86.50		534.10
	Refund/returns: Poma	10.00		544.10

Figure 6.14 The entry in Robert Konea's cash book shows a shortage on 3 August 2014.

Activity 5

Copy Robert Konea's cash book in Figure 6.14 into your exercise book.

- 1 Explain the meaning of the entry on 3 August 'Returns from Y. Sato Co'. Why was \$5.00 written in the 'Cash in' column?
- 2 Explain the entry 'Shortage' on 3 August and \$1.00 in the 'Cash out' column.
- 3 Why was 'Surplus' written in the cash book on 4 August?
- 4 Explain the entry 'Refund' on 4 August and \$10.00 in the 'Cash in' column.
- 5 Draw up a cash book table in your exercise book and put in the correct column headings. The storekeeper is Carson Maua. Write in the details from Figure 6.15.

Date	Details	Amount
2014		\$
Sept 1	Balance	60.30
	Goods sold	29.92
	Shortage	1.00
2	Bought goods from ABBA Trading Co.	41.30
	Freight	11.00
	Goods sold	34.21
3	Goods sold	35.21
	Surplus	2.50

Figure 6.15 Carson Maua's transactions

3 Stocktaking

Stock, or inventory, are the goods or items that the business buys and sells. Examples of stock are rice, sugar, salt, biscuits and noodles. Without stock, the business would not have anything to sell and would not run.

The owner needs to keep proper records of stock that comes in and leaves the business. This helps the owner to keep track of how much profit the business has made and how much stock is left. This is called a stocktake.



Figure 6.16 A stocktake provides an accurate value of stock in a business.

Doing a stocktake

Stocktake simply means counting up all the goods the owner has in the store. The purpose is for the owner to know exactly how much stock there is so that they know exactly how much money they have at a given time. The owner must do a stocktake at regular intervals. It should take place at least every 6–12 months, and the store must be closed for business during the stocktake.

Many businesses use a piece of paper or a book for this. The stock record lists the goods kept in the store. It also shows the cost price of each item and the quantity of each item at the end of the month. At stocktake the owner writes the quantity of each type of goods.

Stocktakes help the owner to find the value of the stock. This is done by multiplying the cost of each item by the number of stock type. The values of all the different products are then added up to find the total stock available in the store.

Sugar (500 g)	\$8.00	×	23	=	\$184.00
Rice (1 kg)	\$12.00	×	20	=	\$240.00
Solomon Family Taiyo	\$12.00	×	33	=	\$396.00
Solomon Baby Taiyo	\$5.00	×	20	=	\$100.00
Winfield pkt	\$20.00	×	45	=	\$900.00
Lux soap	\$2.50	×	18	=	\$ 45.00
					\$1865.00

Figure 6.17 An example of the value of a trader's stock on 31 January

Stock Record for the year 2014 – John Tano Store									
Items	Cost	31/01	28/02	31/03	30/04	31/05	30/06	31/07	31/08
Sugar 500 g	\$8.00	23	19	25	22	24	9	26	
Rice – 1 kg	\$12.00	20	15	9	12	21	9	22	
Solomon Family Taiyo	\$12.00	33	32	10	32	20	10	30	
Solomon Baby Taiyo	\$5.00	20	32	16	20	12	16	21	
Winfield pkt	\$20.00	45	12	18	21	27	18	18	
Lux soap	\$2.50	18	10	21	10	13	10	19	

Figure 6.18 A stock record for John Tano Store for 2014

Activity 6

Answer these questions.

- 1 What is a stocktake?
- 2 Why should a stocktake be carried out? How often should it be done, and how is it done?
- 3 Look at the stock record in Figure 6.18 and answer the questions below. Note that you will need to multiply the cost per item by the quantity of each item.
 - a What was the value of sugar (500 g) and rice (1 kg) in stock on 30 April?
 - b What was the value of Solomon Family Taiyo and Solomon Baby Taiyo in stock on 30 April?
 - c Find the value of each stock item and the total value of stock on 31 July.

Activity 7

Answer these questions.

- 1 Why do you think it is important for a trader to know their profit?
- 2 What should a trader do if they find that they are making a loss?
- 3 If the owner tries their best to improve their business, but nothing changes, what is their best option?

4 Profit and loss

All businesses need to make a profit in order to survive and grow. When a profit is made, the owner can spend the extra money to cover their living expenses or to build their personal savings. They may decide to invest it back in the business, for example by purchasing more goods, making their store or premises bigger or buying more equipment, such as a cash register or till, a pair of scales and new shelving.

If a business is not making a profit, the owner must do something about it. When a business makes a loss, the owner is losing money and must try to improve the business to make a profit. If this doesn't happen, the business may have to close.

Profit and loss statements

A **profit and loss statement** is used by a business to track their revenue, costs and expenses and thereby calculate the profit earned during a specific period of time, such as a month or a year. Profit is calculated by deducting all costs and expenses incurred by a business from the revenue raised in a set period. This record enables businesses to assess their performance and identify ways that they can reduce their costs and expenses and raise more revenue in order to increase their profitability.

Businesses will often use a profit and loss statement to identify two types of profit: gross profit and net profit.

Profit and loss statement for C & W Imports – June 2014		
	Total revenue	\$75,000
Less	Costs of goods sold	\$20,000
	Gross profit	\$55,000
	Expenses	
	Wages and salaries	\$7500
	Electricity	\$500
	Rent for premises	\$3000
	Insurance	\$350
	Advertising	\$250
	Vehicle operating costs	\$200
	Tax	\$3000
	All other expenses	\$1000
Less	Total expenses	\$15,800
Equals	Net profit	\$39,200

Figure 6.19 A sample profit and loss statement

Gross profit

The **gross profit** is calculated by subtracting the cost of goods sold from the revenue raised from selling the goods.

Gross profit = sales revenue – cost of goods sold (COGS)

- Sales revenue is the total amount of money earned by the business from the selling of goods and/or services. Note that this revenue can come in the form of cash, credit or other forms of revenue.
- Cost of goods sold (COGS) is the purchase price of the stock (paid to the producer or wholesaler), or the cost of the raw materials and labour to build a product, as well as any freight costs.

In order to calculate the COGS:

- count the cost of stock held at the start of the statement period
- add stock bought during that period
- subtract the cost of stock that is still in the store at the end of the statement period.

Calculating the COGS		
	Cost of existing stock on 31 May	\$10,000
Plus	Cost of purchasing new stock (between 1–30 June)	\$25,000
Equals	Total stock available in June	\$35,000
Less	Closing stock (on 30 June)	\$15,000
	Cost of goods sold	\$20,000

Figure 6.20 How to calculate the cost of goods sold for the month of June

Net profit

The net profit is calculated by subtracting the business's expenses from the gross profit.

Net profit = gross profit – expenses

Business expenses include any costs of running a business, such as salaries or wages, rent and repairs on the business's premises, electricity, advertising, insurance and taxes.

Activity 8

- 1 Calculate the cost of goods sold (COGS) for the following cases. An example has been provided for you.

Cost of stock at start of the month		\$555
+ cost of stock bought during the month	+	\$768
	=	\$1323

Cost of stock held at the end of the month	-	\$476
Total COGS	=	\$847

a

Stock at start	\$250
Goods bought	\$375
Stock at end	\$220
COGS =	_____

b

Goods bought	\$2,600
Stock at end	\$230
Stock at start	\$335
COGS =	_____

- 2 Copy the following statements into your exercise book and fill in the missing amounts.

a

Stock at start	\$ _____
Goods bought	\$335
Stock at end	\$147
COGS	\$378

b

Stock at start	\$526
Goods bought	\$ _____
Stock at end	\$250
COGS	\$2000

- 3 Find the COGS and gross profit in the following statement:

Stock at start	\$221
Goods bought	\$499
Stock at end	\$177
COGS =	_____
Revenue of goods sold	\$477
Gross profit =	_____

Activity 9

Copy John Tano's profit and loss statement below into your exercise book, then complete it using the information in a-e, his stock record (Figure 6.21) and his cash book (Figure 6.22).

Profit and loss statement for John Tano – February 2014

	Total revenue ^b	\$
Less	Costs of goods sold ^a	\$
	Gross profit ^c	\$
Less	Total expenses ^d	\$
Equals	Net profit ^e	\$

- a** the value of his stock on 31/01/2014 plus the value of his stock on 28/02/2014 minus how much he paid for goods bought (COGS)
b how much he received for goods sold (revenue)
c his gross profit
d how much he paid in expenses (expenses)
e his net profit

STOCK RECORD				Date: 31 January 2014		
John Tano Store						
Item	Tally	Figure	Unit cost (\$)	31/01/14 Total cost (\$)	28/02	31/03
Sugar (1 kg)	//	2	15.00	30.00	3	6
Rice (1 kg)	///	3	10.00	30.00	2	14
Coffee mix (pkt)	### //	7	1.00	7.00	1	15
Biro	###	5	2.50	12.50	4	12
Match (box)	### ### ### ###	20	0.50	10.00	10	14
Solomon Taiyo (2nd Grade)	### /	6	6.00	36.00	7	16
Noodle (Mamei)	### ###	10	2.50	25.00	5	5
Giv soap	### ///	8	2.00	16.00	6	32
Washing soap (piece)	### ////	9	2.00	18.00	6	19

Figure 6.21 John Tano's stock record on 31 January 2014

Cash book – John Tano Store				
Date	Details	Cash in	Cash out	Balance
2014		\$	\$	\$
Jan 1	Balance			84.50
	Goods sold	30.00		114.50
2	Poma – goods bought		60.00	54.50
	Freight		3.00	51.50
	Goods sold	20.00		71.50
3	Books and pens		10.00	61.50
	Goods sold	40.20		101.70
4	Store licence		25.00	126.70
	Goods sold	26.10		152.80
5	Goods sold	15.30		168.10
8	Goods sold	21.20		189.30
12	Y. Sato & Co. – bought goods		80.00	109.30
	Paid freight		10.00	99.30
	Goods sold	20.00		119.30
16	Abba Wholesale – goods bought		40.00	79.30
20	Freight		10.00	69.30
27	Goods sold	70.00		139.30
31	Goods sold	80.00		219.30

Figure 6.22 John Tano's cash book for January 2014

5 Returns

As stated earlier in the chapter, consumers return goods for a refund and retailers return goods to the wholesalers if they are damaged, or if the order is wrong. An entry needs to be made in the 'Cash in' column of the cash book.

The returns to wholesalers must also be subtracted from the figures for goods bought, in the profit and loss statement. For example, Mary Wate bought goods valued at \$266.20 in March, and goods valued at \$26.40 were returned. The figure to write in the profit and loss statement for March would be:

\$266.20
– 26.40
\$239.80 for goods bought



Figure 6.23 A retailer returns the wrong baskets to the wholesaler.

Surpluses and shortages

Surpluses and shortages must be shown in the profit and loss statement, under 'Expenses'. A surplus is subtracted from expenses, and a shortage is added to expenses.

Activity 10

Answer this question in your exercise book.

Study the stock register and cash book in Figure 6.24. Find the stock at the start of January and at the end of the fortnight, the total goods sold and bought, and the expenses. Make out a profit and loss statement for Rodney Hou for the fortnight.

Stock record – Rodney Hou Store									
Item	Cost	30/11	31/12	14/1					
Solomon Blue Taiyo (medium)	5.00	4	4	3					
Nambawan Mackerel	8.00	3	3	2					
Matches	1.00	8	10	4					
Ox & Palm	14.00	7	2	2					
Sunshine Milk	13.50	5	2	1					

Cash book – Rodney Hou Store				
Date 2014	Details	Cash in \$	Cash out \$	Balance \$
Jan 1	Balance			97.49
3	Goods sold	24.10		97.49
4	Low Price Wholesale – goods bought		35.69	61.80
	Freight		3.00	58.80
	Goods sold	30.56		89.36
	Shortage		1.05	88.31
5	Goods sold	35.21		123.52
	Low Price Wholesale – bought goods		72.94	50.58
	Freight		3.00	47.58
6	Goods sold	27.18		74.76
	Surplus	2.00		76.76
7	Poma – bought goods		18.50	95.26
	Goods sold	31.14		126.40
10	Poma – bought goods		65.20	61.20
	Freight		2.50	58.70
	Goods sold	27.06		85.76
12	Goods sold	35.87		121.63
	Shortage		1.50	120.13
13	Goods sold	23.12		143.25
14	Goods sold	18.45		161.70

Figure 6.24 Rodney Hou's stock register and cash book

6 Purchases on credit

Sometimes a retailer gets goods from a wholesaler without paying for them immediately. The retailer must pay for them later, usually within a month.

When retailers buy goods and pay for them later, they buy the goods on credit. The seller of the goods on credit believes they can trust the buyer to pay for the goods later on.

So if George Wu (wholesaler) sells goods valued at \$500 to A. Samu (retailer) on credit, he believes that Samu will pay the \$500 for the goods later on.

Why do wholesalers give credit to retailers?

- ▶ It gives the retailers time to sell some of the goods before paying for them.
- ▶ The retailers can get goods to sell even if they have no money. And if retailers sell more goods, so do the wholesalers.

If retailers do not pay, they cannot buy more goods, so they must pay their bills to buy more stock and to stay in business. Also, if a retailer does not pay at all, the wholesaler can take them to court to force them to repay the debt.

Activity 11

Answer these questions.

- 1 What is meant by the word 'credit'?
- 2 Moses buys goods valued at \$288 from Honiara Consumers on credit.
 - a Who is the wholesaler?
 - b Who is the retailer?
- 3 Why do retailers often prefer to pay for goods they buy from a wholesaler on credit?
- 4 Explain why wholesalers give credit to some retailers.

Ordering

When a retailer wants to buy goods on credit, they write the details of the goods on an order form. They get the details from the price list that is issued by the wholesaler.

The order form shows: the buyer, the seller and details of the goods. It is numbered and signed by the buyer so that a record can be kept and to show the authority of the buyer. A wholesaler only sends out goods against an order if it is signed by the buyer.

The retailer must keep their blank order forms safe. If a thief stole order forms, they could write out orders and collect the goods without paying for them.

ORDER FORM

P. Wong Store

Auki Malaita

ORDER NUMBER: 343

Date: 28/06/2013

To: Aba Wholesaler
P.O. Box 143
Honiara

Please supply in good order and condition

Quantity	Product	Amount \$
1 ctn	Corned beef	89.00
1 ctn	Taiyo (small)	90.00
1 bale	Sugar (small)	100.00
1 bale	Rice (1 kg)	180.00
	TOTAL	459.00

Date delivery required: As soon as possible

Delivery method: ship

J. Aiki
Signature

Figure 6.25 An example of an order form for P. Wong Store

Activity 12

Study the order form in Figure 6.25 and answer these questions.

- 1 Why did the buyer need an order form?
- 2 Who owns the order form?
- 3 Who needs the order form?

Invoices

When a retailer buys goods on credit, they receive an invoice with the goods. The invoice is a document that shows: the buyer, the seller, the details of the goods delivered, and the amount owed. You learnt about invoices in Chapter 5 in the Year 7 Learner's Book.

Poma Store		INVOICE	
PO Box 1656			
Honiara			
Solomon Islands			
		No.1589	
		Date: 28/06/2014	
Karen Ianara			
Maoma Village, West Kwaio, Malaita Province			
Quantity	Description	Unit Price	Amount
1 ctn	Waioka Taiyo	160.00	160.00
1 ctn	Noodle (Mamei)	60.00	60.00
1 bale	Sugar (500 g)	89.00	89.00
1 (10 kg)	Calrose rice	76.00	76.00
1 ctn	Milo 200 g	120.00	120.00
			\$505.00

Figure 6.26 An example of an invoice

Activity 13

Study the invoice in Figure 6.26 and answer these questions.

- 1 What is an invoice?
- 2 Who made out the invoice?
- 3 Why was it made out?
- 4 Haggie Tom has a store at Rara village, East Are'Are, Malaita Province. He orders goods on credit to be delivered, from Atasi in Honiara, P.O. Box 1702, Telephone 23974. Make out an invoice like the one in Figure 6.26, using today's date, and with the following details (Invoice No. 2908):
 2 ctn Solomon Blue family Taiyo @ \$165.00 per ctn
 4 ctn mackerel 142 gm @ \$56.00 per ctn
 1 ctn Sno-white 500 g @ \$32.00.
 1 ctn chicken crackers biscuits @ \$65.00
 1 bale sugar 500g @ \$52.00 a bale
 20 x 20 kg Solrice @ \$182 each
 1 ctn Winfield @ \$250.00

Journals

A retailer should keep a copy of their orders for goods bought on credit, in case there are problems. This can be kept on a spike; however, the best method of keeping a record is to use an exercise book. It can be called a journal.

The order is an important document. It gives authority for spending money. But until the goods are received, no record is kept.

A retailer must check the goods they receive against details on the invoice before paying for them. The invoice in Figure 6.26 shows that Karen Ianara has been sent goods, as shown, valued at \$505.00. Karen Ianara must check all the goods sent, against the invoice. She checks that:

- the right amount of goods are in the package
- the goods are not damaged
- they are the correct size and brand
- the prices and total are correct.

If she finds that something is wrong, she must tell the wholesaler immediately. Damaged goods may be returned and replaced, or if the wrong size or brand is delivered, they should be returned.

This is an important part of the retailer's job.

When the goods come to the store and have been checked, a record must be kept. The retailer has increased their stock of goods. At the same time, they owe the wholesaler for the value of the goods. They must keep a record to remember the debt.

For example, when Karen Ianara receives the goods shown in Figure 6.26, she puts the goods on the shelves. She also now owes Poma Store \$505.00. She must keep a record so that she does not forget.

The simplest method of keeping a record of goods bought on credit is to keep the checked invoices. These could be filed on the spike or pasted into a journal.

At the end of the month, the wholesalers send out statements showing the total amounts owed for the month. The retailer, when they receive a statement, must first check the statement against their invoices, and if everything is correct, pay the bill. The journal is used to keep daily records of all business activities.

Such activities include when the retailer:

- takes stock from a wholesaler on credit (credit purchase)
- sells to a customer on credit (credit sales)
- buys stock for cash (cash purchase)
- receives cash for selling stock (cash sales).

Journal Credit purchases			
Date 2013	Wholesalers (Creditors)	Invoice No.	Amount \$
Aug 6	Honiara Traders	267	155.63
10	Honiara Traders	354	29.29
15	George Wu	571	98.48
20	George Wu	2617	111.37
27	QQQ	32	143.64

Figure 6.27 An example of a journal used to record stocks bought by the retailer on credit

In Figure 6.27, the retailer looks in the journal to find how much is owed to each creditor at the end of the month. For example, the retailer owes Honiara Traders $\$155.63 + \$29.29 = \$184.92$. When they pay the bills, they record them in their cash book, in the 'Cash out' column as shown in Figure 6.28.

Cash book				
Date	Details	Cash in	Cash out	Balance
2013		\$	\$	\$
Aug 31	Balance			665.40
	Honiara Traders		184.92	480.48
	George Wu		158.85	320.63
	QQQ		143.64	176.99

Figure 6.28 An example showing cash book entries

Activity 14

Answer these questions.

- 1 Why should a retailer keep a copy of their orders for goods on credit?
- 2 Is a record kept of orders for goods? Explain.
- 3 Why is it important to check goods received?
- 4 What must a retailer check, when they receive goods?
- 5 If a retailer does check and finds a mistake, what should they do?
- 6 What is the simplest method of remembering how a retailer owes a wholesaler?
- 7 How will a wholesaler tell a retailer how much they owe? When do they do this?
- 8 If a retailer receives a statement, what should they do before paying?

Activity 15

Answer the questions.

A. B. Solom is a retailer. He has bought goods on credit from the following wholesalers:

- 5 June 2014 Y. Sato, value \$85.03, invoice 3546
- 10 June 2014 QQQ, value \$91.22, invoice 786
- 19 June 2014 Solomon Traders, value \$101.31, invoice 883
- 27 June 2014 Chan Wing, value \$76.76, invoice 90

- a Copy the layout of the credit purchases journal in Figure 6.27 and record these details.
- b Solom pays all the bills at the end of the month. Copy the layout of the cash book in Figure 6.28 and record the payment in it. (Beginning balance is \$688.71.)

Statements

When a retailer buys goods on credit they receive a statement from the wholesalers at the end of the month.

The statement is a bill. That means that the wholesaler is asking for money to be paid. A statement shows the names of the wholesaler and retailer, the date, details of all invoices sent and the total now owed. The amounts owed are in the 'Debit' column. The 'Credit' column is used if cash is paid, or if credit is given for goods that are returned.

STATEMENT				
Andrew Wan East Makira		Date _____		
ACCOUNT WITH Y. SATO & CO. LTD				
P.O. Box 163 Honiara Phone: 45600		No. 1950		
Date	Particulars	Debit	Credit	Balance
2015				
January 5	Rice 20 kg	\$140		
12	Sugar 10 kg	\$110		
				\$250
Trade terms – 2.5% discount for cash within 30 days of date of statement				
The last amount in the balance column is the amount owing. E & OE				

Figure 6.29 Account statements may differ in how they look, but they will all have the same general information.

Activity 16

Refer to the statement in Figure 6.29 and answer these questions.

