SCHEME OF WORK FOR 3RD TERM 2016/2017 SESSION

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ORIGIN OF CENTRAL BANK OF NIGERIA

In West Africa, before independence, the West Africa Currency Board (WACB) was the highest financial institution which performed the functions of the Central Bank.

The board controlled the issue of currency in the Anglophone speaking countries of West Africa, which are Nigeria, Ghana, Sierra Leone and Gambia. The goal was to keep the currencies of these West African nations at par with the pound sterling. After independence, the countries set up their Central Banks to ensure rapid economic development.

The Central Bank of Nigeria was then established in 1959. It was charged with the management of the Country's currency. It supervises and co-ordinates other financial institutions in Nigeria to facilitate economic development.

FUNCTIONS OF THE CENTRAL BANK

1. Banker to the Government: Central Bank is an agent and barker to the government. It controls
   public account, receives revenue on behalf of the government and makes payment from this account. Central Bank also obtain loan on behalf of the government.
2. Issuance and Control of Currency: The Central Bank has the right to order the printing of the currency and the issuance of it. It controls the circulation of currency, exchange of bad notes for new ones and sees to the destruction of the bad notes.
3. Banker's Bank: The Central Bank acts as banker to the banks by ensuring that the banks open accounts with it in order to facilitate cleaning of cheques. This helps the Commercial Banks to have similar facilitates to offer to the customers.
4. Lender of Last Resort: The Central Bank has a duty to assist the banking system when the banks are in financial difficulties so that they can withstand the strain of excessive demands.
5. Foreign Exchange Transaction: The Central Bank holds the foreign reserve of a country and this help in enforcing foreign exchange control, which is set up to purchase and sell foreign currencies.
6. Management of National Debt: The Central Bank is responsible for the management of National debt of the country. It also acts as cleaning house for other banks.
7. Maintenance of External Reserves: The Central Bank is also responsible for the maintenance of external reserve of the country.
8. Responsible for Monetary Policy: The Central Bank is responsible for the monetary policies of the country. It can use both the expansionist and restrictionist policies to control the quantity and value of money in circulation so as to influence the level of production and distribution of the National income.
9. External Business: The Central Bank acts as agent of the country by relating with other countries and International financial institutions like IMF, World Bank, etc.
10. Formulation of Rules and Regulations guiding the Banking Industry: The Central Bank controls, regulates and supervises the components of the banking system. It lays down rules and regulations to be followed by all banks to ensure smooth operations.

HOW CENTRAL BANK CONTROLS THE COMMERCIAL BANKS

The central bank uses the following instruments to control commercial banks and the supply of money in the economy.

1. Open market operation (OMO): Open market operation is the purchase or sale of government securities in the open market to expand or restrict the volume of money in circulation. The central bank applies this policy with the aim of regulating the volume of money in circulation. When there is too much money in circulating, the central bank with sell securities. But in order to expend the volume, it buys securities.
2. -Liquidity ratio or cash ratio: The commercial are mandated by the government to keep a special proportion eg 25% of their total deposit with the central bank in order to control the volume of credit. The size can be expending on the economic condition of the nation.
3. Bank rate: Bank rate is the minimum rate of interest changed by the central bank for discounting bill of exchange. By lowering or raising the rate, the central bank can control the activities of the commercial banks. When the rate increases, loan to the public (customers) reduces, while a fall in the rate will encourage more loans.
4. Special directive: the central bank can issue directive or specific instructions to the commercial banks and other financial institution to restrict their lending or credits policy or on the direction to which loaning should follow. They will be told to direct their funds to sectors which are in need of investment.
5. Special deposit: special deposit is also an instrument of monetary policy which is used to restrict lending. The central bank can order the commercial banks to have special deposits, usually a percentage of the bank's deposits, to be made with it. This is intended to control credit and is often used during the period of inflation to reduce cash with banks. The central will mandate the commercial bank to keep specials deposit over the statutory requirement.
6. Moral Suasion: The central bank can make an apply to the commercial banks to restrict or expand the level of credit to the public. Moral suasion is not based on the use of force but an apply to restrict or expand the lending policy