- 1 Who is the wholesaler and who is the retailer? So, who will pay whom?
- 2 Were the goods bought for cash or on credit? Explain.
- 3 How much is now owed?
- 4 What does the statement tell Andrew Wan to do? When should he do it?
- 5 Make up a statement in your exercise book using these details: Date: 30/11/13, Retailer: A. Swami, Benifo Village, Wholesaler: Sullivans Pty Ltd, P.O. Box 3, Honiara, Telephone 21643.

Invoices:

515	3/11/13	\$85.03
616	10/11/13	\$91.22
1065	15/11/13	\$1010.31
1269	27/11/13	\$76.76

Credit sales

In the normal course of business, retailers might decide to sell on credit to customers in order to stimulate sales. It is very important that the retailer is cautious about who they give credit to and only give credit to someone that they trust and are confident will be able to repay them later. If the retailer allows credit to someone they do not know, then they are risking their business. A retailer should not normally sell goods to their customers on credit. Although the pressure from wantoks may be hard to resist, retailers should try not to give credit to them. However, if they do, they must keep a record of amounts owed. Retailers can do this in a journal.



Figure 6.30 Business people should think very carefully before giving a customer credit.

Chapter summary

Chapter

6

A transaction is an event in business that causes a change to assets or ownership.

Cash transactions are any occasion where cash is used to settle a payment on the same date that it takes place. Examples of documents used for cash transactions: cash sales, cash receipt book and cash book.

A credit transaction is taking goods on credit and paying for them later. Documents used for credit transactions include order forms, invoices, journals and statements.

A cash book is used to record the total money the business receives from the sale of goods (cash sales) and also the money it pays out for goods (cash purchases) each day.

Transactions such as drawing, refund, surplus and shortages affect the balance in the cash book.

Without making a profit, a business cannot succeed. To calculate: Profit = revenue from business – all costs and expenses.

Stocktaking allows the owner to keep proper records of stock that comes in and leaves the business. The owner must do a stocktake at regular intervals.

At the end of the financial year (or another specified time, such as six months) a profit and loss statement is prepared to show the gross profit and net profit or loss that the business made in a period.

A journal is used to record goods bought and sold on credit and is important for a business.

The main reason why traders enter into business is to make a profit.

In accounts, it is important to keep the business separate from the owner.

Glossary

asset something that the business owns

balance sheet a statement showing the financial position of a business at a certain date; it lists the debts and assets of a business

bookkeeping the act of recording all business transactions that occur each day, e.g. the buying and selling of goods

cash book a book used to record money received from the sale of goods (cash sales) and the money paid out for goods (cash purchases) each day

credit transaction when goods or services are taken, but paid for later

drawing when the trader or business owner takes money or goods for their own use

gross profit the amount of money earned before any expenses are taken into account. The net profit is the final amount earned, after subtracting all expenses

profit and loss statement shows the profit (or loss) made in a period, for example, 12 months

refund when money is given back because the goods were returned

return to take back (e.g. damaged goods are returned to the wholesalers)

shortage less than there should be, here it's less money in the cash box than the amount in the cash book balance

stock (inventory) the item that the business buys and sells in order to make profit

surplus extra; here, when there is more money in the cash box than in the cash book balance

transaction an event in business that causes a change to assets or proprietorship

Specific learning outcomes

By the end of this chapter you should be able to:

- explain the terms cheque account, petty cash book, bank account, cash control, drawee, drawer and payee
- identify examples of a cheque account, petty cash book, cash book and bank account
- draw and fill in a cheque leaf, cash book, petty cash book and bank account
- explain reconciliation, bank statement and bank reconciliation
- identify examples of a bank statement and bank reconciliation
- draw a bank statement and bank reconciliation.

1 Introduction

We all want to save money, but it is not easy. This is because there are many things that we want in life, but we have only a limited amount of money to spend. Therefore we need to save money for future needs.

People need to plan how they are going to spend their income. People usually have to save over a long period of time before they are able to buy something expensive.

We already learnt in Chapter 2 that the best place to keep money safe is in commercial banks. In this chapter we are going to learn more about what happens when people or businesses have an account with a bank.



Figure 7.1 Banks are the safest place to keep savings.

2 Cash control

Cash control is a process of checking the accurate recording of all cash that is received and paid out from a business. For example, a business receives cash (this includes notes, coins and cheques) from selling its stock. The cash is an asset of the business and it must be controlled to protect it from mishandling and theft.

To control the cash fund there must be a record of cash receipts and cash payments in a book or journal. This avoids the temptation for people to take cash without recording it. All transactions related to cash must be documented in the right books.

Good cash control procedures also require that only certain individuals have access to the cash. This type of security serves two purposes. The first is **accountability**, which means being able to explain what has happened to the money that a person was in control of. Second, ensuring that more than one person is qualified to oversee cash control allows important transactions to take place at any given time, even if one individual is unavailable for some reason.

Activity 1

Answer these questions.

- 1 What different types of money are counted as cash?
- 2 Why is it important to have cash control?
- 3 Name some of the records that businesses have or keep that help to record cash.

3 Petty cash funds

Many firms make small payments in cash rather than by cheque. This avoids having to issue cheques for small items such as buying stamps for \$1.00 or a \$3.00 bus fare. All businesses have to make small payments from time to time so a separate fund is needed to deal with these items. Petty cash is the separate fund. The petty cash is normally controlled by one person, known as the petty cashier.

Petty cash voucher	
No.....	Date.....
Paid to.....	
Amount \$.....	
For.....	
Authorised by.....	

Figure 7.2 Petty cash voucher

Petty cash vouchers

A **petty cash voucher** is a signed receipt that shows the date, amount and purpose of expenditure and to whom the payment is made. The use of petty cash vouchers helps to track what the money has been used for. It also helps to prevent **fraud** and error. Fraud is a criminal activity that involves stealing money.

When the petty cashier makes a payment from the **petty cash fund** they should always fill in a petty cash voucher.

Petty cash imprest system

Imprest means advance. The petty cash fund is maintained by an imprest system where a fixed amount of money is provided. For example, \$100 is given to the petty cashier in advance. The money should be kept in a locked file or cash box. At the end of the period more money is paid to the fund to make it up to the original advance. The petty cashier then begins each period with this fixed imprest account.

For example:

Petty cash fund (original)	\$100.00
Less spent during the period	– \$ 90.00
Balance	\$ 10.00
Money paid in at the end of period	+ \$ 90.00
	\$100.00

General journal

The general journal entry to create a petty cash fund appears below in Figure 7.3.

Date	Account title and description	Ref.	Debit \$	Credit \$
2014				
April 1	Petty cash		100.00	
	Cash			100.00
	Establish petty cash fund			

Figure 7.3 Setting up a general journal to monitor petty cash

Date	Account title and description	Ref.	Debit \$	Credit \$
30 April 2014	Office supplies		20	
	Postage		40	
	Transportation		30	
	Cash top-up petty cash fund			90

Figure 7.4 Entries show that the **reimbursement** is \$90 + \$10 balance remaining in the fund = \$100 for the next period.

The journal entry above is made after the cashier requests \$90 to top up the petty cash fund to \$100. The cashier should also submit all vouchers to show what the cash was spent on.

Activity 2

- In your exercise book, draw up a table for a general journal entry, like the ones in Figures 7.3 and 7.4. Fill in the table with the following transactions.
 - June 1 Establish a petty cash fund for \$80.00
 - June 2 Paid for advertising: \$10.00
 - June 3 Paid for cleaning: \$30.00
 - June 4 Stationery: \$5.00
 - June 5 Stamps: \$4.00.
- Balance the book on 6 June using the imprest system in a general journal.

4 Cheque accounts

Cheques are easier and safer to use for larger payments than cash. As a business grows, it becomes more convenient to use a cheque account to pay bills and expenses.

Cash received from sales goes into the company's **bank account** to be safe. To deposit money into a cheque or other bank account, a deposit form is used. The money left inside the account is called the account balance.

Activity 3

Answer these questions in your exercise book.

- When a person deposits money into any account, what type of form do they need to use?
- Why do people use a cheque account when paying bills?
- What is the account balance?

Figure 7.5 An example of a completed cheque

As covered in Chapter 2, the names of the parts of a cheque are:

- ▶ **drawer:** the owner of the account who signs the cheque
- ▶ **drawee:** the bank whose name is on the cheque
- ▶ **payee:** the person who will receive the money.

Activity 4

Use the cheque in Figure 7.5 to help you answer these questions.

- How much is the total sum of money paid?
- According to Figure 7.5 cheque:
 - a who is paying the money?
 - b who is receiving the money?
- Who records the information on the cheque butt?
- Why do some people not own a cheque book?



Figure 7.6 Customers deposit and withdraw money from cheque accounts by going to the tellers at their bank.

Cheque butt

A cheque butt is part of the cheque that stays in the cheque book after a cheque has been removed. It is used to record details of the payment made. Every time a person writes a cheque or makes a deposit into their account, a record should be made on the cheque butt, and the revised balance (after subtracting the value of the cheque) should be calculated.

DATE	<u>12 / 03 / 2013</u>
PAYEE	<u>QQQ Wholesale Ltd</u>
DETAIL	<u>Goods</u>
FWD. \$	_____
CHQ. \$	<u>1000.00</u>
BAL. \$	_____
4990001	

Figure 7.7 An example of a completed cheque butt

Bouncing cheques

When a payee deposits a cheque into their account, the money is not available until the drawee confirms that there are sufficient funds in the account. If a person writes out a cheque for more money than they have in the account, the bank will dishonour the cheque. This means that no money is transferred to the payee. Such a cheque is said to have bounced because it eventually comes back to the holder's bank.

Overdraft

Sometimes business people ask permission of their bank to write out cheques for more money than they have in the account. This is called an **overdraft**. The account holder is allowed to overdraw their account, up to an amount agreed to with the bank. This is called the overdraft limit. This is just another way of borrowing money from the bank. And as in the case with borrowing, having an overdraft is not free. Interest is paid on the overdraft and the money borrowed has to be paid back after a certain time.

Activity 5

Answer these questions in your exercise book.

- 1 Imagine your uncle writes you a cheque. You take it to the bank and the teller says that it is not honoured or has bounced. Explain what that means.
- 2 What is a cheque butt?
- 3 What is an overdraft limit?
- 4 Why does the bank charge interest on an overdraft?
- 5 Draw a blank cheque in your exercise book, (use Figure 7.5 as a guide.) Use the following information to fill it in.

The date on the cheque butt is today's date. The wholesaler is QQQ Wholesale Ltd and the retailer, Una trade store, paid \$1000.00 for goods. The number on the cheque butt is 4990001 and the owner of the cheque is Regina Ani.

Role play

Your teacher will organise you into pairs to perform a role play. One learner will act as a customer who needs help depositing a cheque at a commercial bank. The other learner will act as a teller in the bank, explaining how to deposit and withdraw money from the cheque account by filling in the form.

Date 2014	Details	Ref.	Debit \$	Credit \$	Balance \$
Dec 1	Balance	B/f			200.00
2	Steamships	675	150.00		50.00
6	Cash	D1		300.00	350.00
13	Cash	D2		400.00	750.00
20	Cash	D3		350.00	1100.00
27	Cash	D4		500.00	1600.00
31	Steamship	67	680.00		920.00

Figure 7.8 An example of a bank statement for a customer's cheque account

5 Bank account records

Banks keep a record of the customer's account. This bank record shows how much customers have deposited, withdrawn and their balance. It also includes deductions for bank charges and cheque books issued. The record kept by the bank should be exactly the same as the record kept by the customer.

Banks issue **bank statements** to provide a record of all the money going into and out of that account.

The bank statement in Figure 7.8 has three money columns: one for deposits, another for withdrawals and the third for the balance.

The column Ref. is for reference. It provides either the deposit slip number (e.g. D1) or the last three figures of the cheque number (e.g. 675).

The first row shows the balance brought forward (b/f). It shows how much is in the cheque account at the beginning of the month, on 1 December. You will see it in the balance column: \$200.00.

The details in a bank statement are:

- the name of the account holder
- the money columns:
 - debit means money has been withdrawn
 - credit means money has been deposited
- CBK means a cheque book has been issued
- fees refer to the money charged to the account holder by the bank for keeping the account
- the balance may be recorded as Dr or Cr. Dr is a debit balance, indicating there is nothing left in the account, or that money has been marked as payment. A credit balance (Cr) means money is coming into the account or that there is money left in the account.

The bank usually sends all account holders a statement. This may be mailed or emailed at the end of the month. However, it depends on the bank and sometimes the account holder can go to the bank and ask for a statement.

Activity 6

... ..

Answer these questions in your exercise book.

BANK STATEMENT – Cosmos Carlos				
Date 2014	Details	Debit \$	Credit \$	Balance \$
Jan 1	Namasi	128.70		261.10
3	Cash		100.80	
6	Cash		121.10	
8	Anna		51.80	
	Pita	33.70		
10	Cash		87.30	

Figure 7.9 A bank statement for Cosmos Carlos

- 1 Copy Figure 7.9 into your exercise book and fill in the balances for its transactions.
- 2 Who is the customer?
- 3 Why is it important for the account holder to check their bank statement?
- 4 Explain the purpose of the debit column and credit column in a statement.

6 Bank reconciliation

Bank **reconciliation** involves checking the record of bank transactions (from the cheque butts or the account holder's business journal) for an account against the bank's record (the bank statement). These two records should be the same.

Sometimes the two records do not match. When this happens, the account holder must investigate to find out why they are different. The first step is for the account holder to make a note of the balances, deposits and withdrawals in a bank reconciliation statement.

Bank reconciliation statement of Joseph Mani as at 31 Dec 2014	
Balance as per bank statement	495.00
Add deposits not yet credited	<u>0.00</u>
	495.00
Less unpresented cheques no.706	– 100.00
Balance as per bank a/c	<u>395.00</u>

Figure 7.10 Joseph Mani's bank reconciliation statement

The main reason for differences between the bank's record and the account holder's record is usually timing. Some transactions have not yet been recorded by the bank. The following are common reasons for this.

Deposit not yet recorded

Sometimes the account holder has made a deposit into the bank account, but because the bank has already processed its bank statement, the deposit is not recorded on that particular statement. It will show on the next statement. If the account holder has already entered this in their record, the two records will not match.

Unpresented cheques

When an account holder writes a cheque in payment, that cheque may not be presented to the bank for several days, so it will not be entered into the bank's records.

Dishonoured cheque

If a business has been given a cheque as payment, they deposit it in their bank account and record this in their account book. However, it takes the bank a few days to clear the funds for payment, and if there is not enough money in the drawer's account, the cheque will be dishonoured. It takes a while for the business to find this out.

Steps in the bank reconciliation process

STEP 1 Compare the balance shown in the bank statement (Figure 7.11) with the most recent balance in the bank account (Figure 7.12). (If the balance is the same, no further action is needed.)

The Bank Name of account M. Wale Honiara Account No#: 234661 Solomon Islands Point Cruz				
BANK STATEMENT				
Date	Particulars	Debit	Credit	Balance
2011		\$	\$	261.10
Jan 1	Cash		100.80	361.90
3	287	128.70		233.20
6	Fee	3.00		230.20
7	Cash		121.10	351.30
8	Cash		87.30	438.60
9	Cash		93.30	531.90
12	CBK	2.50		529.40

Figure 7.11 An example of a bank statement for M. Wale

BANK ACCOUNT RECORD				
Date	Particulars	Debit	Credit	Balance
2011				
Jan 1	Balance			261.10
	Namasu		128.70	132.40
	Cash	100.80		233.20
	Cash	121.10		354.30
	John A.	51.80		406.10
	Cash	87.30		493.40
	Cash	93.30		586.70
	Namasu		220.10	366.60
	Y.Sato		187.50	179.10
	Fee		3.00	176.10
	CBK		2.50	173.60

Figure 7.12 An example of a customer's bank account record as viewed by the bank

STEP 2 If the two balances are different, match the items in the debit column of the bank statement to the withdrawal column of the account statement. In Figure 7.12, three items do not appear in the bank statement received by the account holder, M. Wale, on 13 January 2011:

- ▶ John A. \$51.80 (This is a cheque received from John A. It was deposited in the bank, but has not yet been cleared or paid.) When entered in the bank account it increased the balance, but it will not appear in the account holder's statement until the funds are cleared.
- ▶ The two cheques written by M. Wale for \$220.15 and \$187.55 were drawn but have not yet been cleared. When these were entered in the bank account, the balance was reduced, although they will not appear on the account holder's statement until the funds have cleared. (A bank reconciliation statement can show this.)

STEP 3 Now you can write up a bank reconciliation to find out what the difference is. The two balances should now agree.

Look at the bank reconciliation below and you will see that the balance of \$529.40 now agrees with the balance in the bank statement.

BANK RECONCILIATION OF M. WALE AS AT 13 JANUARY 2011			
Bank account balance			\$173.60
Add cheques drawn but not yet cleared			
• Namasu	\$220.10		
• Y.Sato	\$187.50	+	\$407.60
			<u>\$581.20</u>
Deduct cheques deposited but not yet cleared			
• John. A		-	\$51.80
Bank statement as per bank account			\$529.40

Figure 7.13 Reconciliation statement for M. Wale

Activity 7

Answer these questions in your exercise book.

- 1 What is reconciliation?
- 2 Write up a bank reconciliation for Mary Davis as at 31 December 2014. She has the following bank account record and bank statement.

BANK ACCOUNT RECORD OF MARY DAVIS					BANK STATEMENT OF MARY DAVIS				
Date	Details	Deposit	Withdraw	Balance	Date 2014	Particular	Debit	Credit	Balance
01/12/14	Balance			126.20	01/12/14				126.20
05/12/14	Sales	105.10		231.30	05/12/14	SLF		105.10	231.30
07/12/14	Sales	111.70		343.00	07/12/14	592	89.90		141.40
12/12/14	N.G CO		89.90	253.10	12/12/14	SLF		111.70	253.10
15/12/14	Sales	107.10		360.80	15/12/14	Fee	3.00		250.10
19/12/14	Sales	111.40		471.60	19/12/14	SLF	2.50		247.60
22/12/14	Namasu		83.80	387.80	22/12/14	CBK	2.50		245.10
26/12/14	Steam/ ship		102.50	285.30	26/12/14	SLF		111.40	356.50

Figure 7.14 Mary Davis's bank account record and bank statement

continued next page

3 John Ben cannot get his bank reconciliation statement to agree. His statement balance is \$95.52. His statement contains these details that were not recorded in the bank account:

- 28/08/14 Fee \$5.00
- 30/08/14 Cheque book \$2.50

Find where it is wrong and rewrite it correctly.

JOHN BEN BANK RECONCILIATION STATEMENT AS AT 31 AUGUST 2014	
Bank account balance	\$120.10
Add cheques deposited but not yet cleared	• \$26.70
	• \$82.10 + \$108.80
	<u>\$228.90</u>
Deduct cheques drawn but not yet cleared	• \$72.10
	• \$12.10 – \$ 84.20
	<u>\$144.70</u>

Figure 7.15 John Ben's reconciliation statement

4 Explain what a dishonoured cheque is, and what 'deposited not yet cleared' means.

Activity 8

Field trip or research

Your teacher will help you to do your research on the topic of cash control.

Option 1

Invite an accountant, a cashier, or a manager of an organisation to give a talk about cash control in a business. Ask the speaker to explain who is responsible for cash control or who looks after it. Ask them to discuss the petty cash fund, bank account and the bank reconciliation statement.

Option 2

Visit a small business or trade store, or another business that deals with cash and cheques, and ask them how they manage cash control of their daily cash received and paid. Prepare some questions and write a report on your findings.



Figure 7.16 Larger companies have accountants and other employees who help to manage cash control.

Questions should focus on:

- petty cash for small payments
- the business records on cash received and cash payments, and who handles them
- how they reconcile their bank accounts with the bank statement.

Chapter summary

Chapter

7

A business or individual is responsible for keeping records of the money they have in a commercial bank.

Cash is awkward to use in large amounts, and it may get lost or stolen. Therefore it should be kept in a bank for safety.

A business or individual can use a cheque account for paying bills and other expenses.

Cash control is important for a business to protect it from mishandling and theft. The business needs the following documents to keep track of any changes and differences between the business's records and the

bank statement. These records are a petty cash book, a cheque book, a cash book, a bank account statement and a bank reconciliation.

Sometimes there are reasons why the bank statement balance and account holder balances are not the same. The account holder must compare their bank account with the bank statement to find where the differences are.

- ▶ If the balances are the same or agree then no further action is needed.
- ▶ If the balances are not the same then they need to be reconciled.

Glossary

accountability explanation and responsibility for what has happened to the money that a person is in charge of

bank account an account with a bank in which a customer deposits and withdraws their money

bank statement the bank's record of the customer's account. It shows how much is deposited, withdrawn and the balance

cash control a process of checking the accurate recording of all cash received and paid out from the business

drawer the owner of the account who signs the cheque

drawee the bank whose name is on the cheque

fraud an act of deception intended for financial or personal gain

imprest a fund used for petty cash payments

overdraft a short-term loan from a bank

payee the person who receives the money

petty cash fund a separate fund used for small expenses such as buying stamps, bus fares and stationery

petty cash voucher a signed receipt which shows the date, the amount and purpose of expenditure and to whom the payment is made

reconciliation the process of matching two statements so that they agree

reimbursement a refund

Starting Your Own Business



In the final five chapters, our focus will turn to the topic of starting your own business and build on what you learnt about this in Year 7.

This section is designed to provide you with critical information and skills about how to start and run your own business. Ultimately it is hoped that this will encourage you to begin to think, explore and plan ways of starting a business in order to make a living and a better life for yourself, your family and your community.

Specific learning outcomes

By the end of this chapter, you should be able to:

- explain the meaning of the terms interests, talents, resources, values and beliefs
- explain how these factors can be used to start a business
- analyse a case study to show a feasible business idea
- produce a business plan using pre-produced templates, or a recommended format
- list the advantages and disadvantages of planning as a way to start a business
- discuss the benefits of systematic planning in developing a business plan.

1 Introduction

To start a business and be one's own boss is the dream of many Solomon Islanders. For some it is the appeal of financial independence; for others it is the freedom of not answering to someone else or the opportunity to do something they really love and enjoy. But the idea of starting a small business is just the beginning. To be successful, it takes time to plan, research and make decisions.

Imagine you are given a task to organise a school fundraising activity or event.

What planning must you do first? What decisions must you make? What are your concerns? You need to work out what, when, where and how the fundraising can be done for it to be successful. In the same way, starting a business needs planning, research and decision making.

2 Be motivated to succeed

When someone starts a business, they need to have or develop certain skills. Any person going into business must have the right attitude to be successful. It includes being prepared to work hard, to overcome difficulties, to not give up easily and to keep on trying.

Interest

An **interest** is a desire to know and learn about something that attracts a person's attention. To start any business a person needs to be interested first and then have an enterprising mind to carry it out. Many people develop their hobbies or skills into a small business idea. For example, someone with a particular interest in food and cooking may start a catering business.

Once the idea exists, one has to think about it. What type of business will it be? What will it cost? How much money is needed to get the business going? What funds are available?



Figure 8.1 Small businesses cover a whole range of interests, from poultry farming, to baking, to bag weaving.

Activity 1

Answer these questions.

- 1 What decisions must be made before starting a small business?
- 2 Why do you think people start their own business?
- 3 Do you think starting a business is a good idea? Explain your answer.
- 4 What are some benefits you can get from starting a business?
- 5 What are some problems you will face when starting a business?

Talent

Talent is the natural ability a person has to do something well. It is the skills that a person was born with or has developed. It could be a talent for playing music, or a talent for being friendly and helpful to other people. These talents do not depend on a formal education, but the advantage of attending school is learning skills that will be useful in business.

Everyone has different talents. To start a business, talent is an advantage as it provides motivation and the required skills. Sometimes a person may not know they have certain talents or skills until they have tried a particular activity.



Figure 8.2 Some people have a talent for carving.

Activity 2

Answer these questions.

- 1 Why do you think people without formal education can still be successful in their own small business?
- 2 Explain what talent is.
- 3 Some business people in Solomon Islands go through formal education and start their business but still fail. Why do you think this might happen?
- 4 Look around your community and find someone who has started a small business. Ask them what talents they used to start their small business.
- 5 If your parents gave you some money to save or start a small project, write down three things that you would do.
- 6 What risks would you take?
- 7 If you made a profit from the saving or starting a project in Question 5, what would happen to your personal wealth?

Activity 3

Answer these questions.

- 1 If you were starting your own business, what would be your aim? Consider things like: making a living, employing others, being an important part of your community. Think of some other things too.
- 2 In what ways do people take risks when starting a business?
- 3 What are some benefits people gain when they increase their profit?
- 4 In what way does starting a business help the wider community?

Values and beliefs

Values and **beliefs** are the way a person thinks about things, and about what is important to them. People must be honest and true to themselves when starting a business, and they should also be honest and ethical when dealing with others.

Think about the effects of a business on the people and community around it. Ethical business practices are good in the sense they are doing the right thing by employees, partners, the community and the environment. But ethical practices are also good for business, as people who show they are moral and law-abiding citizens win the respect and confidence of people around them. This often means that more customers will come to them and keep coming to them.

Ethical business practices involve honesty. Running a business means being honest with customers. Being honest means the business person doing what they say they will do, and not telling lies to their customers. Telling lies is not ethical; it is also bad for business in the long run as no one will trust the business and customers will go elsewhere. A business person who tells lies will get a bad reputation.



Figure 8.3 Musicians have an interest and talent in making music, but these are not the only skills needed to create a business that allows them to earn money from their music.

Activity 4

Work in small groups to answer these questions.

- 1 What is a belief?
- 2 Why do you think being ethical is good for business?
- 3 Why is honesty very important when starting a business?

Other qualities are important to be successful in business. Some of these are listed below, and others have already been covered in the Learner's Book Year 7 chapter on entrepreneurs. Re-read that chapter when you get an opportunity.

Confidence

Confidence is a belief in your own abilities, or a belief in your ability to succeed. To be a business person you must be prepared to face failure and still have the determination and confidence to go on.

Discipline

Discipline is training to ensure proper behaviour and not giving up. You need to be able to carry out responsibilities or tasks no matter how unpleasant or difficult they may seem to be.

Sacrifice

Sacrifice is giving up something of value. For example, giving up an activity you enjoy so that you can use that time to work on your business. However, make sure that you do not sacrifice things that are also important to have a healthy life, such as spending time with family.

You need to give much effort and time to a business. This is when you set priorities that you commit yourself to, in order to achieve them. This may mean reducing your leisure time to have time to work on the business, or it could mean spending less money so that you can put more money into the business.

Attitude

Attitude is a personal view of something. Some people have the attitude that they know how best to do everything, but usually they do not know everything. People who are willing to seek help and advice are likely to learn skills more quickly, and therefore to be more successful.

3 A business plan

A key document for starting any business is the **business plan**. A business plan is a written document that acts as a map for the future direction of the business. It outlines how the business will start, where it is heading, how it will get there and what the business needs to get there.

Why make a business plan?

Every day we make plans. Some plans are for a short term such as what we will have for dinner. Others are long term, such as the career path we will follow when we leave school. The same idea applies in business.

Without planning in a business or any organisation, we do not know where we are heading. A plan allows us to monitor our progress and to see if we have achieved our objectives and if there are any weaknesses in our idea.

A business plan should be written when someone first thinks of starting a business, and it should cover both short- and long-term goals. It is a way to structure a person's thoughts and plans, and its aims are to:

- ▶ show that a business idea or concept is possible and profitable on paper, before starting
- ▶ outline the issues involved in running a business and how they will be addressed, before committing money and people to the business
- ▶ provide clear guidelines for the operation of the business
- ▶ give a clear direction for the business, to help maintain its focus and the owner's enthusiasm. Enthusiasm is being eager to do something.

Once a business is established, it should review its plans regularly. Some businesses review their plans annually, some every three years, while others review after every five years.

Business plans must relate to the vision and mission of the business and set out to achieve the **business objectives**.

Vision statement

A **vision statement** is a broad and inspirational statement that describes the business's dreams for the future. It defines the future direction and outlook of the business.

Mission statement

A **mission statement** simply states what the business is aiming to do. It does not need to be very long, but it should encourage the owner to provide a good service or product.

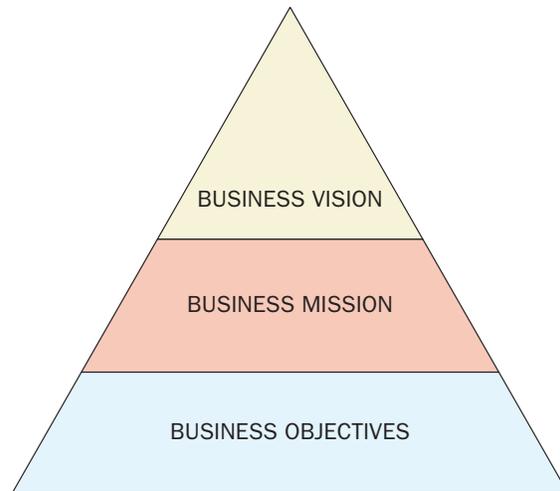


Figure 8.4 Start a business plan by concentrating on these three elements.

There is an old saying, set your goals in concrete and your plans in sand. In other words, it is important to start off with goals. This means you have given thought to what you want to do and achieve. But in business, just as in life, things change, and it's important to plan for this. Business owners can allow for changes within the market by considering different possible events and building these into their planning.

Activity 5

Work in groups to answer these questions.

- 1 What is a business plan?
- 2 List and describe the three steps in planning a business.
- 3 Explain the difference between a vision statement and a mission statement.
- 4 What are the benefits of a business plan?
- 5 Imagine your group wants to start a business.
 - a Decide on the type of business it is.
 - b Choose a name for your business.
 - c Write down the vision statement and mission statement of the business you want to start.

4 Steps in planning

Just as a series of steps is followed to successfully bake a cake, there are steps in planning. The five steps that follow are important in the planning process for a successful business.

1 Decide on objectives

How can a business reach its goals if it doesn't have any? Business owners need to plan the direction in which they want the business to take. This could be as simple as deciding to consistently supply lemonade to customers.

2 Outline the facts

A business owner needs to evaluate their goals to critically view the business's strengths, weaknesses, opportunities and threats. A SWOT analysis is a structured planning method used to evaluate a product, place, industry or person. SWOT stands for:

- ▶ **Strengths:** characteristics of the business or project that give it an advantage over others
- ▶ **Weaknesses:** characteristics that place the team at a disadvantage relative to others
- ▶ **Opportunities:** elements that the project could exploit to its advantage
- ▶ **Threats:** elements in the environment that could cause trouble for the business or project.

Identification of SWOTs is important because it can inform later steps in planning to achieve the business objectives.



Figure 8.5 Work out the strengths and weaknesses of a plan.

3 Develop alternatives

There may be a number of ways in which a business can reach its objectives. At this point it is important to brainstorm all options, regardless of their limitations – all alternatives should be considered.

4 Implement the plan

Once all the alternatives have been looked at, it is time to choose the most effective plan to achieve the business objectives, and implement it.

5 Evaluate, monitor and review

To reach its desired objectives a business needs to continually monitor and review the implementation of the plan to ensure that it is achieved.

To evaluate is to examine something in order to judge its value, quality, importance, extent or condition.

Monitoring means to be aware of the state of a system. For example, to observe a situation for any changes which may occur over time.

Review is to look at something critically to make sure that it is adequate, accurate or correct.

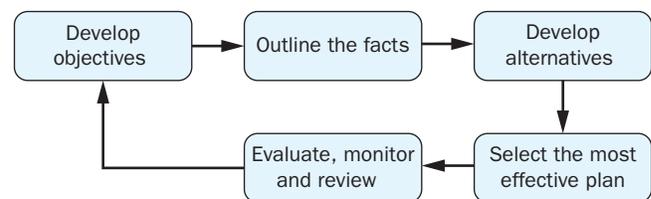


Figure 8.6 Successful businesses regularly follow these steps as part of their business plan.

5 Example of a business plan

Whether a person is planning for a small business or a large one, a plan helps them to focus on what exactly they want to do, and how they will achieve it. A basic business plan should contain the following:

- a cover sheet
- a table of contents
- a mission statement and objectives
- a description of the business, any competition, and personnel to be hired
- a marketing plan, including **market research** and the marketing mix – product, promotion, price, place
- a financial plan, including: capital requirements, calculating fixed and **variable costs**, break-even analysis, budget.

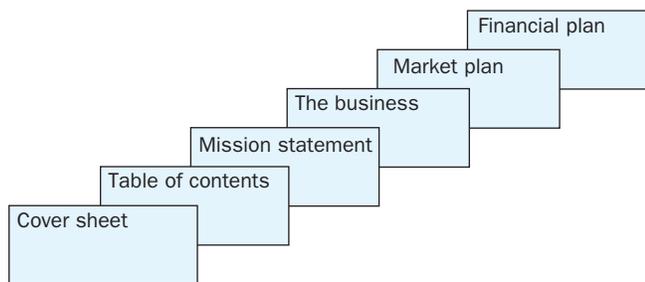


Figure 8.7 The components of a business plan

Cover sheets

A cover sheet should simply state the title ‘Business plan’ with the name of the business and the name of the owner or partners. If a business logo has already been designed, then put it on the cover sheet as well. A business logo is a mark commonly used to promote instant public recognition of a business or product. Logos may be purely graphic (a symbol), or may incorporate the name of the organisation.



Figure 8.8 A logo for Florence's lemonade business

Calisto Araoa
Mbokona Street, Honiara,
Telephone: 7487731/7556191

Date: 12/12/2013
Name: Calisto Araoa
Title: Director
Company Name: 2CAM CONSTRUCTION
Address: Mbokona
City, state: Honiara, Solomon Islands

Figure 8.9 The cover sheet for a construction company owned by a Solomon Islander

Table of contents

This simply lists the headings of the different sections of the business plans, along with their respective page numbers, just like a book.

Table of contents	
Mission statement	2
The business	3
Description	3
Competition	3
Personnel	4
Marketing plan	4
Market research	5
Marketing mix	5
Financial plan	6
Capital requirements	6
Calculating fixed and variable costs	7
Break-even analysis	7
Budget	8

Figure 8.10 An example of a table of contents for a business plan

Mission statement

This sets out what the business is, why it exists and how it will achieve its objectives. Be sure to aim high.

This business aims to provide the people of this area with the best tasting, healthiest and most refreshing drink available. The greatest care will be taken to maintain the highest standard of hygiene in the preparation of our lemonade.

The business

This plan part has three sub-sections.

1 Description

This section describes the business and its products. It gives basic information such as the name of the business and the product. It outlines the ownership structure, such as whether it is a sole trader, partnership or private company.

The business is a sole trader run by Florence Araoa Oinarii. It is situated at Mbokona Ridge near Mbokona Secondary School. The market will be the school students, teachers and the local community. The product is a drink called lemonade made from local lemons.

A small stall will be set up near the entrance to the school on school days, starting Monday 14 January 2014.

2 Competition

What is the competition for the business? Are there any other businesses selling similar products in the area? If yes, how will the business convince customers that its products are different and better than the others?

The main competition will come from a small trade store that is located about 0.5 km away from my proposed stall. However, this store sells mainly fizzy drinks and flavoured milk. My lemonade is very different from these products.

3 Personnel

Personnel refers to the people involved in the business. It states the owner and any other people employed. It also includes a brief description of the employed staff and their duties.

The business will be owned and operated by one person: Florence Araoa Oinarii. However, friends will be asked to help set the stall up on weekday mornings Monday to Friday.

Activity 6

... ..

Answer these questions.

- 1 What is a cover sheet?
- 2 Prepare a cover sheet for your small business or project.
- 3 What items should be included in a marketing plan?
- 4 Identify and describe the three parts of a financial plan.
- 5 What is a promotion?

Marketing plans

This is a plan on how to advertise and sell a product. In this context, the 'market' refers to people who might be interested in buying a particular product.

Market research

To be successful, a business owner should try to find out as much as they can about the market. This is called market research, and it can be carried out in different ways. For example, standing in the street in a commercial area asking people's views about the business you want to start. Hearing people's views helps to refine goals and aims for a business.

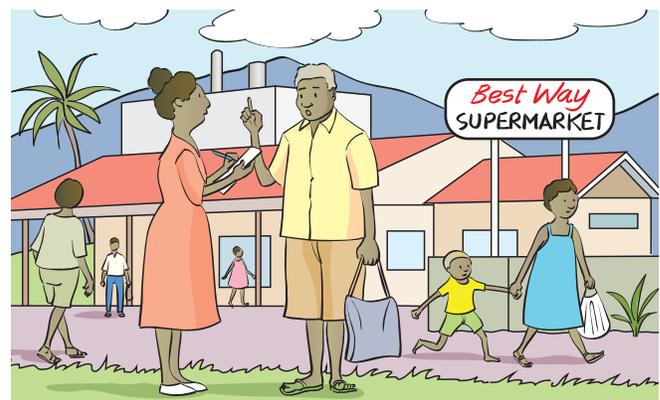


Figure 8.11 Market researchers ask the same set of questions to a range of people to get an idea of whether a product might sell well.

Market mix

Marketing is concerned with getting a product to potential consumers and making it easy for the consumers to buy the product. There are four aspects, which we can call the 'four Ps' because they all begin with the letter P.

Product: From market research a person can learn if there are ways to make their product more appealing to consumers. Tests using different combinations of ingredients may put them on the right track. However, packaging can also play an important role in making a product more appealing to consumers. Attractive packaging will draw attention to it.

Place (Location): Any business owner should think carefully when selecting a place to sell their product. Things to consider include where the product will be stored and where it will be sold. Individuals will most likely make their products at home or school. They need to think about where they can store the product until it's ready to be sold.

Transportation of products to their storage or selling place needs to be considered.

Price: The price must be high enough to cover costs and allow the business owner to make a profit, because profit making is the main goal. However, if the price is too high, people might not be able to afford it. If it does not seem possible to make a profit while keeping a price reasonable, the business owner will have to investigate the reasons for this.



Figure 8.12 Billboards are often used to advertise products.

Promotion: Promotion is all about getting information about the product to possible consumers. The most well-known aspect of promotion and marketing in general is advertising.

Advertising can involve putting up posters of the product, or using other media like newspapers, radio and television to reach potential customers.

The marketing plan and research

According to a survey conducted of people in the school community and around Mbokona area, the people most likely to buy lemonade are female students of the school who know about the health benefits of this product. Some customers walking past on their way to town are also expected to buy some lemonade.

The marketing mix

- **Product:** I will buy the lemons from the central market near my house at Mbokona. A concentrate form of the lemonade will be made with lemon juice and sugar from my own shop. Water and free ice from my house will be added at the stall.

The drink is high in vitamin C. No special packaging will be used.

- **Place:** The concentrate lemonade will be sold at a stall at the entrance to the school.

A small table at home will be carried to the stall and family members will help carry the concentrate, water and ice to the stall.

- **Price:** The price of the product is \$2.00 per cup. This is less than any similar product sold by stores nearby. According to the break-even analysis (see below) this should cover costs and allow for a profit.

- **Promotion:** The main form of advertising I will use is a sign on the stall. I will also call out as people walk by, explaining the health benefits of the product.

Financial plans

Capital requirements

Money, also known as capital, is needed to start a business, and a business plan should state where the money will come from. The capital needed to start a business can come from any source that trusts a person, or from a person's own savings. The most common place from which people get their capital is a commercial bank loan. Most lenders, including banks, need to see your detailed business plan before they will agree to lend you the capital.

Partnerships

Sometimes it is better to form a partnership rather than be a sole trader. Not only can this help raise more capital, but it also gives the business person a chance to bring more skills into the business. One partner may be shy and not good at selling the product but they may be good at making it. Another partner may not be good at making it but good at selling it. A third partner may be good at bookkeeping and preparing a business report.

Partners with their different skills help make a business successful if they all have the same goal. A person on their own needs a broad range of skills to make their business successful.

The break-even point: calculating fixed and variable costs

As part of their financial plan and to be clear about what they need in order to be profitable, businesses need to establish what their break-even point is. The **break-even point** occurs when the total costs of production equal the revenue received. Three things are needed to calculate this point.

- 1 The selling price is the price at which the product is sold.
- 2 The variable cost is the cost that changes depending on the number of products made. It can be described as a direct cost. It usually involves the materials from which the product is made. For example, if a product is made out of a metre of fabric, then if ten products are made, ten metres of fabric will be needed.

Florence calculates that for each cup of lemonade she makes, she requires 0.05 kg of sugar and the juice of 1.25 lemons. She also needs to pay for the plastic cups in which she serves her lemonade. The costs of all these items represent her variable costs.

This is the formula that can be used to find the break-even point.

The financial plan

• Capital requirements

I will borrow from my parents all the money needed to buy the saucepan and juicer, and the lemons and sugar for the first batch of lemonade. The money will be paid back to them at the end of the five-week period of the project.

• Fixed costs

The total costs of purchasing the saucepan and the juicer represent the fixed costs. This is because these costs have to be incurred regardless of how much lemonade is made. These costs are as follows:

Saucepan	\$12.00
Juicer	\$ 4.00
Total	\$16.00

• Variable costs

Each cup of lemonade made requires 0.05 kg of sugar and the juice of 1.25 lemons. I pay \$15 for a kilogram of sugar, and \$0.20 for each lemon. I also need to pay for the plastic cups in which to serve the lemonade. These are sold in packets of ten cups, which cost \$2 per packet. Because the quantities of sugar, lemon and cups used will depend on the quantity of lemonade made, the costs of all these items represent the variable costs.

The variable costs are:

Plastic cup	\$0.20 each (\$2 divided by 10)
Lemon	\$0.25 per cup (\$0.20 times 1.25)
Sugar	\$0.75 per cup (\$15 times 0.05)
Total variable costs:	\$1.20 per cup

• Selling price

I will charge \$2.00 per cup of lemonade.