COMMERCIAL BANKS

Commercial banks are financial institutions which accept deposits and other valuables from the public for safe keeping, with the sole aim of making profit. They are financial institutions that perform the services of holding people's money and accounts and using such money to make loans and other financial services available to customers. The loans are usually for short and medium terms. They are owned by private individuals, institutions or governments. Commercial banks in Nigeria are: First Bank of Nigeria PLC, Union Bank of Nigeria -PLC, Zenith Bank PLC, Access Bank PLC, Diamond Bank PLC, First City Moment Bank PLC, Eco Bank, etc. Student Activities : They listen and participate fully in the lesson.

FUNCTIONS OF COMMERCIAL BANKS

1. Acceptance of deposits: They accept deposits from members of the public for safe-custody through three methods: Savings, current and fixed deposit account.
2. Safe-Custody of other valuables: Valuables look gold, jewelries, wills, deeds, etc, are deposited with commercial banks for safe keeping.

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2. Liquidity ratio or cash ratio: The commercial banks are mandated by the government to keep a special proportion e.g. 25% of their total deposit with the central bank in order to control the volume of credit. The size can be expanded or contracted depending on the economic condition of the nation.
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Commercial banks are limited liability companies. Some examples of commercial banks in Nigeria are: First Bank of Nigeria PLC, Union Bank of Nig.PLC, Zenith Bank PLC, First City Monument Bank PLC, ECO Bank, etc.

FUNCTIONS OF COMMERCIAL BANKS

1. Acceptance of deposits: They accept deposits from members of the public for safe custody through three methods: Savings, Current and Fixed deposit account.
2. Safe – custody of other valuables: Valuables like gold, jewelleries, wills, deeds, etc, are deposited with commercial banks for safe keeping.
3. Lending of money: They lend money to industrialists, businessmen and other members of the public inform of loans and overdrafts.
4. Agents of payment: They perform this function to those who deposited money with them, by the use of cheques to owners of current accounts.
5. Agency Services: This is done through standing or banker's order, which is a request given to banks by their customers to pay certain amount of money on their behalf.
6. They issue traveler's cheques: These types of cheques enable their customers to have money in any country they may go.
7. Issuing of bank drafts: They assist their customers to settle their indebtedness by issuing bank draft or by giving them certified cheques.
8. They solve the problem of foreign exchange: Commercial banks help their customers to get foreign exchange which enables them to purchase goods and settle their foreign debts.
9. Discounting bills of exchange: These banks discount, purchase and sell bonds, securities, etc, on behalf of their customers.
10. They render credit transfer services: These are methods whereby these banks help their debtor customers to transfer certain amount of money from their accounts to that of their creditors by asking their debtor customers to fill credit transfer forms.
11. They act as referees: If a customer of these banks wants to deal in business on credit basis and if his business partner doubts his financial credibility, his bankers can stand for him as his referees.
12. They give advice to their customers: They offer them business advice which is as important as giving them loans.
13. Provide brokerage services: They buy and sell stocks or shares on behalf of their customers.

PROBLEMS OF COMMERCIAL BANKS IN NIGERIA

1. Urban concentration: Majority of the Commercial banks are located in urban centre thereby denying the rural areas banking services.
2. Low savings: Majority of the populace are poor and this leads to their inability to save in commercial banks.
3. Corruption: There is a high level of corruption in the banking industry as some bank managers and officials embezzle money and grant unauthorized loans to friends and relatives because of their selfish interest.

4. High level of illiteracy: High level of illiteracy among the people makes banking operation and services very difficult.
5. Governments frequent interventions: Government's frequent interventions in the operation of banks sometimes make things difficult for commercial banks to operate smoothly and efficiently.
6. Low patronage: Commercial banks are not patronized as it should be as a result of ignorance, poverty and illiteracy.
7. High interest rates: The high interest rate changed by banks makes it difficult for prospective customers to take loans from the banks.
8. Lack of innovative banking practices: Most commercial banks are not innovative in their banking practices as customers are not given the prompt attention they desire.
9. Capital shortage: Most of the commercial banks have low capital base and this makes it impossible to grant loans to prospective customers.
10. Non-repayment of loans: Some customers that took loans sometimes fail to repay the loans and this has led to the collapse or failure of some commercial banks.