• Break-even point

$$\begin{aligned}
 &= \frac{\text{Total fixed cost}}{\text{Selling price} - \text{variable cost per cup}} \\
 &= \frac{\$16.00}{\$2.00 - \$1.20} \\
 &= \frac{\$16}{\$0.80} = 20 \text{ (cups)}
 \end{aligned}$$

So I need to sell 20 cups of lemonade to break even. In order to make a profit, I intend to sell 30 cups of lemonade per week.

3 Fixed cost is the cost that does not change, regardless of how many of the product is made. For example, if you are renting a space in a building, the cost stays the same whether you make five products or five hundred products.

In the case of making lemonade, the fixed costs are the costs of the saucepan and the juicer used to make the concentrate.

From the analysis on the previous page Florence needs to sell 20 cups of lemonade to cover all her costs. She will start to make a profit if she sells more than 20 cups. Florence hopes to sell 30 cups of lemonade per week.

Budgets

The budget is a plan for the future, for a set of period of time.

A cash flow statement is a record of the money that comes into the business and the money that goes out of the business over a period of time. The financial plan may include the budget and/or the cash flow statement. If the business has been operating over a

period of time and the owner decides to expand, they may prepare both documents as part of their financial plan. Such a plan can be shown to a commercial bank in an effort to obtain a loan.

Cash budgets

For any new business, a cash budget needs to be included in a plan. Look at the example below in Figure 8.14 of Florence's cash budget.

Activity 7

Answer these questions.

- 1 What is a budget?
- 2 Why is a cash budget important to a business?
- 3 To calculate the break-even point, you need to determine three things. What are they? Explain each one.

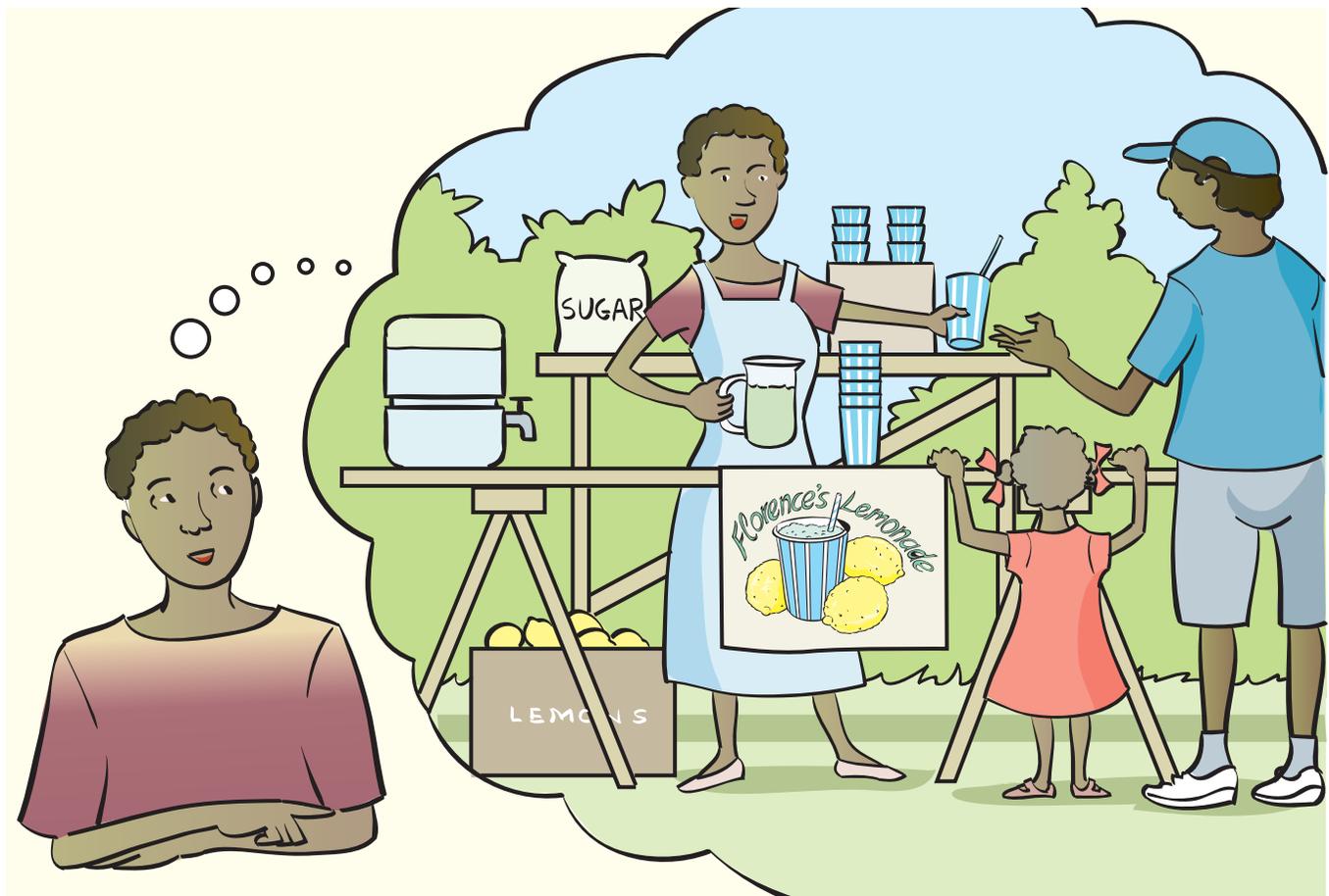


Figure 8.13 Florence calculates her business needs.

The cash budget

Here is the cash budget for Florence's business for five weeks from 1 March to 5 April 2014. It is based on my plan of selling 30 cups per week, and paying for the ingredients each week.

The money to pay for the sugar, lemons and cups for the first week will be borrowed from my parents. From then on, these things will be paid from the money I receive from selling drinks the week before. At the end of week 5, I will repay the initial loan to my parents.

	Cash inflow		Cash outflow	
Week 1	Loan from parents	\$52.00	Purchase of saucepan	\$12.00
	Sales of lemonade	\$60.00	Purchase of juicer	\$4.00
			Sugar (30 × \$0.75)	\$22.50
			Lemons (30 × \$0.25)	\$7.50
			Cups (30 × \$0.20)	\$6.00
	Total cash inflow	\$112.00	Total cash outflow	\$52.00
Closing balance				\$60.00
Week 2	Opening balance	\$60.00	Sugar	\$22.50
	Sales of lemonade	\$60.00	Lemons	\$7.50
			Cups	\$6.00
	Total cash inflow	\$120.00	Total cash outflow	\$36.00
Closing balance				\$84.00
Week 3	Opening balance	\$84.00	Sugar	\$22.50
	Sales of lemonade	\$60.00	Lemons	\$7.50
			Cups	\$6.00
	Total cash inflow	\$144.00	Total cash outflow	\$36.00
Closing balance				\$108.00
Week 4	Opening balance	\$108.00	Sugar	\$22.50
	Sales of lemonade	\$60.00	Lemons	\$7.50
			Cups	\$6.00
	Total cash inflow	\$168.00	Total cash outflow	\$36.00
Closing balance				\$132.00
Week 5	Opening balance	\$132.00	Sugar	\$22.50
	Sales of lemonade	\$60.00	Lemons	\$7.50
			Cups	\$6.00
			Repay loan to parents	\$52.00
	Total cash inflow	\$192.00	Total cash outflow	\$88.00
Closing balance				\$104.00

Figure 8.14 Florence's cash budget for the 30 cups of lemonade she sells each week for five weeks from 1 March – 5 April 2014

6 Advantages of planning a business

Many business people do not plan because they think it's too difficult. However, with the structure shown in this chapter, it should be straightforward. It is simply deciding in advance where your business is going and working out the details of how you will get there.

- It sets out a clear path to your goal.
- It identifies your present and future strengths, weaknesses, opportunities and threats.
- It keeps you on track towards your goals and helps you not to get sidetracked.
- It outlines how the business will operate and where the business is heading.
- It is a sign of your commitment.
- It is a useful tool for communicating with bankers, other lenders, suppliers and customers.
- The owner can make more realistic decisions about the future of the business.
- It develops a strategy when planning, using:
 - marketing research
 - budgeting
 - the price of your product
 - record keeping.
- It shows you and others that you really know your own business well.

The plan should be referred to regularly for decision making, and it should also be reviewed and changed as circumstances change. The success of the business depends on the planning.



Figure 8.15 Entrepreneurs are likely to be more successful if they plan their business and get support from others.

Activity 8

Answer these questions.

- 1 What are the four main reasons for making a business plan?
- 2 There are four aspects to marketing and they all begin with 'P'. What are they?
- 3 What is the difference between a variable cost and a fixed cost? Give an example of each one.
- 4 Why do some people not want to plan their business? What would you advise these people to do?

Activity 9

Group work

Develop your own business idea and create your own mission, vision and objectives.

Chapter summary

Chapter

8

To start a business a person needs to be motivated to succeed. This means having and developing qualities such as talent and values.

A business plan is a useful tool. It helps to give a person more knowledge and direction about their proposed business.

Business plans should include short-term and long-term goals for the business.

A vision statement and mission statement describe the aims and the future hopes for a business.

There are five steps in planning a business:

- 1** Work out the goals of the business.
 - 2** Evaluate the goals using SWOT analysis (Strengths, Weaknesses, Opportunities, Threats)
 - 3** Think of alternative ways to reach these goals.
 - 4** Choose the most effective plan.
 - 5** Constantly monitor and review the plan.
- Have a marketing plan on how to advertise and sell the product or service. Consider the four Ps: product, place, price, promotion.

Have a financial plan: work out where the money will come from to start with, and a break-even point. Prepare a budget.

Glossary

beliefs feelings that are real, genuine and can be trusted

break-even point the stage when the total costs of production equal the revenue received. To calculate this, the variable costs, fixed costs and selling price are needed

business objectives a written statement that describes what the business is trying to achieve and how it will achieve it

business plan a written plan that outlines the objectives of the business and acts as a road map of the future direction of the business

fixed costs the expenses that don't change, even if the quantity of product changes, e.g. the cost of buying machinery or paying rental

interest desire to know and learn about something your attention is attracted to, in order for you to achieve

market research the systematic gathering and analysis of information from potential consumers about a product

mission statement a formal statement that sets out what the business is, what it exists for and how it will achieve its objectives

resources raw materials that can be used to satisfy our needs and wants

talent natural ability to do something well

values beliefs about how to behave

variable cost the cost of materials

vision statement a broad inspirational statement that is forward thinking and describes the business dreams for the future

Specific learning outcomes

By the end of this chapter, you should be able to:

- explain the meaning of laws and regulations
- state the laws and regulations that are required for sole proprietors, partnerships and private companies starting a business
- describe the process for registering a business name, satisfying National Provident Fund requirements, paying taxes, paying the licence fee and calculating assets
- explain how to calculate assets for a sole trader and for partnerships
- identify the benefits of being formally recognised as a legal business.

1 Introduction

Starting a business requires attention to many details. Depending on the type of business, these tasks may differ. However, there is a basic procedure that most business owners should follow to legally meet the **requirements** of the local or national government. People living in the provinces can find out at their Provincial Centre; in Honiara, the Honiara City Council and Title of Registration Office provide information to ensure that all the regulations for starting up a business are followed.

In *Business Studies Year 7 Learner's Book* you learnt about the five types of business structures: the **sole trader, partnerships**, companies, joint ventures and cooperatives. Many factors must be considered when choosing the structure. The choice a person makes will have an impact on various aspects of the business, including licence, **taxes**, liability and ownership succession.

2 Laws and regulations

Every group we belong to has rules. Rules make life for all the members of a group more enjoyable, because everyone knows exactly what is expected of them. Society is a group we all belong to. It has a set of rules, too.

Some rules are made by the government, which passes **laws** through Parliament to establish fairness between businesses and customers. Parliament also gives limited power to others, such as government authorities or councils, to make **regulations**.

Laws and regulations give rights and responsibilities to people who want to perform business activities in the country.

Any new business, whether it be a sole trader, a partnership, a company, a joint venture or a cooperative, has to follow the registration procedures that are stated under the Companies Act 2009. This means providing information on the business name and address, the nature of the business, the names and some personal details of the people who are setting up the business.

Activity 1

Research task

Find out about the process for registering a business by visiting any shop or business near school, or the school canteen, and asking the owner or manager the following questions:

- 1 Have you registered your business?
If their answer is Yes, ask:
- 2 What documents did you need to get?
List them.
- 3 Which government ministries provided you with these documents?
- 4 When did you receive these documents?
- 5 Why did you have to register your business?
- 6 What would happen if your business was not registered?
- 7 How much did it cost to register your business?

3 What type of business?

Before starting a business, a person must decide whether to be a sole trader, partnership or company.

Sole proprietorship or trader

One of the most common business structures is the sole proprietorship, or sole trader. One person sets it up and takes responsibility for all the operations of the business. Even though this business is owned by one person, other people may be employed to work there.

A sole trader who uses their own name as their business does not need to register it. For example, if Janet Joe provides writing services to her clients as Janet Joe, she does not need to register her name. But if she calls her business 'Writing by Janet', then she will need to register the name with the Ministry of Commerce and Honiara City Council. This is a requirement of the Registration of Business Names Act 1996, which is a law made by the government in Solomon Islands.

To open as a sole trader, no special papers must be filed, however, a business licence fee must be paid.

One of the main responsibilities of the sole trader is that of unlimited liability. Unlimited liability means that the business owner must take personal responsibility for any debts that the business may have. If the business fails to pay its debts, the owner's personal **assets** such as their house, car and personal savings may have to be used to pay the business's creditors.

Case study

My name is Siosi Dioko and I live at Lio Ridge in Honiara. I own a sole trader business named C.D. Canteen. I named this canteen after my family names. C stands for Charlont, the name of my firstborn son and D stands for Dioko, my family name. I named my business C. D. Canteen to involve my entire family so they feel that they own the business.



Figure 9.1 Siosi Dioko at his canteen

I used to be a professional soccer player. I started my soccer career way back in the early 70s playing for the Sunbeam Soccer Club based in Honiara. In 1975 I was selected for the National Soccer Squad of Solomon Islands, and I represented our country in international matches until 1988. In 1989 I became head coach for our national soccer squad until my retirement in 1996. Although I am now retired and settled at Lio Ridge in east Honiara, my involvement, support and interest in youth and soccer development in the country is still very active.

I started saving money some years back because my goal was to run a small business one day in the future. I bought a piece of land with temporary houses that accommodate my family at Lio Ridge. When I came and settled here, I saw that the most viable business to operate was a canteen. I started my canteen at the end of 2012. The canteen is located just beside the main road that connects Kobito Market and Panatina, looking down to Solomon Islands National University, Kukum Campus.

I wanted to start this canteen for three reasons: first, to meet the needs of people around the area of Lio Ridge; second, to generate income to support myself and my family; finally, to provide a service to the general public.

I registered the name of the business with the Honiara City Council and I pay a licence fee of \$581 once a year to the Honiara City Council to operate it.

\$581

HONIARA CITY COUNCIL
 NOTICE TO APPLY FOR BUSINESS LICENCE
 (Honiara City Council (Regulation of Business Licences) Ordinance 2011, section 3(3))

To: CHARLOTT DIOKO
(name of business operator / nem blo boss blo business)

Business name: C.D. CAREEN
(business name / nem blo business)

Date of serving this notice: 29th April 2013
(date of service / de/ wa/ notice to serv)

You are currently carrying on a business without a business licence from the Honiara City Council. As you are carrying on an unlawful business, you have committed an offence under s 3(2) of the Honiara City Council (Regulation of Business Licences) Ordinance 2011.

You are required to obtain a business licence from the Honiara City Council immediately.

If you fail to comply with this notice, you may be arrested without warrant for committing an offence under this Ordinance. You will be liable upon conviction to a fine of up to \$5 000, plus \$50 for each day on which the offence continues after this notice is given to you under s 3(3) of this Ordinance.

Signed: [Signature]
(Authorised Officer)

Print name: Leban Lokada
 Job title: Law Enforcement Officer

#White copy to business operator; retain green copy in book.

Figure 9.2 An example of a business licence issued by Honiara City Council

Activity 2

Answer these questions in your exercise book.

- 1 Give three motivating factors that make people start their own business. You can refer to some ideas from Chapter 8 Starting a business if that helps.
- 2 Explain why you have to follow certain requirements and regulations for starting up a business.
- 3 Find out the different types of businesses around your area and list them.
- 4 For these businesses, find out what requirements and regulations they had to fulfil so that they could operate.
- 5 Ask a business owner why they chose to run that type of business.

Partnerships

As you learnt in Year 7, a partnership is a business owned by at least two partners, and up to twenty people. If this business uses a name that is different from the names of the individual partners, it must be **registered** with the Ministry of Commerce, Industries, Labour and Immigration. The people who form the partnership should have a **partnership agreement**. A partnership has unlimited liability, just like a sole trader.

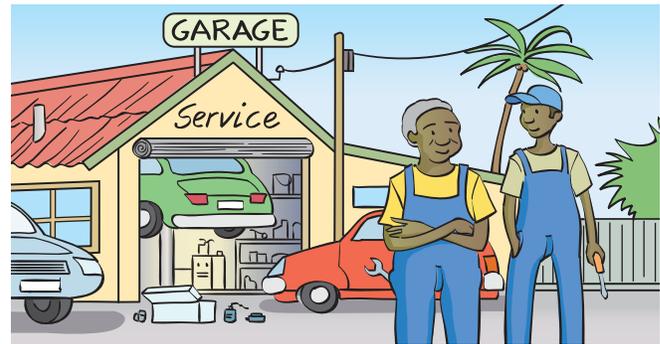


Figure 9.3 If two or more people want to jointly own a business, they start a partnership business.

Partnership agreements

A partnership agreement sets down the rules under which a partnership will operate. It also sets out how profit is to be shared among the partners, and the liability of each partner. This means if the business has debt, the percentage each partner is responsible for paying is made clear. This agreement is like a contract between the partners. Some partners may contribute more money than other partners in order to raise the necessary start-up capital. A partnership agreement will acknowledge this and also show what percentage of any profits should be given to each partner.

A basic partnership agreement should set out the following.

- Names and addresses of the partners
- Nature of the business
- Time frame of the partnership
- Business name and address
- Capital contributions of each partner
- Distribution of net profits and partnership income
- The authority of partners: who makes decisions, signs cheques, deals with cash, is responsible for **legal** documents
- The way in which the business is to be operated
- The procedures to be followed in the event of:
 - **bankruptcy**, death or retirement of a partner
 - the admission of a new partner
 - **dissolution** of the partnership.

If there is no signed agreement and a dispute arises about the profit, the court may simply state that each partner be given an equal share of the profit. If there is a dispute over a partner who wants to leave the business or dies and there is no agreement, the court might simply rule that the business be closed down.



Figure 9.4 Disputes in a partnership are easier to resolve if the people involved have signed a partnership agreement.

Activity 3

Answer these questions.

- 1 What is a partnership?
- 2 What is a partnership agreement?
- 3 What are some things that should be put into a partnership agreement?
- 4 Work in groups of five and plan a partnership business. Choose a name for the business and list what you think are the important things to settle about your partnership.

Companies

There are several types of companies. Around the world, the most common type of company is a public company, but in Solomon Islands, the most common structure is a **private company**. This has between two to fifty shareholders (also known as owners) and is different to a sole trader or partnership. To start a private company the business person first needs to get approval for the name from the Ministry of Commerce before the rest of the process can be completed online. There are three forms to fill in that can be submitted online, or at the offices of the Company Haus.

Shares in a private company are not traded on the share market and are available only to those people the business wants to involve as part owners. After the private company is registered and approved, the registrar of companies issues a certificate of incorporation. The process of incorporation means that the private company is a separate legal **entity** from its owners. A private company has limited liability, which means the owners (shareholders) are not personally responsible for the debts that may happen in the business. A private company has the words 'Proprietary Limited' (Pty Ltd) after its name. 'Limited' signifies that it is a limited liability company.

Activity 4

Answer these questions.

- 1 How is a private company different to a sole trader or partnership?
- 2 Explain in your own words 'limited liability'.
- 3 Look on empty cases or packaging at school or at home for any businesses that have the name Pty Ltd at the end. List them.

4 Registering a business name

Apart from having a well-thought-out and carefully prepared business plan, there are many legislative and government regulations that need to be complied with when establishing a small business. This is the case for any sort of business, from sole trader to company. These requirements include registering the business name, applying for a Honiara City Council licence, registering for the goods and services tax and completing the employer's registration form.

A Company | Solomon Islands

Statement of Particulars - Application for a Business Name

If there is insufficient space on this form to supply the information required, attach a separate sheet containing the information set out in the prescribed format.

Complete this form if you wish to apply for a Business Name. You must complete all sections accurately otherwise the Registrar of Companies may reject your form, causing a delay in processing.

1. Business Name (or business names if several requested)

2. General Nature of Business: Circle only one - your main sector of business

Agriculture	Distribution	Construction
Forestry	Tourism	Statutory Corporation
Fisheries	Entertainment & Catering	Financial Institutions
Mining	Transportation	Professional & other services
Manufacturing	Telecommunication	Other

3. Date of Commencement of Business:

4. Postal address of principal place of business (can be a PO Box):

Figure 9.5 An example of an application form for a business name from Company Haus, Solomon Islands

Registration of Business Names Bill 2013

A business name plays a role in almost every aspect of the business, so all suggestions should be carefully considered. It will appear on business cards, the company **logo**, on the building where the business operates, and on its website.

The *Business Names Act 1996* is in the process of being revised to make the process quicker and cheaper.

If a sole trader or partnership wants to start a business using their name(s), they fill in some forms. If a business name is used instead of the personal names of the owner(s), the name of the business must be registered under the Business Names Act. The business can register the business name or the company with the Registrar of Companies. This

registration is done through the registration company Haus, which was established by an **Act of Parliament** in 1971. Registration includes paying a registration fee.



Figure 9.6 People tend to remember a business name that is easy to say and to spell.

Activity 5

Answer these questions.

- 1 Why do you have to create a business name for your business?
- 2 Find out from the Inland Revenue Office at the Ministry of Finance how much it costs to get approval for a company name.
- 3 Which of the following would be good sales and marketing tools for a business through the internet?
logo business card website
- 4 Design a simple sign for your business.



Figure 9.7 Logos can be a powerful tool for making brands and businesses easily recognisable.

5 Paying tax and licence fees

Tax is a compulsory payment, which individuals and businesses make to the government. Taxes are the major source of the government's revenue. Tax pays for many of the services that we use every day. It pays for infrastructure, such as schools, roads, clinics/hospitals and wharves.

Direct and indirect taxes

There are two types of tax: direct tax and indirect tax. Direct tax is collected directly from individuals and businesses. This includes PAYE tax and company tax. PAYE is a progressive tax system for individuals, where higher income earners pay a greater share of tax than lower income earners.

Indirect tax is charged on commodities or services, for example, tariff, sales tax, goods tax and export duty. Tariffs are used to protect local industries, where higher tariffs are placed on imported goods, making local goods cheaper to buy.

Being in business

In general, a person is in business when:

- ▶ they start charging others for goods and services
- ▶ they regularly sell these goods or services
- ▶ they intend to make a profit.

The business needs to register for income tax, goods tax, sales tax, withholding tax and others.

Business owners are bound by law to register their business for tax purposes by completing the IR1 Tax Registration Form. The Inland Revenue Division will issue them with a Tax Identification Number (TIN), which should be written on all IRD forms and on any correspondence or other dealings with IRD. Putting their TIN on payment forms, returns and correspondence makes it quicker and easier to deal with the IRD.

Licence regulation

For many businesses a licence is needed to legally carry out their particular business activity.

A licence is written permission given by a government department to businesses. The issuing of the licence, as with all regulations, is in accordance with a law that has been passed by parliament. The business must get a business licence from Honiara City Council or through Provincial Government Centres under the Regulation of Business Licence Bill 2011. This involves completing a Business Licences application form and paying a fee. In the example of Siosi Dioko, in the case study of a sole trader on page 116, he pays licence fees of \$581 to the Honiara City Council once a year to operate his canteen.

The relevant government authority records the name of the person or business to whom the licence has been given. Different types of businesses require different licences. For instance, people such as doctors or dentists need to be licenced because they will care for people who need medical assistance. They need to follow the regulations as set by the authority concerned.

IR1



IMPROVING THE LIFE OF SOLOMON ISLANDERS
Inland Revenue Division Solomon Islands

Inland Revenue
PO Box G9
Honiara
Ph: 22556
www.ird.govt.sb

Registration Form – New Business Taxpayer

Taxpayer Name	
Business Trading Name	
Business Structure (Please tick applicable box and attach required information) If you are unsure, please contact us or your accountant.	<input type="checkbox"/> Individual / Sole Trader <input type="checkbox"/> Partnership – You must list the names of all Partners, their share in the partnership and attach a copy of any written Partnership Agreement. <input type="checkbox"/> Company – You must attach a copy of the Certificate of Incorporation <input type="checkbox"/> Trust – Attach copy of Trust Deed. Name of Trustee operating the business:
Commencement Date	day / month / year ___/___/___
Main Business Activities Will you import, wholesale or manufacture goods? Yes/No
Estimated Annual Turnover	\$
Estimated Annual Profit for first year	\$

Contact Details

Address business located	
Postal Address	
Telephone Number	
Contact Name	
Accounting Firm Name:	
Do you need to register for:	See reverse side of this form for more information on these obligations. If you are unsure please contact IRD.
PAYE	Yes/No No of employees _____ How often do you pay? weekly/fortnight/monthly/bi-monthly
Goods Tax	Yes/No
Sales Tax	Yes/No
Withholding Tax	Yes/No

Would you like to attend one of our new business tax advisory seminars?

Would you like a visit from a tax advisory officer

Declaration

I, _____ declare that the information shown in this registration form is true and accurate in every respect.

.....
Signature

.....
Capacity (e.g. public officer, partner)

.....
Date

If you need more information contact us at our Customer Service Centre in Honiara or one of our branches in Gizo and Auki. You can also telephone or write to us.





PAYE (Employees)

If you have **employees** (resident or non resident), you will be required to deduct income tax from all payments made to employees. Non cash benefits such as the value of free or subsidized housing, vehicles, free or subsidized water, electricity, fuel or domestic workers and education allowances are also subject to PAYE. Contact IRD for assistance with non cash benefits calculations.

Payments will be due by the 15th day following the month the tax is deducted. You will need to lodge a monthly form with your payment and you will have other annual obligations.

GOODS TAX

If you are a **wholesaler or manufacturer** of goods, you will have an obligation to charge goods tax and pay this tax to the Commissioner by the 30th day following the month the tax was collected. You will need to lodge a monthly form with your payment (GT3). The amount rate of goods tax charged depends on the type of goods. Contact IRD for more information. **Importers** pay goods tax direct to Customs at the port of entry.

SALES TAX

The following goods and services are subject to Sales Tax at a rate of 10% - local and overseas telecommunications; restaurant services; tickets for domestic travel by sea; accounting, legal and security services; motor vehicle rental and hire; real estate agency services; professional services; video or computer equipment hire; hire or leasing of vessels, aircraft, plant, machinery and equipment; electronic repairs and equipment; hairdressing & beauty services; laundry services; type services. Other services subject to sales tax include casino fees, tickets for overseas travel or domestic travel by air (\$10 per ticket); hire of videos (\$2 per tape); movie tickets (50 cents per ticket); sale of petroleum or diesel (10 cents per litre).

If you supply any of these goods or services, you must charge sales tax and pay this to the Commissioner by the 30th day following the month the tax was collected. You must lodge a monthly form (ST3) with your payment. You will also need to obtain a special sales tax registration certificate.

WITHHOLDING TAX

If you make certain **payments to residents or non residents** you may be required to deduct withholding tax. Tax deducted must be paid to the Commissioner by the 15th day of the month following the month the tax is deducted. You will need to lodge a monthly form (IR16) with your payment and you will also have some annual obligations.

PAYMENTS TO RESIDENTS	RATE	PAYMENTS TO NON RESIDENTS	RATE
Contracting and/or subcontracting (installation, maintenance, construction, erection, clearing and draining)	7.5%	Interest	15%
Royalties	10%	Professional Services	20%
Fishing Operations	10%	Royalties	15%
Lease of Property	10%	Contracting (installation, maintenance, construction, erection, clearing and draining)	7.5%
Sale of Cocoa	NIL	Income from ships and aircraft	5%
Sale of Copra	NIL	Insurance Premiums and premiums on insurance	15%
Sales of Marine Product	10%	Rent for Hiring of Films	5%
Stevedoring services	15%	Pole and Line Fishermen	10%
Dividends	20%	Purse Seines Fishermen	15%
Interest	10%	Lease Income (leasing of plant, equipment or machinery; chartering or hiring of fishing vessels or related vessels for purpose of fishing; or leasing, chartering or hiring of aircraft)	15%
		Management Services	35%
		Dividends	30%

If you require more information about any of these taxes please contact Inland Revenue

Figure 9.8 New business taxpayers must complete a registration form.

Activity 6

Answer these questions.

- 1 Explain what tax is.
- 2 What does the government use tax money for?
- 3 What does TIN stand for?
- 4 Eighty per cent of people living in rural areas do not have regular income. How do you think they might pay tax?
- 5 Why do you think councils might want to have a record of businesses in their area?

\$10.00

**CITY COUNCIL
BUSINESS LICENCES
APPLICATION FORM.**

TO BE FILLED BY APPLICANT

Name of applicant.

Postal Address..

Occupation.....Telephone No:.....

Nationality..

Name of Business..

Registered Address..

.....

FIB Approval Yes No
(If yes, provide approval certificate)

Business Reg. No..... IRD No.....
(Business license will only be issued on availability of IRD proof.)

Types of Business
.....

(Provide relevant documents about operation)

Shareholder/Partnersshare (%).....(%)
.....share (%).....(%)
.....share (%).....(%)
.....share (%).....(%)

Please state individual, Partnership, Cooperative, Limited Company or other types of business entity.

Capital investment \$..... Bankers

I certify that the information contained in this application is true and correct.

Application SignatureDate:

Figure 9.9 An application form from the Inland Revenue Division for business licences

6 National Provident Fund

All companies need to be registered as an employer with the Solomon Islands National Provident Fund under SINPA Act 1973. The employer completes the Employer's Registration form, showing the type of business and total number of employees.

SOLOMON ISLANDS EMPLOYER'S REGISTRATION FORM

This form must be posted to the General Manager, National Provident Fund, P.O Box 619, Honiara, or delivered to the office of the Fund at 1st Floor, NPF Building, Honiara or to NPF Provincial Branch Offices at Gizo and Auki.

DATE RECEIVED: APPLICATION NO: EMPLOYER NO:

1. Name and Postal Address of Business/Employer

Phone Number: Business:..... Fax Number: Email Address:
 Residence:.....

2. Business or Trade Name

3. Constitution of Business (*Put tick where applicable*)

<input type="checkbox"/> Sole Proprietor	<input type="checkbox"/> Private Company	<input type="checkbox"/> Cooperative Societies
<input type="checkbox"/> Partnership	<input type="checkbox"/> Public Company	<input type="checkbox"/> Charitable Organization
<input type="checkbox"/> Others	<input type="checkbox"/> State Own Enterprises	<input type="checkbox"/> Non Government Organization

4. Nature of Business or Business Industry Type

5. Commencement of Business

Company/Business Start Date:..... 1st Date Wages Paid:.....
 Total No. of Employees:..... Total No. of Unregistered Employees:.....
 Total No. of Expatriate Employees:..... Company Registered Number:.....

6. Physical Location of Business Premises/Actives

Province:..... Location:.....

7. Address of Other Premises or Branches

8. Name & Address of Previous Owner of Business (if any)

9. If previously Registered as an Employer with the SINPF, State Employer's Reference Number

10. FULL NAME & ADDRESS OF EMPLOYER/OWNER OF BUSINESS OR PRINCIPAL PARTNER

11. I HEREBY CERTIFY THE ABOVE TO BE TRUE AND CORRECT; SINGING THE FORM ON BEHALF OF THE OWNER OF BUSINESS OR PRINCIPAL PARTNER: SECRETARY, OR MANAGING DIRECTOR, OR CHARTERED ACCOUNTANT

SURNAME:..... FIRST NAME:.....
 Signature:..... Designation:..... Date:.....

Figure 9.10 Employers must fill in the NPF employer's registration form.

The Solomon Islands National Provident Fund (SINPF) is a social security scheme established in 1976 following an Act of Parliament, the Solomon Islands National Provident Fund Act 1973. The Act states that the Fund's laws and regulations shall be compulsory, so all employees (through their employers) are obliged to pay contributions to the Fund.

As you have already learnt, SINPF provides an income for workers at the end of their working lives.

Members' contributions are paid monthly. Each member is given a membership number that remains the same throughout a member's working life, as well as a certificate of membership that the member needs to show every new employer. If a member changes their name, they must inform the Fund's office.

It is vital that registered members of the SINPF complete a nomination form (NPF8). A member may nominate one to four people as beneficiaries of their SINPF if they die while still a financial member of the SINPF. By making a nomination, the SINPF can pay nominees promptly in the event of a member's death.

If a member dies prior to withdrawal, their nominee(s) will be paid the amount in their account together with a special death benefit. The maximum amount of death benefit is determined by the Board each year but is not less than SBD\$1000.

Activity 7

Answer these questions.

- 1 What is the purpose of the NPF?
- 2 What year was NPF established?
- 3 How do workers pay money into their NPF fund?
- 4 Who gets the money from a member's NPF fund?

7 Business assets

An asset is something of value owned by a business.

- Cash and receivables: Cash is a very important asset for a business, as businesses use it to purchase things for the business.
- Employees: They work to generate more cash for a business.



Figure 9.11 Employees are a valuable part of any business.

- Machines and equipment: These are a part of making the business operation run effectively and smoothly.



Figure 9.12 Some business need to spend a lot of money on machinery.

- Land and buildings: Land always has a value, and if there are buildings on it, the value is usually greater. Land and buildings can be sold for cash.



Figure 9.13 Buildings are counted as an asset.

Calculating assets

A balance sheet shows assets, liabilities and capital. Assets are the items a business owns and uses to generate profits. Liabilities represent money a business owes to other businesses. This can include things like office supplies, tools and equipment necessary to run the business, or money owed on buying a business vehicle. Capital is the money the owner invests in the business.

The purpose of a balance sheet is to report the net wealth of a business, or in other words, the difference between total assets and total liabilities. This is considered the true financial value of a business.

Calculating the value of an asset depends on the asset type. Some assets, such as a truck, depreciate or lose some of their value over time. You will learn more about this next year.

Using a truck for a business as an example, its value as an asset is calculated as follows.

Say the proprietor paid \$100,000 for the truck. He keeps it for five years, and each year the truck loses some of its value. Let's say standard depreciation for trucks is 10% for each year the truck is kept. If the proprietor has had the truck for four years, its value is no longer \$100,000. Instead, its value is:

$$\begin{aligned} & \text{Cost price} - 10\% \text{ of cost price} \times 4 \text{ years} \\ &= \$100,000 - (10,000 \times 4) \\ &= \$100,000 - \$40,000 \\ &= \$60,000 \text{ (value of truck after 4 years)} \end{aligned}$$

Another example of an asset is stock. A canteen has packets of biscuits as part of its stock. If the owner sells each packet for \$2, and has 20 packets in stock, the value of the biscuits is $\$2 \times 20 = \40 . The \$40 becomes part of the owner's total stock assets, when it is added to all the other stock in the canteen.

Activity 8

Answer these questions.

- 1 What is an asset?
- 2 List the four categories of assets.
- 3 Explain how to calculate business assets.

8 Benefits of being formally recognised

Anyone who starts up or runs a business must follow Solomon Islands laws and regulations. While some individuals may find the steps to forming a business time-consuming, there are definitely advantages to being a legal entity.

- 1 The business is operating under the law, just like any other registered business. That means having the protection of the law.
- 2 The business can raise money by having people invest in it. Potential investors will only be interested in investing if they know they are protected by the law, because their money is more likely to be safe.
- 3 People forming a company have extra protection, because the company is a separate entity; the business debt is separate from personal assets, so a business owner's personal assets are protected from any problems that might occur in the company.

Many business owners prefer the sole proprietorship structure because it's the easiest way to launch a new business. While partnerships and corporations require greater amounts of paperwork, sole proprietorships require little more than appropriate licencing and registration.

Activity 9

Answer these questions.

- 1 What do you think are some advantages and disadvantages of choosing different business structures (sole trader, partnership or company)?
- 2 Explain what it means to have a legal business.
- 3 If you set up your own small business without registering it or licencing it, what sort of problems do you think you could have?

Chapter summary

Chapter

9

Forming a small business requires a business person to understand how to make their business formal. There are key regulatory requirements for operating a business.

There are several key procedures a business person needs to follow to register a business:

Step 1: Decide on the form of business: sole trader, partnership or private company; and find out what legal documents are needed.

Step 2: Decide on a business name and register it with the Registrar of Companies.

Step 3: Depending on the business structure, register with the Ministry of Commerce, Industries, Labour and Immigration and with the Ministry of Finance for deducting income tax, goods tax, sales tax and withholding tax and so on.

Step 4: Register with Solomon Islands National Provident Fund (SINPF).

Step 5: Apply for a business licence at the Honiara City Council or at one of the Provincial Centres.

And don't forget: the business needs to open a business bank account at any of the Solomon Islands commercial banks.

Glossary

Act of Parliament law made by the parliament

asset items a business owns and uses to generate profits

bankruptcy the state of not being able to pay one's debts; it is a legal title

dissolution the act of ending a business agreement

entity refers to the individual or organisation

legal lawful

law a system of rules and guidelines that a particular country or community recognises and that are enforced through social institutions to govern behaviour

logo a sign or a symbol

partnership a business owned by between two and twenty people

partnership agreement sets down the rules under which a partnership will operate

private company has between two and fifty shareholders (also known as owners)

registered the recording of the business name in a book or on a computer

regulation legal rules that are written by government authorities or councils

requirement obligation or responsibility

sole trader a single person who sets up a business and takes responsibility for all its operations

tax a compulsory payment, which individuals and businesses make to the government

Specific learning outcomes

By the end of this chapter, you should be able to:

- explain the terms location, marketing, demography, target customer or market and competitors, marketing environment and cultural practices
- explain the importance of assessing the business location, the market (demography, target customer) and possible competition
- describe the different stages of the marketing and distribution process
- formulate and describe the simple method of assessing a business location, the market (demography and target customer) and possible competition
- demonstrate an understanding of the need for and importance of marketing and distribution in a business environment
- explain how to carry out a simple market strategy, secondary market research and find business opportunities
- describe a number of ways small business could promote the business, goods and services they provide
- explain advertising
- explain the reasons for packaging goods
- discuss the advantages and disadvantages of advertising.

1 Introduction

Marketing is an important and exciting part of a business. In fact, many business people believe that marketing is the most competitive weapon that a business can have. Marketing lies at the heart of any successful business.

This chapter focuses on assessing how best to market a business. It also looks at how to carry out a simple market strategy and how to promote a small business through advertising.

Activity 1

- 1 What do you think is the difference between marketing and advertising?
- 2 What is the aim of marketing?
- 3 How do small businesses such as trade stores or school canteens advertise their products to their customers?
- 4 Explain how a business uses marketing to sell their products to their customers. Give an example.
- 5 Why do businesses need to advertise their products to customers?

2 Marketing

As you learnt in Year 7, **marketing** is a term that covers the whole process of getting goods and services to consumers. The aim of marketing is an exchange between a business and its customers: the business aims to satisfy customers' needs and wants, and in return, customers pay the business for their goods and services.

Different groups of customers have different needs and wants. Businesses need to offer a range of goods and services to appeal to as many customers as possible.

Marketing involves identifying the potential market, developing the right product for that market, communicating with the market, pricing the product, and distributing the product to the consumers.

The marketing environment

Businesses can only be successful if they pay attention to the environment around them. The marketing environment includes the business itself, the community around the business, and also the wider world.

The aim of any business is to successfully sell a product or service. It doesn't matter if the employee is working in the warehouse loading the product, answering the phones in reception or in the office managing the money – they are all working towards the same goal of selling products or services.

The community around the business includes customers and suppliers, as well as other businesses that are selling similar products (they are the **competition**).

Events in the world outside also affect the business. These include the government and the laws it makes, technology and the economy.

A marketing strategy that is successful in a city like Tokyo in Japan or Sydney in Australia may not necessarily work in Solomon Islands. Although the whole process of marketing is the same in all countries, the actual strategies used will vary. The strategy chosen to market a product depends on the marketing environment. In the business context, the marketing environment refers to the cultural practices, level of competition, government laws and what technologies are available.

Cultural practices

Although Solomon Islands has many customs and traditions that are the same across the country, there are also many that differ from one village or province to another. A product that might be popular in town may not be popular in rural areas. In some areas, eating certain foods may be prohibited within particular religious groups.

Competition

The marketing strategies used by a business depend on the level of competition. How many other businesses are trying to sell a similar product? Each business tries to get a share of the market, or market share. The bigger the market share a business has, the greater its sales. Some businesses try to get a bigger market share through an aggressive marketing campaign. In recent years Bemobile has put up billboards around Honiara. They advertise in the newspapers and on the radio. They even have Bemobile orange cars advertising their name. In order not to lose market share, Telekom have had to increase their level of advertising in a big way.

Even if there is little competition, a business still needs to be serious about marketing its product. Most businesses want to grow their market, which simply means increasing their number of customers. They also want to establish their product name (called a brand) in the minds of their customers.

When a particular brand is popular and well known in a market it makes it more difficult for new businesses to enter the market. This topic will be discussed in more detail in Year 9.



Figure 10.1 Telekom advertise their mobile phone service in front of their office in Honiara.

Government laws

Businesses have to follow government regulations. There are laws that forbid a business from making false claims about its products. Misleading advertising is against the law. This influences the marketing strategies that can be used. There are also laws about packaging and making sure that a product is fit for the purpose intended.