TYPES OF ACCOUNTS

There are three types of accounts which customers can open in a bank:

CURRENT ACCOUNT

Current account is the types of bank account usually operated by businessmen and organizations and is required if a customer wishes to make payments through cheques. In a current account, the customer is free to withdraw money on demand. The customer will be given a cheque book which he uses to withdraw money anytime. Holders of current accounts are not entitled to interest but are charged commission by the bank. They can obtain loans and overdrafts from the bank.

PROCEDURE FOR OPENING A CURRENT ACOUNT

1. The customer will collect and fill application form.
2. He will submit a prescribed member of passport photographs.
3. Two guarantors or referees must be provided to recommend the applicant.
4. The customer will submit his complete particulars to the bank, showing personal details, especially when the account is an individual account but when it is a corporate account, other documents like certificate of incorporation, memorandum and articles of association, etc, must be added.
5. The bank will issue him with a pay in-ship booklet.
6. He will be issued an account number.
7. He will pay in an initial deposit.
8. A cheque book will be given to him.

SAVING ACCOUNT

Savings account is the most common form of bank account. It encourages the low income earners to form or develop the habit of saving. This type of account is operated with the use of passbook. Owners or holders of savings account are paid interest for keeping their money in the bank and if withdrawals are more than twice in a mouth, it may not attract interest.

FIXED DEPOSIT ACCOUNT

Fixed deposit account also called time account deposit is the type of account that is usually operated by individuals and organizations who have excess liquidity. They put part of the excess liquidity in the fixed account in order to earn interest. Holders are entitled to higher interest than saving account. Customers can withdraw subject to seven days of notice. People save money in deposit account for a specific purpose and it can be renewed on maturity. The customer will be issued with deposit account passbook. Fixed deposit is withdrawn at an agreed time.

FEATURES OF CURRENT ACCOUNT

1. Money can be withdrawn frequently.
2. Customers are entitled to the use of cheque book.
3. Payment of commission is made by the customers to the bank.
4. Holders of current account are not entitled to interest.
5. Other people can withdraw money from the account on behalf of the customers.

FEATURES OF SAVINGS ACCOUNT

1. Money can only be withdrawn occasionally if interest is to be paid.
2. It attracts a favourable rate of interest.
3. Holders are issued with a passbook.
4. Withdrawals cannot be made by another person on behalf of the customer.

FEATURES OF FIXED DEPOSIT ACCOUNT

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

FORMS OF PAYMENT

1. Automated Teller Machine (ATM): ATM card also known as a bank card, client card, key card or
   cash card is any payment card issued by a financial institution to its customers which enables a customers to access an Automated Teller Machine (ATM) for transactions such as deposits, cash withdrawals, obtaining account information and other types of banking transactions. The payment card may be any card which has that feature enabled and may be a debit, credit, a limited – use ATM or other card. Interbank network allow the use of ATM card at ATM's of financial institutions other than those of the issuing institution.
2. Western Union: Western Union is a fast, reliable and convenient way to send or receive money
   around the world. Through selected Absa branches, you'll have access to over 410,000 Western Union agent locations in 200 countries and territories.

IMPORTANCE OF WESTERN UNION

i. Reliability: Each transfer can be tracked using a Money Transfer Control Number (MTCN). This
   number is given to the receiver only ensuring that only the receiver can collect the money.

ii. Speed: Western Union money transfer service uses advanced technology and a unique worldwide computer network to ensure quick payout in more than 200countries and territories around the world. Money is available for collection in minutes, subject to agent operating hours and differences in time zones.

iii. Convenience: If you are an Absa customer and a registered user, you can experience the convenience of sending or receiving money with Internet Banking or Cell phone Banking. The money is available within minutes, depending on when the banks are open and the time differences around the world. You don't need to be have a bank account to use the Western Union money transfer service.

3. Money gram: Money gram is an International money transfer service that allows you send and receive money worldwide.

4. Online Banking/E-banking: Online banking is an electronic payment system that enables customers of financial institutions to conduct financial institutions to conduct financial transactions on a website operated by the institution, such as a retail bank, virtual bank, credit union or building society. Online banking is also referred as internet banking, E-banking, virtual banking and by other terms.

FEATURES OF ONLINE BANKING

1. Viewing account balances.
2. Viewing recent transactions.
3. Viewing images of paid cheques.
4. Ordering cheque books.
5. Download periodic account statements.
6. Downloading applications for E-banking, M-banking, etc. Bank customer s can transact banking tasks through online banking, including:

a. Funds transfer between the customers lined accounts.
b. Paying third parties and third party fund transfers.
c. Investment purchase or sale.
d. Loan applications and transactions, such as repayment of enrollments.
e. Credit card applications.

DEVELOPMENT BANKS

Development banks are specialized financial institution which provides long-term credit or loan to other enterprises for capital projects in the area of agriculture, commerce and industry. Example of development banks in Nigeria are Nigeria Industrial Development Bank (NIDB), Nigerian Bank for Commerce and Industry (NBCI) and Nigeria Agricultural and Co-operative Bank (NACB).

FUNCTIONS OF DEVELOPMENT BANK

1. Provision of fund for capital projects: Development banks provide long term loans for capital projects in specific areas.
2. Manpower development: They contribute to manpower development by making funds available to manpower training institutes.
3. Implementation of government policies: Development banks also help to implement government policies on industrial, commercial and agricultural development.
4. Render special advice: Development banks also advice the industrialist on the surest way to invest.
5. Supervision of development projects: They help industrialist and other investors to supervise development projects in order to ensure their success.
6. They underwrite security: Development banks also underwrite security issues.
7. They undertake research: Development banks do undertake research to determine viable areas to develop industries.

MEANING OF MORTGAGE BANKS

Mortgage banks are financial institutions that specialize in granting loans to individuals and corporate bodies for building purposes. Such loans are repaid by installments and can be spread over several years.

Mortgage banks accept deposit from the investing public at a rate of interest and use the fund to land, at a higher rate of interest, to people who wish to purchase their own houses. The Federal mortgage bank was established with headquarters in Lagos encourage people to save in order to own their houses. This is the apex mortgage bank which works with other state housing corporations and mortgage institutions. The federal mortgage bank supervises other mortgage institutions like Union Homes and Savings Ltd, AG Homes and Savings Ltd, etc.

FUNCTIONS OF MORTGAGE BANKS

1. Acceptance of deposit: Mortgage banks accept deposit from customers in order to encourage savings toward owing a house.
2. Provision of long-term loans: They also provide long- term loans to people or to estate developers to build houses.
3. Development of mortgage institutions: They supervise and encourage the development of mortgage institutions.
4. Give advice on housing matters: They advise and assist the government on housing matters.

5. Provision of houses: Mortgage banks are also involved in the construction of houses and offer them for sale to the people.

WAREHOUSING

Warehousing is the act of storing goods (raw materials and finished goods) in a place until they are needed. It ensures that there is regular and steady supply of goods whenever the need arises. The producers usually acquire raw materials in excess of demand while at the same time producing goods above market demand, the stock which seem not needed at the moment are kept in the warehouse until their usefulness are required for production or consumption.

TYPES OF WAREHOUSE

1. Ordinary Warehouse: This warehouse also known as goods warehouse may belong to the wholesaler or rented by him. It is where the wholesaler stores his goods until they are needed and sold to the retailers or their agents.
2. Bounded Warehouse: It is a place where government keeps goods whose owners have not paid their required duties. It is hired from individuals who sign bonds with the government not to release the goods until government gives them an indication that the duties on them have been paid.
3. State Warehouse: Also known as the Queen warehouse, especially in Britain and other countries that are under them, is a place where good, that are not allowed to enter a country also known as contra brand, seized by the Board of Custom and Excise are kept until they are sold on aution to member of the public. This warehouse is owned by the government and this is owned by the government and this is why it is known as state warehouse in republics such as Nigeria and others.
4. Public Warehouse: These are privately owned warehouses that are meant for renting purposes. Such warehouses are found near docks, railway stations, airports, etc. Public warehouses are used by the renters for a short period to store goods that are in transit from one location to the other.