Figure 10.2 This billboard shows brands marketed by Szeba Enterprises Limited in Solomon Islands, which include the soft drink brand, Schweppes

Technology

Technology affects all stages of production, and therefore marketing. Technology is used by a business to make products, and in the distribution and selling process. For example, a fisherperson will be limited in marketing their catch if there are no refrigeration facilities available close to where they fish. Similarly, if their customers don't have refrigeration, they will only want to buy fish if they plan to cook it that same day.



Figure 10.3 Radio announcers regularly read 'promo' spots to promote products.



Figure 10.4 Simple signs can be effective, and are certainly cheaper than other advertising.

Media is another type of technology that is part of the marketing environment. There is a choice of print media, radio and television to advertise products. However, for some small businesses, simple technologies may be the most appropriate and cost effective. For example, a simple homemade sign outside a stall may be the best technology in that situation.

Activity 2

In small groups, discuss the following questions.

- 1 Explain the meaning of each of the factors listed below.
- 2 Discuss how each factor affects the marketing of a business.
- 3 Give local examples for each factor.
 - a The marketing environment
 - b Cultural practices
 - c Government regulations and laws
 - d Technology

3 The target market

As you learnt in Year 7, the **target market** is the group of consumers who is most likely to be interested in buying a product or service.

You will notice that marketing concentrates on consumers and what they need and want. The business wants consumers to become customers of their business. Customers are the focus of marketing because they are the source of sales and profit. If consumers don't want to buy the goods and services, there will be no profit for anyone connected to the business, from the manufacturers to the retailers.

Who is the target market?

The business needs to keep asking this question, to make sure it is making a product that its customers actually want to buy. So the first step in developing a marketing plan is to identify who will want to buy a particular product.

It is difficult to satisfy everyone's wants with just one style of product. People have different likes and dislikes; they want particular colours, tastes, sizes and so on. Some goods and services cater for the whole market, for example, electricity and water. But for many products these days, like bread or milk, modern consumers want variety. They want bread for toasting, wholemeal bread, grain bread or white bread. Milk comes in a variety of carton and bottle sizes, with different levels of fat and calcium.

To cater for the wide variety of tastes and needs, most businesses break the whole market down into parts (like dividing the segment of an orange) and provide particular products for just one or a number of different segments. This is called **market segmentation**. Once the market has been broken down into smaller parts, and information has been gathered about the market segments important to the business, a target market or a number of target markets can be identified.

Demography

One way to help define the target market is to understand the demography of the market. **Demography** is the study of a community of people, its ethnic groups, gender ratio and so on.

Demographic factors are population characteristics that include: age, gender, ethnicity, occupation, education,

status, family size and family income. All of these characteristics affect people's decisions on what they spend their money on.

An examination of a country's demographic pattern provides a clear picture of possible customers for a business. Any changes that a business detects can become a powerful piece of marketing information.

Demographics are an easy form of measurement, so dividing the market into groups is a straight forward way for businesses to get information.

Here are some examples of the main segments often identified by a business: Age and life cycle: A product that is suitable for a baby is not likely to appeal to a teenager. Successful businesses know how many people in their market belong to different age groups, such as pre-schoolers, children, teens, young adults and elderly people.

Gender: Products are marketed differently to men and women. In the past, women were not targeted by businesses selling financial products. These businesses are changing their marketing techniques to encourage more young women to become their customers. An example of a product that depends on knowledge of gender is clothing. Young women's fashion clothing is likely to have a larger market in towns where there are young women, or places where young women have the money to buy these products.

Income: Businesses divide the market according to people's incomes. They do not want to spend time and money marketing an expensive product in an area or to a group who are not interested in it or cannot afford it.

Activity 3

Answer these questions in small groups.

- 1 What does the target market refer to?
- 2 Why is it so important for businesses to understand their target market?
- 3 Explain the term demography in your own words.
- 4 What are three ways to measure demography?
- 5 Demography as a concept is important in marketing. Explain how important it is.

4 Assessing the market

Before a business can successfully sell a product, it needs to understand the target market. The next step is to assess the market. This means critically studying the target market to be sure that you have a product that customers want to buy. In this way, the strengths and weaknesses of a product become more obvious, and improvements can be made. A business can choose to undertake primary and/or secondary market research.

Primary market research

The market for most small businesses will be local so their focus will be on primary market research. Primary research was discussed in Year 7 where the use of surveys was explained.

Perhaps the most common form of primary research is a simple survey with locals and customers in face-to-face meetings in shopping centres. A similar approach is to interview people, where responses to questions may be more general. Before using a survey or interview, it is important to be clear about what information is needed, and how the questions or statements are worded. A well-designed survey allows a business to find out what people really think about the product or area that the business wants to get information on.

Surveys and interviews can be conducted in English, pidgin or indigenous languages. It depends on whose opinions the business is interested in.

Another simple form of primary research is to give out samples of the product to see what the customers' reactions are.

A sample is a small amount of a product given to people. It can be used to see whether they like the product or not, and it is one way to introduce them to a product.

It is better to find out about the market before wasting a lot of money trying to sell something that no one wants to buy.



Figure 10.5 Free samples are one way to get immediate feedback from the market.

Secondary market research

Secondary market research means using information that has been collected by other businesses or organisations. For example, a business might want to set up in an area where the population is growing and where there is not a lot of competition. The National Statistical Office of Solomon Islands collects information on regions and towns with the highest population growth, and this is available to the public.

Secondary market research is cheaper than primary market research. It is not necessary to hire people to survey or interview others, or to hire people to design the questionnaires.

There are a variety of secondary market research resources, such as libraries, the internet, news articles, industry leaders and suppliers, annual reports, research firms and government.

The disadvantage of secondary market research is that the research will be general; it is not targeted at specific business goods or services.

Activity 4

Answer these questions.

- 1 What is the difference between primary research and secondary research?
- 2 Provide some examples of real businesses that you know of in your town, that have used primary or secondary market research. Do you think they were successful? Answer why or why not.

5 Competition

You have seen how important it is for a business to know who its customers are. Without them, a great idea will never work. Besides getting to know who will actually buy the goods and services, it's also important to be aware of competition.

In rural areas in Solomon Islands, people often start projects or businesses by copying what others are doing. Starting a retail shop is a clear example of how rural people fail to understand how competition can make a business fail or succeed. Villagers may know very well that there are already too many stores in a village, yet they go ahead and start another store.

Competition is the process of trying to win against others. It is critically important that all new businesses ask themselves, 'Is anyone else providing the same goods or services in this area?'

When considering the competition for a product, these questions are useful.

- How many similar businesses already operate in the area?
- What type of goods or services do they provide?
- Do they meet the customers' needs?
- What are their major weaknesses?
- What are their advantages or strengths?
- Can you capitalise on their weaknesses?
- How about prices: can you lower your prices to win customers?
- What reactions do you expect from your competitors when you enter the market?

To attract customers from another established business to yours means a whole lot more than simply passing on the goods to the customers. It is also important to give them value for their money. If they are satisfied, they will come back to your business. If it is not possible to compete on price, it may mean offering better quality, or better service.

Activity 5

Answer these questions.

- 1 In your own words, explain the term competition.
- 2 Why is understanding competition important for a new business or a new product/service?
- 3 A business can offer a better quality product or better service than its competitor. Think of some examples of products or services you know where this happens.

After a business has assessed its product by doing market research and checking out any competition, it may need to alter its ideas a little. In other words, it may need to refine its product so that customers are more likely to buy it.

6 Location

There is no use trying to set up a small store in a place where there are no people. Choosing the **location** means taking note of the link between a business, its customers and its suppliers.

A poor location may lead to insufficient demand for the business product or the non-availability of resources. When deciding on where to locate a store, there are three things to think about:

- Where is the product made?
- Where is the product stored?
- Where should the store be located?



Figure 10.6 This stallholder can sell her vegetables because she has arranged transport to the market.

Being close to market

This is a particularly important factor for small businesses. The target market may be local, but the location of the business needs to be easy for people in the local area to get to. It helps if people need to travel past the business on a regular basis. But much depends on the type of business being set up. If the business is selling specialist products, people will travel there because they know it has the products they need. For example, if a store specialises in gardening products, and if it carries a good range of tools, fertilisers, seedlings and so on, customers are more likely to make a special trip there to buy what they need.

Transport infrastructure

Reasonable infrastructure, such as roads, bridges, wharves and airfields, is needed for both customers and suppliers. Customers need to be able to get to a business to buy goods, and suppliers need to be able to transport their goods and materials to the business.

Being close to resources

For some businesses, it is an advantage to be located close to the resources that they use to make their product or the actual products that they sell. An example of this is locating a sawmill near where the trees are grown. Logs can be processed into timber without having to transport the logs over long distances. The processed

timber is easier to transport, and waste products like bark do not get transported. Access to transport infrastructure becomes more important in these sorts of cases.

Being close to workforce

Some businesses rely on skilled workers to make their products. Being close to a population that includes a large percentage of well-educated and trained workers is an important consideration.

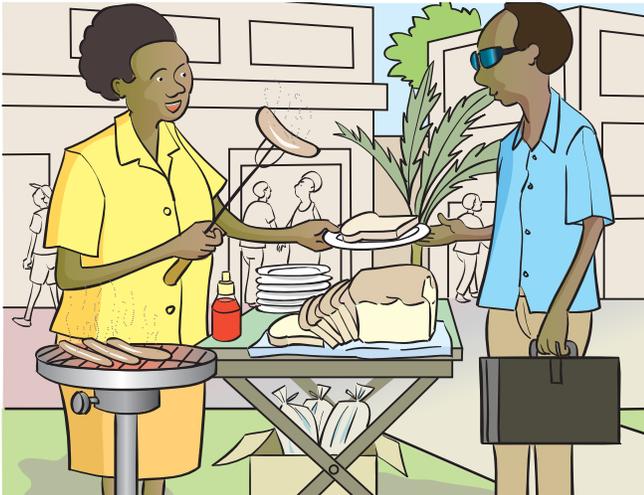


Figure 10.7 This business is all about location: the customers for these sausages are in nearby offices.

Electricity and water

Some businesses require a lot of electricity and/or water in the production process. In setting up a factory it is essential that these things are accessible.

Each business has different concerns and needs, so there is no single factor that usually determines the location of a business. A business person needs to consider a combination of these factors before making a decision about where to locate their business.

Activity 6

.....

Work in small groups to answer these questions.

- 1 In your own words, define and explain the term location.
- 2 The four important factors that generally influence the location of a particular business are listed below. Think of a real-life example of businesses in your area for each factor listed.
 - a Being close to the market
 - b Access to transport infrastructure
 - c Being close to workers
 - d Availability of electricity

Distribution

We have been through several stages in the development of a product. You know that there are many parts to understanding the market into which a product is launched. Before the product is sold, the market needs to be assessed and if necessary, the product needs to be altered.

The location in which the product is made or stored, and where it is sold, needs to be considered. The next consideration is how the product is moved from where it is made to where it will be sold.

As you learnt in Year 7, distribution is all about getting the products from the producer to the consumer.

Some products in Solomon Islands are made locally, such as fresh food, vegetables and fruit. Other products, such as photocopiers, computers or machines, need to come from overseas.

If a business cannot get its products to the consumers, it will not make any money. This is a role for distribution companies. They provide transport, and sometimes storage space, for products from the manufacturer (or from the wharves if the goods are imported) to the retail shops where the goods are sold. Small businesses may organise the distribution themselves. Sometimes it may simply be a matter of putting the goods into a small truck and delivering them directly to shops.

Whether a business is big or small, it needs to organise a way for its goods to end up in a place where consumers can buy them.

7 Promotion and advertising

Promotion literally means putting something forward. The purpose of promotion is to influence the attitudes and behaviour of target customers so that they will buy the product. To do this, businesses should have a program to inform their target customers about the 'Four Ps': product, price, place and promotion.

Advertising involves choosing suitable media to make a product known to consumers. You have already studied this in Year 7.

Promotion techniques

Promotion techniques are tools that businesses use to inform target customers about the product, price and place. Different promotion techniques include personal selling, advertising, direct marketing and public relations.

Personal selling

Personal selling involves meeting with potential customers with the aim of making sales and building customer relationships. Personal selling can be effective in getting across technical information to customers, such as for selling insurance and banking services.

Direct marketing

Direct marketing is a promotion method that sends customised messages directly to the target customers. This is done through mobile phone, email, text messages and the internet.

Public relations

Public relations are activities that communicate messages to the public to create goodwill towards a business, its products and its people. Goodwill refers to the positive ideas or feelings that the public has towards a business, its products and its people. Businesses use various public relations tools to create goodwill through news, special events, websites and sponsorship.

Advertising

Promotion can involve advertising, but if the product is already well known to a market, it can also take the form of special sales, competitions, free samples or small gifts such as T-shirts and caps that display the brand name. The aim is to get consumers thinking about the product.

Promotion tends to be for a short period of time, while advertising is usually ongoing. Both advertising and promotion can cost a lot of money. However, if they are used effectively they can result in increased sales and increased market share. The key question, of course, is will the expected increase in products sold, and increase in resulting revenue, cover the costs of advertising and promotion?

As discussed in Year 7, a range of media is available to advertise a product. Some media are expensive, while others are quite cheap. Media include print media, broadcast media, television, billboards, signage and clothing.

The internet is becoming a popular way to advertise products in Solomon Islands and in other parts of the world. In contrast, a very old but successful method of advertising is word of mouth. People who recommend a product that they like to friends and relatives are using word of mouth advertising.

The choice of which medium to use in advertising a particular product depends on two things:

- how effectively it will reach the potential customers
- how much it costs.



Figure 10.8 Print media includes newspapers, magazines, posters and leaflets.



Figure 10.9 Radio and television stations are part of broadcast media.



Figure 10.10 Billboards and signage are popular forms of advertising media, especially in towns such as Honiara.



Figure 10.11 Sometimes advertising is put on clothing.

8 Cost of advertising

Both promotion and advertising cost money. How much money a business is prepared to spend depends on what they expect to get out of it. They hope that advertising will lead to more products being sold. A business paying for a special promotion of its products hopes to get an immediate boost in sales. Some businesses, though, look to long-term benefits in advertising. Advertising over years keeps a brand name in the minds of consumers, and this may lead to more goods being sold over a longer period of time.

Low-cost advertising

Small businesses need to keep their costs down, especially when they first become established. However, they also need to let people in their target market know about their product. There are low-cost ways of advertising a product. Simple signs can be made that tell people about the product. These can be put up on notice boards, or even attached to trees close to where many people walk by. The important thing is that these signs will be seen by many people. The product could also be carried around, with the seller calling out that they have something for sale. As the business gets bigger, it might be worthwhile to pay for flyers to be printed and distributed. It may also be worth approaching the local radio station. The small business is aiming to reach its target market, not necessarily the whole country.

Responsible advertising

Businesses try to persuade consumers to buy their products. They use persuasive language. They are allowed to make their products sound and look good, but there is a limit to what they can say. Businesses are not allowed to make false statements about

their products. They need to engage in **responsible advertising**. This is advertising that is honest and provides relevant information about the product. False advertising may trick people into buying the product at first, but when consumers find out that the product is not as good as it is claimed to be, they will get angry and never buy it again.

Types of advertising

Informative

Informative advertising provides consumers with factual, useful information that enables consumers to make decisions. The **advertisement** might say what the product is made of; it might say how the product is to be used and where it can be bought.



Figure 10.12 This advertisement informs the consumer.

Persuasive

Persuasive advertisements try to attract consumers' attention, but do not provide much useful information.



Figure 10.13 This advertisement uses persuasion.

Advantages

While we may not like seeing advertisements all around us, they provide us with several benefits.

Consumers are informed about the goods and services, so they have more choice about which ones they want to use. Advertising helps to cover the cost of media, so consumers get free radio and subsidised sports, newspapers and magazines.

If there are special offers, such as reduced prices, the product can be bought more cheaply for a short time. And if advertising is successful, production will increase and it may lead to lower prices for consumers.

Disadvantages

The cost of advertising is passed on to consumers in the higher prices they pay for goods. It is an expensive and uncertain exercise: the business must pay for the advertising without knowing if it will be useful.

Sometimes a business makes false statements in their advertisements. They can give the wrong idea about the product.

Activity 7

Answer these questions in your exercise book.

- 1 What is the difference between advertising and promotion?
- 2 What is the purpose of promotion?
- 3 How can we promote a product to target customers?
- 4 Think of an advertisement that you have seen recently. It could be a leaflet, on TV or radio, or in the print media. Write two advantages and two disadvantages of advertising the product in this way.
- 5 What do you think are some factors that influence the cost of an advertisement in a newspaper?
- 6 Why is it better for a business to advertise responsibly? Explain your answer in a couple of sentences.

Activity 8

In small groups, write an explanation in your own words for **persuasive advertising**. Look through some old newspapers and magazines, and either copy some examples of persuasive advertising into your exercise books (remember to include the product) or paste the examples, with the product, onto a poster.

9 Packaging and labelling

Packaging refers to the wrapping around a product, or the container it comes in. It can be made from paper, cardboard, plastic, cellophane or, in the case of soft drinks and tinned fish, glass or metals such as aluminium or steel.

The main purpose of packaging used to be to protect the product until the consumer was ready to use it. However, over time the look of the packaging – the writing on it and the choice of designs and colours used – has become just as important. If a product's packaging is attractive, it may help encourage a person to buy it. Manufacturers go to a lot of trouble to pay artists and designers to come up with attractive packaging designs that catch peoples' eye. This has become another important part of the marketing process.



Figure 10.14 The packaging of these products has been made from different materials.

Activity 9

Bring some empty packaging to class. Separate into small groups and answer these questions about the goods in your group.

- 1 What types of product or goods does your group have? List the names.
- 2 Who made the products/goods?
- 3 What type of label is printed on each product?
- 4 Does the company of each product use a brand name that is different to the company name? If yes, what is the brand?
- 5 Do the products have a use-by date and some instructions to follow?
- 6 Does your group like the packaging style of the products? If your answer is yes, explain your reasons. If your answer is no, recommend some changes to the packaging.

Packaging information

From a consumer's point of view, packaging plays another important role. It contains a lot of very useful information.

Quantity

Packaging must clearly state the amount of the product that is contained within. Depending on the type of product, this could be weight measured in grams, volume measured in litres, or quantity measured in numbers.

Use-by date

The makers of food products in some countries must, by law, include the date that they recommend the product should be consumed by, measured from the time of manufacture. If the food is eaten after this date it may no longer be good, and may even cause the consumer to become ill. As yet there is no requirement for use-by dates on food products manufactured in Solomon Islands, but this may change in the future.

Directions

It is important that consumers follow packet directions. This is especially important when consuming medicines. A consumer should always read directions to make sure that they get the most out of the product. If consumers do not follow directions properly when

using electrical products or machines, such as a washing machine, the manufacturer is no longer responsible if the machine breaks down.

Nutritional information

All food is made up of different parts, such as fat, salt, carbohydrates and sugar, and usually contains preservatives, and in some cases, artificial colouring and flavours. Some people need to avoid some of these ingredients as they can make them sick.

Manufacturer details

This includes the name and place of the manufacturer, including the country in which the product has been made. Laws require manufacturers to include most of the above information on their labels or packaging.

Along with required information, there is optional information that can be put on packaging. For some goods, a special logo that identifies the product as being made in this country can be used. Sometimes there is a reminder to dispose of the wrapping or packaging material in a responsible manner.

Activity 10

Answer these questions.

- 1 Name two important roles played by packaging.
- 2 Why do you think packaging can be a problem for the environment?
- 3 Why do you think packaging must have the weight or quantity written on it?

Activity 11

Class project

Collect as many real labels or empty packets as you can and bring them to school. As a class, paste one copy only of each label or packet onto a large piece of paper. Number each packet or label. Display the sheets of paper around the classroom.

As a class, vote for the winners in two categories:

- a the most informative label/package
- b The most attractive label/package.

Chapter summary

Chapter

10

Marketing is a term that covers the whole process of getting goods and services to consumers. It includes:

- the marketing environment – this covers the business, the community, and the wider world
- cultural practices
- competition – what similar products are other businesses making?
- government laws – there are laws stating what can and cannot be done in marketing
- technology.

A target market is the group of people believed to be interested in a product, and this is where a business will focus its attention in terms of selling the product.

Demographic factors help to understand the target market. These are population characteristics that affect customers' spending and include: age, ethnicity, gender, status, family size and income.

Market research helps a business to assess who its potential customers are and what they are looking for in a product. Primary research involves asking potential customers questions, or having them complete a survey. Secondary research refers to using information that

is already available to the public, such as statistics collected by the National Statistics Office.

Understanding competition means finding out if anyone else is providing the same goods or services, and using market research to ensure that a new product or service will be valued by customers.

The factors that generally influence the location of a particular business include how close a business is to resources, infrastructure, a good work force and its market.

Promotion can involve advertising, but assuming the product is already well known to a market, it can also take the form of special sales, competitions, free samples or small gifts to publicise the brand name.

Advertising is to do with making the product known to customers and is another key part of marketing.

Two types of advertising are persuasive and informative.

There are both advantages and disadvantages to using advertising. A business needs to examine these carefully and decide on the right approach for both the business and the product.