ROLES OR FUNCTIONS OR USES OR IMPORTANCE OR ADVANTAGES OR IMPORTANCE OR ADVANTAGES OR MERIT OF WAREHOUSING

1. Storage facilities: Warehouses provide storage facilities to producers who always find it impossible to sell all what they produce at the same time. Those goods produced a head of demand are therefore stored in the warehouses thereby reducing problem of over – production.
2. Price stabilization: In order to avoid price fluctuation, goods produced ahead of demand are warehoused and supplied to the market according to demand.
3. Provision of employment opportunities: Warehouses provide employment opportunities for different categories of workers like store managers, clerks, store assistants, drivers, delivery men, etc.
4. Checking of smuggling: State or Queen warehouses provide spaces where contraband goods are seized and kept. This helps to reduce the rate of smuggling by discouraging

smugglers who are made are of the fact that such smuggled goods can be seized and stored in state warehouses.

5. Promotion of Economic growth: By encouraging further production with the spaces made available for the storing of goods produced ahead of demand, stabilizing prices, etc. Warehouses encourage economic growth of a country.

6. Generation of Revenue: Warehouses generate governments by hiring them out of other users.

7. Encouragement of long-term production planning: The existence of warehouses encourages manufacturers to embark upon long-term production planning. Raw materials can be acquired in advance and stored in the warehouses until when they will be put into use and goods produced in anticipation are also warehoused until the time they will be demanded.

PROBLEMS OR DISADVANTAGES OR DEMERITS OR DIFFICULTIES OF WAREHOUSING

1. Problem of stock valuation: Absence of equipment like the computers makes it difficult for workers in warehouses to know the accurate figure of goods in stock in warehouses.

2. Problem of pilfering: Goods stored in warehouses are sometimes stolen by the workers entrusted in their care. This constant stealing of goods in warehouses is made possible by absence of computers that can make it possible for the exact number of goods in the warehouse to be known at any particular time the need arises.

3. Problem of Deterioration: Many of the goods that are stored in warehouses get spoilt mainly as a result of heat. Many of our warehouses do not have the equipment for preserving goods in them.

4. Lack of qualified manpower: Our warehouses are manned by those who have little or no knowledge about stock management.

5. Inaccessibility: Many of our warehouses are located in places where they are not easily accessible. The in accessibility of these warehouses is mainly because of lack of good roads to them and the remoteness of the places they are located.

6. Unreliable supply: Inability of suppliers of goods to supply the needed goods to warehouses renders these warehouses non-functional. The money spent on these warehouses that are not put to proper use will be a waste.

MEANING OF CAPITAL

ACCOUNTANTS CONCEPT: Accountants define capital as the original fund or money with which person used to start a business. It is the net worth of a business. He considers capital as synonymous with money. Capital in this wise is the owner’s equity in a business and the excess of assets over liabilities.

ECONOMISTS CONCEPT: Economists define capital as the resources or wealth made by man that are used for producing firm which are meant to be used in the production of other goods. It includes such assets as machines, raw materials, buildings, etc. To the economists capital is just one of the factors of production.

LAYMAN’S CONCEPT: To the layman, capital is the total amount of money for running a business.

TYPES OF CAPITAL

1. Authorized, Registered or Nominal Capital: This is the total amount stated in the memorandum of Association and approved by the registrar of companies which a company can issue out for subscription. Nominal capital is the total amount of capital which a company is authorized to issue out to the public. It limits the amount that can be issued out as shares.
2. Issued capital: This is part of nominal capital that the company decides to issue out to the public for subscription. It is the total shares offered to the public out of the nominal capital at a particular time.
3. Called up capital: This is part of the issued capital that has actually been called up and the shareholders have been asked to make payment. It is part of the issued capital which is expected of the shareholders to pay for.
4. Paid up capital: This is part of the called up capital which the shareholders have actually paid for. It is the total amount paid up or credited as paid up on the issued share capital.
5. Uncalled capital: This is the total amount that has not been called up on the issued share capital. It can be referred to as part of the issued capital that is yet to be called up for payment.
6. Capital Employed: This is the total assets, both fixed and current, less current liabilities. It is the actual amount of money and other assets used in the business. It can also be calculated as: Total assets current liabilities.
7. Capital owned: Capital owned is the owner's financial interest in a business. It is the excess of total assets of a business over the value of its total short and long-term liabilities. It is the net worth of a business.
8. Fixed capital: This is the durable capital of an enterprise which is used continuously for further production. They are not intended for immediate consumption, but rather as a means of production. It comprises assets of a firm which are of durable character, eg furniture, fittings, building, machinery, etc. Fixed capital do not change form in the process of production.
9. Loan capital: This is the total amount of money a business borrowed from external sources. It a term frequently applied to debentures and other fixed loans.
10. Liquid capital: This is made up of assets that can be easily converted to money, that is, can be turned into cash at cash at short notice. This consists of cash, near money, debts and bank balance.

Student activities: The students participate fully in the lesson.

WORKING OR CIRCULATION CAPITAL

This is the amount that is used for the day-to-day running of the business. It is the capital available to a business for general purpose after current liabilities have been met. Circulating capital is an accounting term used to describe the excess of current assets of a business over its current liabilities. It includes capital used for paying wages, Salaries and payment for raw materials. This could be calculated as: Current Assets-Current liabilities.

IMPORTANCE OF WORKING CAPITAL

1. Working capital serves as a check against tying down too much money for current assets.
2. It helps to determine whether the business as solvent or not, i.e., whether it has the ability to settle debt without selling fixed assets.
3. Working capital helps to determine the fund that will be available for the remaining of the business on a daily basis.
4. It gives an indication that the business is being financed internally and not by suppliers.
5. It is a sign of healthiness, that is, it will help the investor to know whether to invest or not.
6. Working capital can be used by a business as a basis for planning to avoid losses.
7. It provides basis for profit making by the business since it is used to buy stock from where profit is derived.

Example I: Wazobia Enterprises: Financial position as at 31st December, 1996 is as follows:

	₦	
Fixtures		1,000
Stock 31st Dec.		8,000
Debtors		5,000
Creditors	3,000	
Cash at hand	7,000	
Bank overdraft		1,200
Typewriter	4,500	
Furniture	2,500	
Capital		18,000
One year co-operative loan	4,100	
Profit for the year	1,700	

Question: Calculate (a) capital owned (b) working capital (c) current liabilities (d) fixed capital (e) capital employed.

Solution (a) capital owned

Capital	18,000
Add net profit	1,700
	₦19,700

b. Working Capital: Current Assets – Current Liabilities

<u>Current Assets:</u>

Stock	8,000	
Debtors		5,000
Cash at hand	7,000	
	20,000	

<u>Current Liabilities:</u>

Creditors	3,000	
Bank overdraft		1,200
One year co-operative Loan		4,100

8,300

CA-CL = 20,000-8,300 = ₦11,700

c. Current liabilities

Creditors	3,000	
Bank overdraft		1,200
Co-operative loans	4,100	
	₦8,300	

d. Fixed Capital

Fixtures		1,000
Typewriter	4,500	
Furniture	2,500	
	₦8,000	

e. Capital Employed -Total Assets-Current Liabilities

Fixed Assets	8,000	
Current Assets		20,000
	₦28,000	

₦28,000
\- 8,300
₦19,700

Example II: A company has an authorized share capital of ₦30,000. It offered applicants ₦20,000 share capital out of which the company collected ₦15,000.

a. What is the Nominal Capital?

b. Issued Capital c. Paid-up capital d. Un-issued capital

Solution:
(a) Nominal Capital - ₦30,000
(b) Issued Capital - ₦20,000
(c) Paid-up Capital - ₦15,000
(d) Un-issued Capital - ₦10,000

MEANING OF CREDIT

Credit occurs when a seller grants permission to a buyer to take possession and enjoy a commodity with a promise to pay in the future. It is the process by which goods and services are transferred to the buyer from the seller for his use and enjoyment without value being given immediately.