Glossary

advertisement a notice that promotes a product or service

competition in business, this is any other business that is selling the same or similar products, and that might take your customers

demography the study of a community of people, its ethnic groups, gender ratios, age range, etc.

distribution the process of getting goods from the producer to the consumer

location the place where the business is

market segmentation the separation of the whole market into parts (segments), to provide particular products for different segments

marketing the process of getting goods and services to consumers

persuasive advertising advertisements that try to attract the consumers' attention but do not provide much useful information

promotion activity to publicise a product or service, so that people know about it

responsible advertising advertisements that provide consumers with factual and useful information so that consumers can make informed decisions

target customer/market the group of people who are potentially the most interested in a product; these people are the focus of a business's efforts to sell its product

Specific learning outcomes

By the end of this chapter, you should be able to:

- explain finance, equity and debt finance
- identify some sources of business finance available to business owners, including savings, retained profits and loans
- describe the procedures and requirements for applying for loans from commercial banks
- complete applications for a loan from financial institutions or agencies
- list ways to repay a loan on time
- explain the importance of repayment of loans on time
- discuss the consequences of non-repayment of loans.

1 Introduction

Activity 1

Answer the following questions in your exercise book.

- 1 Explain in your own words what finance is.
- 2 What types of finance do you know of?
- 3 What do you think equity means?
- 4 If you want to run a small business, such as a trade store or bakery, what are some options for getting the money? Explain.

Financing or finding money for a business is clearly important for the business to succeed. There are many ways this can be achieved, depending on the credit history of the business and how established it is in the market.

Finding **finance** is just one part of the overall financial management of a business, but it is an important factor for the success of many small businesses.

There is a range of options for finance, and each choice has advantages and disadvantages.

People need to investigate their options before they make a decision. They should list the good and bad things about each type of funding that is available for their business to help them make their final choice. This is not a time to hurry the process, even though it may seem urgent to get on with building the business. Owners will live with this decision for a long time to come and they need to consider the long-term survival and success of their business.

Small businesses

One of the most common forms of business in Solomon Islands is the sole trader. The sole trader means there is only one owner of the business. Many retail businesses are sole traders, for example, greengrocers, butchers, milk bars, trade stores, clothing stores and lock-up stores. A large number of businesses that provide services are also sole traders, such as accountants, investment advisers, dry cleaners, doctors and dentists. Small operators in the transport industry, such as local owner–drivers and taxi drivers, often choose this type of business.

The owner of a sole trader business is completely responsible for the operation of the business. The success or the failure of the business depends on the ability of the owner. We call the owner of this type of business a proprietor.



Figure 11.1 Sole traders start their business when they have a particular skill to offer, but they need to learn how to manage their money too.

The proprietor of a sole trader business needs to develop a range of skills, particularly in bookkeeping and recording the receipt of money. The two most common reasons sole traders fail are inadequate management skills and insufficient finances. The success rate of sole traders increases greatly when the proprietor has completed a business course.

In this chapter we will look at financial institutions that are responsible for financing small businesses. We outline what these institutions consider before offering finance, and what proprietors should consider when offered a loan.

2 The finance industry

Finance involves providing money for a person or business.

Finance is needed at every stage of a business: to start it, to run it or to expand it. In a modern economy, finance allows entrepreneurs to produce goods and provide services to the communities.

There are many ways of raising money to finance a business in Solomon Islands. Money can be borrowed from a financial institution, such as a bank. Money can also be raised by borrowing from wantoks or relatives, or it can be raised by selling shares to investors. Business people can also use their savings to start their business.

Today, there are many different types of financial institutions providing a range of services to individuals and businesses. Some of these institutions offer general services while others are more specialised in what they offer. A business should choose an institution according to the type of finance it needs.

3 Types of finance

There are a number of businesses whose main activities are connected to the sales of finance, for example, banks and finance companies. They offer a range of financial products: **overdrafts**, **mortgages** and **term loans** are just a few.

It is important for a small business to choose the finance to suit its needs. For example, imagine that a transport business decides to buy a new vehicle.

The business owner could save up the money to buy the vehicle, but this might take a long time and the business might need the vehicle to make money more quickly. Another option is to lease the vehicle from the car dealer, which means making monthly payments for a fixed time to rent the vehicle (the vehicle remains the property of the dealer). Or, the new vehicle could be financed by a term loan. A term loan is a loan from the bank that involves monthly repayments of the loan with interest over an agreed time. There are advantages and disadvantages with using each type of finance.



Figure 11.2 A business involved in public transport needs to spend money on vehicles.

There are two types of finance available for business owners: equity and debt.

Equity

Equity is the finance that owners contribute to their business. A sole trader has just one owner who contributes equity, but a large public company gets equity from a large number of owners, called shareholders.

Equity can come from a couple of sources. For someone who is starting out in business, it is most likely that their equity will be in the form of savings. For a proprietor who already operates their own business, they can also use their **retained profits**. This is profit that the business has made since it started. Rather than paying all the profit to the owner or shareholders, retained profits are kept aside to provide extra finance for the business.

Banks will only offer a loan to set up a business if the proprietor can provide their own equity too. Depending on the financial institution, proprietors may need to have equity of around 30% before they can borrow money. For example, if they want to borrow \$200,000 for a property loan, they may need to have equity of around \$60,000.

Activity 2

Answer these questions in your exercise book.

- 1 List two weaknesses and two strengths of a sole trader in terms of finance.
- 2 Imagine that you run a trade store and it fails. What could be the reasons for this?
- 3 Interview a nearby trade store proprietor and ask them why they are successful.
- 4 What is debt?
- 5 Can you name the two types of debt?

Debt

Debt is the second main form of finance. It is when the proprietor borrows money from people or financial institutions, for example, banks, finance companies, credit unions, family and friends or lessors. A lessor is a business that grants a lease, or a person or organisation that leases property to others.

Debt finance is classified into two groups: short-term debt and long-term debt.

Short-term debt

Short-term debt finance has to be repaid within one year. Short-term debt includes a bank overdraft, a short-term loan from a bank, and a trade credit or a commercial bill.

Trade credit is borrowing money from a supplier when buying equipment or supplies. For example, a proprietor sets up an account with an office supply company and buys office furniture, a computer and office supplies. The proprietor pays off the account over time.

A commercial bill is a flexible type of loan. It is generally very short, from one–six months. It is useful for managing cash flow, but it is expensive due to its flexibility.



Figure 11.3 Money borrowed from family or friends is still a debt and must be repaid.

Long-term debt

Sometimes a business needs finance for a long time, so the debt is repaid over 2–10 years, or even longer. Long-term debt includes loans for a house, car, heavy machinery or a property.

Activity 3

Read about Peter and answer the questions below.

Peter has worked at a commercial bank in Honiara for five years. He is applying for a loan to buy a house in town. The house costs \$200,000. The interest rate is 2% per annum.

- 1 What type of loan should Peter apply for?
- 2 What is the difference between a short-term and long-term loan?
- 3 How will the loan affect Peter's salary and family?
- 4 Why does he need to take out a loan?

Types of bank loans

Commercial banks provide finance for businesses for short-term, medium-term and long-term purposes.

If a business requires short-term finance, it takes out a personal loan. A personal loan must be repaid within two years.

A business that requires medium-term finance may take out a business loan. These loans may be for up to five years, and in some cases they are up to eight years.

Long-term finance is also available from 15 to 20 years. It is used mainly to purchase property. For example, a firm may seek a long-term loan to purchase new premises.

Another common way for a business to borrow money is by means of a bank overdraft. An account may be 'overdrawn' up to a certain limit that is agreed with the bank. In other words, more money is taken out of the account than is actually in it. Interest is paid, and is calculated on a daily basis on the actual amount overdrawn.

When overdrafts of \$100,000 or more are given, an overdraft fee is charged on the full overdraft. This fee is in addition to interest charged on the actual amount borrowed.

Many firms have overdraft arrangements that run over a number of years. But each year the bank reviews all overdraft arrangements with its business customers. The bank may decide to decrease an overdraft limit, or cancel an overdraft arrangement altogether if a customer has continuous credit difficulties.

4 Financial institutions

Small business owners have a choice of financial institutions in Solomon Islands. We have the Central Bank of Solomon Islands, commercial banks, finance companies, investment companies and funds, and savings and loans societies.

The Central Bank (CBSI)

The Central Bank of Solomon Islands only provides loans to its staff and not to the public. They have their own requirements and procedures to follow.

The Central Bank is responsible for issuing notes and coins, and for controlling the supply of money. Its aim is to allow the economy to grow, and to keep it stable.



Figure 11.4 The Central Bank of Solomon Islands

Commercial banks

Commercial banks are businesses that aim to make a profit. Commercial banks operating in Solomon Islands include:

- Bank of the South Pacific Limited
- ANZ Bank Limited
- Westpac Bank (Honiara) Limited
- Pan Oceanic Bank Limited.

The commercial banks all have similar functions and roles. One of their functions is to lend money to individuals, businesses, institutions and organisations.

Activity 4

Work in groups to answer the following questions.

- 1 Discuss the types of loans that are provided by commercial banks in Solomon Islands. Your teacher will help you to find out what types of loans they provide and their interest rates.
- 2 The commercial banks that operate in Solomon Islands are owned by foreign companies. Why do you think the Solomon Islands Government does not own a commercial bank? Explain your reasons.

Activity 5

Research task

As a group, prepare a questionnaire on the bank requirements for short-term and long-term loans.

When you are confident that your questionnaire is ready, go to one of the four commercial banks listed above and ask a loans officer your questions.

After comparing your chosen bank's interest rates and conditions, decide as a group which loan is a better deal: the short-term one or the long-term one.

Note: If you are unable to visit the branch of a commercial bank to get this information, your teacher will provide you with sample information (based on the four banks' rates in late 2014) that you can use to complete this activity.



Figure 11.5 The Bank of South Pacific has the largest branch network in Solomon Islands.

The Credit Corporation

Commercial banks are not the only financial institutions that lend money to businesses. The **Credit Corporation** is another option. Like banks, it charges interest on money borrowed, but it usually charges higher interest rates than banks.

5 How to apply for a business loan

To assess a **loan application**, proprietors generally need to provide a range of documents to the bank or other financial institution. These documents help to

show a person's ability to repay the loan. Documents usually need to show:

- a proprietor's income from employment, or other income, such as rental property or business
- a forecast of cash flow, showing how income is calculated
- identification documents
- proof of a bank account, showing savings
- information on any loans with other financial institutions.

Activity 6

Work in small groups to answer these questions.

- 1 Why would commercial banks or the Credit Corporation require documents to be provided before they lend any money? Give at least four reasons.
- 2 Ask your teacher or any bank loan officer to provide copies of the documents required for a bank loan and paste them into your exercise book.

If you are in a rural area, your teacher will direct you where to collect those documents.

As well as the documents listed above, financial institutions want proprietors to have thought about, and be able to answer questions about, the following.

- Purpose of the loan

The new business needs to be able to explain the nature of its business and how successful it is likely to be. It must also be clear about how the loan will be used. Will it be spent on operations or on establishing the business? Will it be used to buy equipment, or to pay wages?

- The size of the loan

Lenders are more willing to give money if a proprietor has already started a business or invested in the business. They consider what the money is to be used for before deciding on how much to lend.

- Security

The lender wants to feel confident that the loan can be repaid. The borrower must be able to provide security for the loan. This means having things of value that can be sold to repay the lender if necessary.

The **assets** of the business are one form of security. These are things that the business owns, such as money in an interest-bearing deposit account, stock, debtors (people who owe money to the business), vehicles and equipment.

Land security refers to the premises and property of the business. It may also include the owner's personal property. **Personal guarantees** from a wealthy friend or a relative may also be acceptable as security. Anyone who guarantees a loan is required to repay that loan if the borrower is unable to repay it.

- Ability to repay

Banks will want to estimate a business's ability to earn enough income to repay a loan. Therefore, the business needs to provide several statements.

Cash flow statements

A **cash flow statement** gives details of income and expenses of the business. It is usually calculated on a month-by-month basis. Banks can estimate from this information if the business is likely to be able to make monthly loan repayments. The bank normally requires a cash flow statement to cover twelve months.

Statements of assets and liabilities

This is also called a **balance sheet**. This statement contains both the assets (the things of value that the business owns) and **liabilities** (money or costs that the business owes) of the business.

Current assets are assets that can easily be converted into cash in one accounting period. For example, cash, stock, receiving payments from debtors, money in bank accounts.

Long-term assets cannot be converted to cash so easily or quickly, because they take time to sell. These include equipment or machinery, premises and vehicles.

Liabilities are items of value that the business owes to others. Common liabilities are loans that the business has already taken out, and money owed to creditors for goods or services that have not yet been paid for.

Once a bank has all this information, it can calculate the net value of a business.

The interview

After bank officials have studied a loan application, they may interview the potential borrower. Loan officers use this interview to help make a judgement

on the management abilities of the potential borrower. Therefore, the borrower needs to be prepared to answer any questions the loan officer may have.

In summary, the business person who would like to get a bank loan has already:

- prepared a detailed loan proposal
- sent the original copy of the loan proposal to the loan department.

For the interview, the business person needs to:

- be ready to discuss and defend all aspects of the loan request
- have other proposals or a different form of security to offer, if available
- be able to point out to the bank manager any advantages to the bank that would result from the loan being approved.

At the end of this process, it is still possible that the bank or institution will refuse to offer a loan.



Figure 11.6 A person who has applied to a bank for a loan needs to be well prepared for an interview.

Activity 7

Work together in small groups. You will need to get a loan application form from one of the commercial banks in your area, or ask your teacher for a copy.

In your group, choose your company name, the type of assets you want to borrow money for, your signatures and the group bank accounts and other documents that you can provide to support your application. Your teacher will help you to fill in the loan application.

6 The cost of borrowing

When you borrow money or buy goods on credit you usually have to pay interest. The interest rate is a percentage of the amount you borrow. This becomes an extra amount to pay. Normally, a loan is repaid monthly, although sometimes quarterly or half-yearly payments are arranged. These repayments are calculated by the bank, and are made up of a share of the principal loan and interest.

The rate of interest payable on bank loans, including overdrafts, is often a matter of negotiation between the bank manager and the borrower. As well as interest, banks will usually charge an administration fee for organising the loan.

The interest may be calculated in different ways.

Flat-rate loans

With a flat-rate loan, the rate of interest is charged on the full amount of the loan over the term of the loan, even when most of the loan has been repaid.

For example, a loan of \$6000 has a flat rate interest rate of 9% p.a. (per annum) to be repaid over 6 months.

Each month interest of \$45 is payable. This is 9% of \$6000 per month:

$$6000 \times \frac{9}{100} \times \frac{1}{12} = \$45$$

In the final month, when only \$1000 remains to be paid, interest is still charged on the full amount, \$6000, of the loan.

	Loan amount owing	Monthly loan repayment	Monthly interest
Month 1	\$6000	\$1000	\$45
Month 2	\$5000	\$1000	\$45
Month 3	\$4000	\$1000	\$45
Month 4	\$3000	\$1000	\$45
Month 5	\$2000	\$1000	\$45
Month 6	\$1000	\$1000	\$45
Total		\$6000	\$270

Figure 11.7 Repayments required on a flat-rate loan for \$6000

Reducing balance loans

With a reducing balance loan, the rate of interest paid is charged on the amount of the loan left owing. Therefore, the more the loan is paid off, the less the interest will be.

Consider if the above loan is calculated on the reducing balance method. The money paid per month is deducted from the total amount of money lent.

Each interest payment is calculated as the previous balance $\times \frac{\text{rate}}{12}$ because the rate is annual and payments are monthly. As a monthly payment of \$1000 is made, the principal reduces by \$1000, so the interest is calculated on the smaller balance.

For example, a loan of \$6000 at a reducing balancing method and an interest rate of 9% p.a. is to be repaid.

Money paid out:

$$6000 \times \frac{9}{100} \times \frac{1}{12} = \$45$$

So the interest on the full amount of \$6000 in the first month is \$45.

$$5000 \times \frac{9}{100} \times \frac{1}{12} = \$37.50$$

The interest on the balance of \$5000 in the second month is \$37.50.

	Loan amount owing	Monthly loan repayment	Monthly interest
Month 1	\$6000	\$1000	\$45.00
Month 2	\$5000	\$1000	\$37.50
Month 3	\$4000	\$1000	\$30.00
Month 4	\$3000	\$1000	\$22.50
Month 5	\$2000	\$1000	\$15.00
Month 6	\$1000	\$1000	\$7.50
Total		\$6000	\$157.50

Figure 11.8 Repayments required on a reducing balance loan for \$6000

Activity 8

Answer these questions in your exercise book.

- 1 What is a flat-rate loan?
- 2 Which type of loan do you think is better for a borrower: flat-rate or reducing balance? Explain why.
- 3 James takes a loan of \$8000 at a flat-rate interest rate of 5% per annum to be repaid over 8 months.
 - a What is the total payment James will pay for the loan?
 - b What is the interest paid for the eight months?

7 Repaying a loan

If you want to set up a business, it is your job to research the different financial institutions and understand what the different offers mean for your business. Take time to assess any loan offers that are made to you, to be sure that you are choosing the loan that is best for you and your business.

A loan allows you to expand the business or to cover unexpected costs. However, loans must be repaid in the agreed time, or you may face heavy penalties. You need to be confident that you can meet the loan repayments, and that you will not endanger your business, and the jobs of any employees, by borrowing more money than you need.



Figure 11.9 Repaying loans to family and friends makes them more likely to offer to help on another occasion.

Failing to make loan repayments can lead to serious consequences, including:

- suffering ongoing harassment by debt collectors
- being unable to obtain another loan for the rest of your life
- being unable to refinance an existing loan
- facing legal procedures, which could result in the bank taking possession of your property to replace the money owed
- having your bank account frozen, which means being unable to access any of your savings
- losing your material possessions or your assets.

Activity 9

Work in groups of five or more to answer these questions.

- 1 In your group, decide on a business and why you want to take out a loan. What will happen if you do not repay your loan on time? What might be some reasons for not repaying it on time?
- 2 Imagine that you are advising someone who cannot pay their loan. What are some suggestions that you could make to help them when they talk to the lender?

Activity 10

Research task

Work in groups to plan a small business project or income-generating activity. Do some research on which institutions you could approach to finance your plan.

Chapter summary

Chapter

11

Financing a small business can be achieved through financial institutions such as commercial banks, credit unions, investment companies, funds, savings and loans societies.

Sources of finance include equity and loans. Loans can be short-term or long-term, depending on the purpose and amount of the loan. The finance industry in Solomon Islands includes the Central Bank of Solomon Islands, four commercial banks – BSP, Pan Oceanic Bank, ANZ and Westpac Bank – and credit unions.

When a business or individual applies for a loan, it has to be able to convince possible lenders that it has to repay the loan. They must answer questions and provide documents to support the loan application form.

The person or business needs to provide security, like assets of the business or land security. Personal guarantees from a wealthy friend or a relative may be acceptable.

There are some costs in borrowing money. These include bank fees and interest. Failure to repay a loan can have serious consequences for the borrower.

Glossary

assets items of value owned by the business

balance sheet a statement that contains the assets, liabilities and proprietorship of the business

cash flow statement a statement of future income and expenses of the business

Credit Corporation a financial institution that lends money to businesses

current assets assets that can easily convert into cash in one accounting period, e.g. cash, stock, debtors, bank

equity money (usually savings) that a person uses in their business

finance money or funding, usually for a person or enterprise

liabilities items of value owed by the business; includes loans and creditors

loan application a bank form that customers complete to apply for a loan

long-term assets assets that cannot easily convert to cash in one accounting period, e.g. equipment, premises, vehicles

mortgage a loan taken out on a property

overdraft a loan from the bank on a cheque account

personal guarantee a legally binding promise from someone to repay a loan if the borrower fails to

retained profit profit made by a business, and used to reinvest in the business

term loan a bank loan with regular interest repayments

Specific learning outcomes

By the end of this chapter, you should be able to:

- explain the terms managing, small business, business equipment and labour
- explain the procedures and reasons for recording payments and cash received on a daily basis
- identify ways for controlling the use of business equipment
- explain the monetary, ethical and moral value of practising honesty when running a small business
- discuss the need to provide quality service and practise ethical business
- explain the terms stocktake, cash flow statement and profit and loss statement
- prepare a cash flow statement, profit and loss statement and recommend changes to improve the business.



Figure 12.1 An accountant records the equipment that belongs to a business.

1 Introduction

In Chapter 8 you learnt about how to start a business. This chapter offers guidance in **managing** a small business. No one is ready to start a business until they have given some thought to managing it.

A business is an ongoing activity that doesn't run itself. The owner or manager has to set goals and make all the necessary decisions to reach those goals. They have to purchase or make a product, price it, advertise it and sell it. They have to keep records and determine costs. They have to control stock, make the right buying decisions and keep costs down. They have to hire, train and motivate employees now or as the business grows. That is why knowing how to manage a small business is very important and useful when thinking about starting a business.

Activity 1

... ..

Answer these questions.

- 1 Refer back to Chapter 8 and list four things you need to do and know when starting a business.
- 2 Discuss with a partner and list reasons why you need guidance in managing a business.
- 3 A business is an ongoing activity that doesn't run itself. Explain what this statement means.
- 4 List three ways to advertise a product.
- 5 What do you think is the purpose of keeping records when running a business?

2 Being a manager

Managing a business means taking control of all the things a business owns, including **equipment** and resources, activities and personnel of the business, in order to meet its purpose profitably. This is the job of a manager.

A well-drafted business plan makes the job of managing a small business much easier. It helps the management team to understand all aspects of a business and the steps involved in all operations.

Employees need to be managed to make sure that they perform their duties and to ensure that they are happy and motivated. It is also important to have the right people with the skills and experience to do their job. Managing employees means monitoring that they are doing the job properly, that they have the support and equipment they need to complete their work, and that they behave well and create a good impression when they talk to customers.

Marketing and sales aspects of a business also have to be managed. No matter what the type of business is, something is being sold. It might be time, a physical product or a service. There must be proper guidelines and goals in place to improve sales and ensure that the sales target is reached. Maintaining good relationships with customers, whether they are suppliers or wholesalers, is essential. Keeping track of all sales and expenses is also critical to a successful business. Managing a business involves overseeing everything, from the smallest details to the largest ones.



Figure 12.2 There are many different elements to managing a business.

Activity 2

Answer these questions.

- 1 What does it mean to manage a business?
- 2 What three areas need to be managed properly for a business to operate smoothly?
- 3 What do you think are the most important things to do when managing employees?

3 Managing business equipment

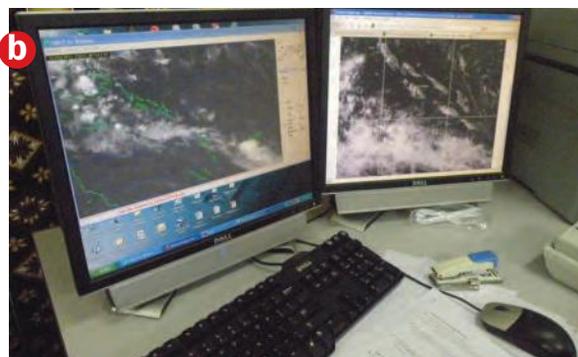


Figure 12.3 The amount of equipment a business has depends on what product or service it is selling.

As you have learnt, equipment is any **asset**, such as desks, tables, buildings and vehicles. Every business needs equipment. They make business operations convenient and fast. They make the work easier for owners and employees. However, equipment can be expensive and in demand, so it needs to be managed properly at all times.

In today's world of commerce, technology plays a very important part in business operations. Whether a business is big, medium, or small, electronic devices such as calculators and computers are used. As these devices can be expensive to repair, it is important to maintain them well, and to organise regular servicing for things such as photocopiers.

Activity 3

Field trip

Before your excursion, your teacher will tell you if you are doing Option 1 or Option 2. Read the questions below before you go, so that you know what you need to look for. Answer the questions when you return to the classroom.

Option 1

If your school is in town, your teacher will arrange a field trip to visit an industry or a business to discover the different types of equipment the business uses.

Option 2

If your school is in a rural community, your teacher will arrange a visit around your school to discover the different types of equipment that are used in your school.

- 1 What type of organisation did you visit?
- 2 List the types of business equipment the owners use to run their business.
- 3 Prepare some questions to ask them about how they manage their equipment.
- 4 Find out how much the equipment cost the business to buy.

4 Managing cash

Cash management is about taking control of the money in a business to meet its operations. Depending on the business, money is needed at the beginning to buy equipment such as machinery, raw materials, office furniture and computers. Money is also needed to pay salaries, rent and utilities.

Good cash management means having enough cash at hand to meet the daily requirements of the business while making enough money available for further operations.

In the business world, the way that cash is handled says a lot about the stability of a business in general. When dealing with cash flow, a few important rules mean there will be cash when needed.

Internal controls

Control over cash is needed at all levels of any business that handles cash. It ensures that there is an accurate record of all cash that is received as well as any cash paid out. Internal controls refer to the steps that a business takes to look after many different aspects. In this case we are talking about internal controls of cash.

There are advantages to controlling how cash is handled.

- ▶ It prevents the mishandling of funds to safeguard against loss.
- ▶ It protects employees from charges of mishandling funds by defining people's responsibilities in the cash handling process.

To fully understand cash management, it is helpful to understand that cash includes money orders, credit cards, receipts and cheques.

Tracking cash

A detailed tracking system in a business allows for all transactions to be recorded. This helps the owner know exactly how much cash is on hand at all times. It also helps to keep employees honest, as they become accountable for any transactions that they look after. The system should involve tracking cash receipts as soon as the money is taken from the customer.

The following sections show some basic methods that businesses use to manage their cash in their daily operations.

Activity 4

Answer these questions.

- 1 What does managing cash mean?
- 2 How does a business manage cash?
- 3 Why is managing cash important for any business?
- 4 Who do you think should be responsible for managing the cash of a business?
- 5 What are two advantages of controlling business cash?
- 6 How would you advise a business owner if he/she does not know how to manage the business's cash? Briefly explain the steps.

5 Cash books

A **cash book** is sometimes called a subsidiary book. It is used to record receipts and payments of cash. With the help of a cash book, the cash balance and the bank balance can be checked at any time.

Four types of cash book can be used to run a business. They are:

- simple cash book
- two-column cash book
- three-column cash book
- petty cash.

In Year 7, you learnt how to use a simple cash book. However, in this chapter, you will be introduced to a two-column cash book. A two-column cash book records the discount allowed and discount received, along with the cash payments and cash receipts.

Discount allowed is the reduction given by the business to its customers or debtors. For example, if a debtor has to pay \$100 and he is allowed 10% discount, now he will pay only \$90 to the firm. Discount received is the reduction received by the business from the creditors. For example, if a firm has to pay \$50 to its creditors and discount received is 20% then the firm has to pay only \$40 to the creditor.

Activity 5

Answer these questions.

- 1 What is a cash book used for?
- 2 Why do businesses need to have a cash book?
- 3 Draw up a two-column cash book, like the one in Figure 12.5. Enter the following transactions into the correct columns.

2014
Jan 01 Cash in hand \$15000
Jan 05 Paid to Ram \$3000
Jan 05 Discount allowed by him \$100
Jan 06 Purchased goods \$4000
Jan 10 Received from R. Gupta \$9800
Jan 10 Discount allowed \$200
Jan 11 Sold goods \$4000
Jan 12 Paid to S. Sharma \$2950
Discount received \$50
Jan 13 Paid wages \$500
Jan 14 Paid to Narashi in full

Date	Revenue	\$	c	Date	Expenses \$	c	\$	c



Figure 12.4 An example of a simple cash book

Receipts				Payments			
Date	Particulars	Disc Allow	Cash	Date	Particulars	Disc Rec	Cash
2013 Mar 20	Received from J Vaho	\$10.00	\$90.00	Mar 25	Paid to S Pucha	\$10.00	\$40.00
		\$10.00	\$90.00			\$10.00	\$40.00

Figure 12.5 An example of a two-column cash book

6 Cash payment procedures

Cash payment procedure is part of the system used to monitor the cash received and spent in a business. Cash received and spent refers to coins, notes, currency, cheques, money orders, and money on deposit with financial institutions such as banks. It is available for unrestricted withdrawal.

Every business has procedures that are designed to protect cash from misuse and theft. Cash payments must be controlled internally, so that employees are not tempted to steal any money. Small businesses can use smart, simple, internal control procedures to assign responsibilities and reduce the risk of misuse or fraud.



Figure 12.6 Procedures for controlling cash can be as simple as filling in details in a cash book.

Cash receiving procedures

Cash received must be recorded in the cash book or the cash receipts journal (this will be discussed in Year 9). Most cash procedures require cash received to be deposited within 24 hours of receipt to maximise investment earnings and minimise the risk of loss.

Only one or two people in the business organisation should handle cash receipts. Businesses that do not have access to bank facilities are strongly recommended to store their cash in a strong locked box or secure location to avoid loss and theft.

Without a strict system in place, missing cash can be a problem from the start. Cash control must be a high priority when implementing procedures for running a business. Rules need to be in place to cover all cash handling circumstances, and those employed by the business should be trained to use them without fail.

7 Cash flow statements

A cash flow statement shows how much cash comes into a business and how much goes out. Cash flow statements commonly cover periods of one year or more, with more or less detail, depending on the intended use of the cash flow statement.

Here is how cash flow works.

- Cash comes in from customers who buy products or services. If customers don't pay at the time of purchase, some of the cash flow comes from collections of accounts receivable. Accounts receivable is money that is owed to a company by a customer for products and services provided on credit. This is an example of a current asset.
- Cash goes out of a business in the form of payments for expenses, such as purchasing stock, wages and other accounts payable. An account payable is a record that shows how much a company owes suppliers for the purchase of goods or services on credit.

Think of cash flow as a picture of a bank account. If more money comes in than goes out, the account is in a positive cash flow situation and there is enough to pay other expenses. If more cash goes out than comes in, the account is in danger of being overdrawn, and money will be needed to cover an overdraft. This is why new businesses typically need working capital, to cover shortages in cash flow.

A cash flow statement can be presented in several different formats.

The purpose of the cash flow statement is to show the amount of cash generated and used by a business in a given period. It can reveal which parts of a business are earning profits and which are not. More importantly, cash flow statements can reveal months (or years) when a business is likely to spend more than it makes, allowing managers time to prepare for the loss. Cash flow can be used as a sign of the financial strength and health of a business.

So, regardless of the type of business, cash helps keep it healthy. Without it, one cannot pay bills, employees or expand the business.

KUME SALUKI Trade Store cash flow statement

	Jan	Feb	Mar	Q1	Apr	May	Jun	Q2
Opening cash balance	1500	3681	2736	7917	4782	4008	455	9245
Receipts:								
Sales	5294	4521	4036	13851	3876	2800	3785	10461
Accounts receivables	150	320	124	594	132	80	62	274
Receipt subtotal	5444	4841	4160	14445	4008	2880	3847	10735
Payments:								
Purchases	2501	5032	1500	9033	2800	5600	4328	12728
Accounts payable	110	90	120	320	90	125	186	401
Freight	102	234	94	430	126	258	218	602
Transport	50	80	50	180	60	100	90	250
Wages	350	350	350	1050	350	350	350	1050
Licence	150			150				
Payments subtotal	3263	5786	2114	11163	3426	6433	5172	15031
Net cash in/out	2181	(945)	2046	3283	582	(3553)	(1325)	(4296)
Closing cash balance	3681	2736	4782	11199	4008	455	(870)	4949

Figure 12.7 A simple form of cash flow statement is used by Kume Saluki Trade Store on a quarterly based period.

Activity 6

Answer these questions in your exercise book.

- 1 What is the difference between a cash payment procedure and a cash receiving procedure?
- 2 What is the purpose of a cash payment procedure?
- 3 Explain a cash flow statement.
- 4 Why is it important to have a cash flow statement in the business?
- 5 Prepare a simple cash flow statement for Kume Saluki Trade Store for the following business activities that occurred in July:

Opening balance	\$870
Sales	\$4500
Accounts receivable	\$2800
Purchases	\$2600
Accounts payable	\$120
Freight	\$50
Transport	\$60
Wages	\$350

8 Profit and loss statements

As you learnt in Chapter 6, stocktaking is the physical counting of products that are bought by a business with the intention of selling them again at a profit. Stock is a business resource and it is important to know how much stock there is so that a profit and loss statement can be made.



Figure 12.8 A storekeeper is doing a stocktake to check that the amount of rice he has in the warehouse matches the amount in his records.

Stocktaking

Businesses conduct regular stocktakes to check that the physical stock that they hold matches the stock levels listed in their record. A difference means that there has been a failure of either the system for physically controlling the stock or the system for recording the stock.

Stock may be lost or mislaid for a number of reasons, including because it has been:

- stolen
- wrongly located in the racks or shelves
- left in aisles or walkways
- delivered to a customer by mistake.

If stock is not checked, the whole stock control operation may gradually wear away. This leads to a greater risk of not knowing if anything is missing or has been stolen.

As you learnt in Chapter 6, a profit and loss statement shows the revenue, expenses and net profit of a business earned during a specific period of time. It is also known as an income statement.

It shows the difference between the total revenue and the total expenses. The result is the business net income or net loss.

Profit and loss analysis is essential for business owners and managers because it helps them evaluate the business net profit over the short term and the long term. They use a profit and loss statement to track revenue and expenses so that they can determine the operating performance of their business over a period of time.

The profit and loss statement serves two purposes:

- to compute the net income for the period
- to identify the major revenue and expense items that affect the net income.

How to prepare a profit and loss statement

Some profit and loss statements are very simple, while others are hard. However, business owners and managers must know how to prepare a profit and loss statement and be able to understand them so they can make decisions.

Profit and loss statement of Kume Saluki for the quarter ended 31 March 2013

	\$	\$
Sales		14 445
Less cost of goods sold		
Stock 01/01/13	900	
Add purchases	9 353	
	<u>10 253</u>	
Add freight	430	
	<u>10 683</u>	
Less stock 31/03/13	1 100	<u>11 783</u>
Gross profit		2 662
Less other expenses		
Wages	1 050	
Freight	430	
Transport	180	
Licence	150	<u>1 810</u>
Net profit		484

This stock figure is from a stocktake done on 31/12/2012 (the day before 01/01/2013)

Purchases include both cash and credit purchases

This stock figure is from a stocktake done on 31/03/13

Figure 12.9 Kume's profit and loss statement showing his net profit over a quarterly period

Activity 7

Answer these questions in your exercise book.

- 1 Explain what a stocktake is.
- 2 What is the importance of stocktaking?
- 3 Explain why a business should conduct a regular stocktake.
- 4 Prepare a profit and loss statement for Rodney Trade Store for the month of June 2104. His sales are \$4000, opening stock \$2100, purchases \$1534, freight \$300 and closing stock at the end of the month of June is \$1800. Other expenses are wages \$1450, transport \$150, licence \$250 and freight \$200.

9 Managing labour

Labour refers to the efforts of the people involved in the production of goods and services. Farmers, shopkeepers, receptionists, bus drivers and teachers form part of the labour force.



Figure 12.10 Anyone who is working is part of the labour force.

Managing labour is essential in any business organisation. It allows you as a business owner or manager to see the strengths and abilities of your employees to contribute to work goals. Successful employee management and leadership promote many benefits: engagement, loyalty, motivation, satisfaction, development and **retention**.

Engagement

Employee engagement is the commitment the employee has to the business and its goals. It is their willingness and ability to contribute to the success of a business. This includes the level of effort they put into their work, and this can take various forms: brainpower, energy or extra time. They are not focused only on their pay or the next promotion. To have a good level of engagement, it helps to be motivated.

Motivation

Employee motivation refers to influencing others to want to work and do their best. Most employees like to feel that their hard work is appreciated. Therefore incentives and rewards for a job well done can be used as a tool for motivating employees. While some might think that money is good motivation, there are many other approaches to motivate employees. Small businesses cannot always afford to offer more money, but other benefits might be flexibility with work hours or bonuses for reaching targets.

No matter how small a business, the more an employee feels respected and cared for in their workplace, the more they will feel loyal and motivated towards their employer.

Satisfaction

Employee satisfaction relates to how happy a person feels doing their work. Some factors that contribute to employee satisfaction include being treated with respect, having commitment and skills recognised, feeling empowered and receiving bonuses.



Figure 12.11 Happy employees are often more productive at work, because they like to be there.

Development

Employee development is an effort between the business and the employee to develop the worker's skills, knowledge and opportunities. It improves the employee's capabilities and work knowledge to produce better results, and this in turn benefits the business.

Large businesses often have a formal training and development program available to employees to set goals and to advance their career. While small businesses may not be able to offer this, they can still develop their employees' skills by training them in different areas of the business, and extending responsibility to employees as they become more skilled.

Retention

Managing labour is all about keeping or retaining good employees. This means looking after employees as well as possible, and giving them opportunities to learn new skills and take on new responsibilities, if that is their interest.

Employers should always support employees:

- with valuable skills, knowledge and talents
- who are productive and work well
- who are loyal to the business
- who are honest in their dealings with and on behalf of the business and management.

Activity 8

Answer these questions.

- 1 Explain why managing employees is important for a business.
- 2 What are some ways that you as a business owner or manager could motivate your employees?
- 3 Explain in your own words what employee retention is.

10 Customer service

Looking after customers is important to many aspects of a business because if customers are not satisfied with the service provided, they will go to another local business. Customer service is what a business does for its customers so that they will be happy and satisfied. Customer service takes place from the time a customer steps into a shop and looks for products to buy, to when they have made a purchase.

Quality customer service ensures that customers will return to a business for the products and services on offer. Chances are, if a customer is happy, they'll tell others, and this can lead to increased revenue, a good reputation and **customer loyalty**.

Some ways of providing quality customer service are to:

- always put the customer first, by acting on the idea that the customer is always right
- value customers by treating them well
- meet customer expectations
- be willing to communicate with customers and receive their feedback.



Figure 12.12 Customers who feel well looked after will return to that shop or business.

Communicating with customers means asking and understanding what they want. Communication leads to feedback. Acting on feedback is important because it encourages customers to voice their thoughts and concerns. This allows managers to improve their service, and to know what they are doing well and less well.

Activity 9

Answer these questions.

- 1 What does customer service relate to?
- 2 Explain why quality customer service is important.
- 3 What are some benefits of providing quality customer service?
- 4 Suggest some ways to provide quality customer service.
- 5 How do you explain the phrase: The customer is always right?

11 Ethical businesses

Ethics are moral values and principles. Running an ethical business means behaving in an acceptable and appropriate way with everyone involved in a business.

Having good business ethics are important to ensure that customers and employees are treated fairly.

Good ethics are vital for a business to be successful, providing quality care and honesty to consumers. Poor business ethics can damage the business's reputation and, ultimately, affect the success of the business.

Three areas of ethics are particularly important: trust, **nepotism** and **accountability**.

The ethical issue of trust is essential. Businesses must ensure that their employees trust that they will be rewarded for their quality of work. Likewise, businesses rely on the trust that consumers have in their product.



Figure 12.13 If a person gets a job only because they know the employer, it is nepotism.

Nepotism is the practice of people with power or influence favouring relatives or friends, especially by giving them jobs.

Nepotism is a problem at all levels of business. The rewards that a business gives its employees should be based on the employee's skills and contribution. Nepotism involves hiring and rewarding employees because they are related to or friends with their boss. Nepotism lowers the morale in a business and it weakens the incentives of employees to work hard.

In any field of business it is important to know who is responsible for what. It is important to be clear ahead of time who will be held accountable when things go right or wrong. When a business does not have a clear sense of accountability, it leads to unnecessary risks and sloppy work habits. With accountability, employees have an incentive to do their best and to avoid mistakes.

Activity 10

In small groups or pairs, answer these questions.

- 1 What is business ethics, and why is it important that a business adopts good ethics?
- 2 Explain what it means to be ethical in business.
- 3 Discuss and list some of the ethical ideas that you think would protect a business.
- 4 What is nepotism?

Chapter summary

Chapter

12

Managing a business means looking after its cash flow, its assets and its resources.

Assets include equipment needed to run the business, and labour, or employees.

Equipment includes furniture for an office, and machinery or vehicles. These days it also includes technology, such as computers and photocopiers. An equipment failure can hurt a business, so it is important to maintain it well, and to get it serviced regularly.

There are several ways to document where cash is in a business. Cash books and statements that are prepared regularly help show where money is coming from and going to. This is vital to keep a business healthy and successful.

Profit and loss analysis is essential for tracking how well or badly the business is going. It is used to track revenue and expenses.

Labour refers to employees. If employees are well looked after, they are likely to be loyal to the business, and to want to do their best.

Customer service is about treating customers well and responding to any feedback they offer. Customer loyalty is an important part of building a successful business.

Ethical business practices mean behaving in an honest and fair way to employees, customers and any other people involved in running the business.

Glossary

accountability responsibility for what one is assigned to do

asset items of value owned by the business

cash book a book that records the receipts and payment of cash

customer loyalty client faithfulness to stay with a business because of the quality of the services/products provided

equipment any asset owned and used in the operation of a business

ethics moral values and principles; knowing right from wrong

labour work done for a business

managing taking control or taking care of

nepotism favouritism, bias or partiality when employing someone

retention when employees stay with a business because it looks after them

Solomon Islands Business Studies Year 8

Learner's Book

Solomon Islands Business Studies Year 8 Learner's Book aims to educate students in a practical way so that they can contribute to the economic growth of the country. Business Studies enables learners to gain skills, attitudes and values that relate to economic issues, which they will be able to apply to their own lives as they contribute to their family, the community and the country. Examples are provided of local businesses, and case studies highlight the challenges and rewards of business. Learners will learn how:

- businesses operate
- to manage and use business money appropriately
- to fill in documentation
- to undertake transactions
- to use available resources to meet their needs and wants.

Business Studies is part of the Solomon Islands Years 7–9 series and is based on the Reform of Solomon Islands School Curriculum. The key learning outcomes in the curriculum are addressed in the activities in this Learner's Book. The practical activities encourage learners to:

- apply and extend their skills
- think about business-related challenges
- engage in tasks which will deepen their understanding of how the economy works and the role that they may play in it.

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