BASIC FOR CREDIT SALES

1. The income of the buyer
2. Sources of payment
3. The integrity of the person
5. Present employment
6. Time of payment

TYPES AND SOURCES OF CREDIT

1. Mortgage
2. Loan and overdraft

3. Hire purchase
4. Deferred payment
5. Credit card
6. Debt factoring
7. Hiring and leasing
8. Club trading
9. Budget account
10. Monthly account
11. Conditional credit sales
12. Book-me-down
13. Trading cheque

MORTGAGE

Mortgage is a system of credit in which building societies or mortgage banks assist people to buy landed property or houses by lending them a proportion of the purchase money. The building or property will be used as collateral security while interest will paid by the mortgagor, i.e. the borrower. The lender is known as the mortgagee.

LOAN AND OVERDRAFT

Loan as a sum of money borrowed by individuals, firms and governments from financial institutions or individual for a particular period at an agreed rate of interest. Through this means, a sum of money is lent out to customers for a specific period at an agreed interest rate.

Overdraft is a form of credit provided by banks in which a customer is allowed to draw over and above the money in his account. It is a method of credit facility in which a customer is allowed or permitted to draw a cheque greater than the amount of money in his credit. Interest will be paid on the overdraft.

HIRE PURCHASE

Hire purchase as a system where by the buyer or hirer has possession and the use of the goods while the owner retains the ownership of goods until the final payment has been made. It is a system of instalmental payment which is used for purchasing durable goods.

After the final payment, ownership will pass to the buyer, if the buyer defaults, the seller can repossess the goods. Hire purchase agreement must be evidenced in writing and signed by the parties involved.

DEFERRED PAYMENT

Deferred payment is a system where by ownership and possessions are transferred immediately to the buyer from the seller after paying an initial deposit payment for the balance will be paid later. The seller cannot repossess the goods if the buyer defaults in payment. He can only reclaim through court action.

CREDIT CARD

Credit card is card issued by some large stores to approved applicants which enables a holder to obtain goods and services on credit specified suppliers up to an agree amount. The holder has borrowing limits. It is advantageous in the sense that, it economics the use of cash, eg Euro card, value card, smart card. This is common in advanced countries, eg America, Britain, etc.

FACTORING

Factoring is a system whereby trade debts can be sold immediately for cash to Factoring firm (bank) for a lower amount them the actual value of the debt. The factoring from after purchasing the debts will by arrangement purchases the trade debt of its chant and collects them on its behalf.

LEASING

Leasing is a system whereby the owner of a property grants to another the right to exclusive possession for a fixed time in return for periodic payment, eg leasing of equipment, houses, etc.

CLUB TRADING

Club trading is a system of credit whereby some organizations set up clubs to collect regular contribution from members. This contribution can be withdrawn periodically in order to make purchases at the shops.

BUDGET ACCOUNT

Budget account is a system operated by departmental stores whereby a customer agrees to pay a certain sum per mouth which enables credit up to eight times that amount to be obtained. This is common in advanced countries and among high income earners. The customer will pay service change on all goods bought. The main problem with this type of credit as that choice of good will be restricted to single shop which enables them to buy goods on credit. At the end of the mouth, the customer is sent a statement showing details of all goods bought. This will ensure monthly payment instead of paying for individual transactions.

ADVANTAGES OF MONTHLY ACCOUNT

1. There is no additional change.
2. The goods are bought at cheaper prices.
3. It serves the customer the trouble of writing cheques every time.

CONDITIONAL CREDIT SALES

Conditional credit sales is an agreement for the sale of goods and not hire in which title does not pass absolutely until all installments have been paid. The buyer is unable to transfer a good title to an innocent purchaser. The seller has the right to take the title under specified condition. It has to be witnessed by somebody.

BOOK- ME- DOWN

Book- me –down is common within the low income earners in underdeveloped countries like Nigeria. The customer will purchase goods on credit and their names are written down. Payments may be made at the end of the month after receiving their remuneration from their places of work.

TRADING CHEQUE OR VOUCHER

In this system of credit, a voucher is issued by a club which is formed to enable its members buy from specified local shops in the locality. This provides alternative to hire purchase. A percentage change will be made with the actual amount paid over a certain week at an agreed rate.

CREDIT INSTRUMENTS

Credit instruments are written documents or agreement as evidence of repayments in credit transactions. They are numerous and cover a variety of ways in which credits are extended. They include:

1. Bill of exchange
2. Promissory notes
3. Letter of credit
4. Credit cards
5. Debentures
6. Trading cheque/ vouchers
7. Hire purchase contract
8. Bonds
9. I owe agreements
10. Mortgage agreements
11. Lease agreements
12. Bank draft

FINANCE HOUSE

Finance house is a major source of financing credit transactions, eg hire purchase. They mobilize funds from deposit from the public which attract high rate of interest or by borrowing from banks, eg merchant banks, commercial banks and insurance.

FUNCTIONS OF CREDIT TO RETAILER AND WHOLESALER

1. Increase in sales: credit sales can lead to increase in sales of goods.
2. Increase in profit: It can bring increase in profit as higher prices are change for credit transaction.
3. Reduction in problem of stock being tied down: Credit sales will reduce the problem of holding stock for too long as the goods can be outdated or become expired.
4. Enjoyment of goods without payment: Customers can posses and enjoy goods without giving value immediately.
5. Increase in standard of living standard of people as buyer can buy goods they never thought they can afford to buy eg cars.
6. Means of meeting temporary needs for cash: Credit can serve as a means of meeting temporary needs for cash because the individual can buy on credit and use the cash for the other things,
7. Encouragement of bilk purchase: Credit can also encourage bulk purchase.

DISADVANTAGES OF CREDIT SALE

1. Increase in price: Credit sales lead to increase in the price goods.

2. Customers can over buy: The customer can be tempted to buy more than what they afford.

3. Seller can repossess: The seller has the right to repossess the product if the last installment is not paid.

4. It involves a lot of record keeping: Credit involves a lot of record keeping as both cash and sales records must be kept.

5. It can lead to bad debt: It can lead to a situation whereby some debts cannot be recovered.

6. Capital can be tied down: The working capital can be tied down and eventually eroded.

7. Problem of non-payment: There is always the problem of non-payments by buyers.

8. Business can be liquidated: Too much credit transactions can lead to the liquidation of an organization, e.g. National Bank of Nigeria before its resuscitation in 2000.

9. It can lead to court Action: Credit sales can lead to court action, if the buyer refuses to pay.

MEANING OF PROFIT

Profit is the financial benefits which accrue to a business man. The main purpose of a business organization is to make profit. Profit represents the gain, resulting from investing one's capital in a business enterprise. To accountant, profit is the excess of income over expenditure. He views profit from two perspectives: Gross profit and net profit. But to an economics, profit represents the reward of entrepreneur. It is a measure and a means of rewarding business managers for taking the risk.

TYPES OF PROFIT

a. Gross profit: Gross profit is the excess of turnover over the cost of goods sold. It is the difference between selling price and cost price of a particular product. This is the total profit before any expense is deducted. The gross profit can be determined through the preparation of trading account. Gross profit is calculated as opening stock plus purchases, less closing stock and this is deducted from sales revenue.

b. Net profit: The net profit is the excess of gross profit over the expenses. It is arrived at after all deducted from gross profit and loss account.

FACTORS AFFECTING PROFIT

1. The selling price of goods.
2. The cost of goods sold, ie cost price
3. The number of competing firms
4. Relationship between demand and supply
5. The knowledge of the seller concerning the market

CALCULATIONS OF GROSS AND NET PROFIT

The following are the trading figures of Okoh Trading co Ltd for the year ended 31st December, 198 6.

Cost of goods sold	₦100,000
Sales	₦200,000
Rent	₦10,000

a. Gross profit= Sales – cost of goods sold = ₦200,000 – ₦100,000 = ₦100,000

b. Net profit = Gross profit – Expenses (Rent) = ₦100,000 – ₦100,000 = ₦90,000.

Net profit as a percentage of turnover

$X\ 100$

Gross profit as a percentage of turnover

$$\frac{Gross\ profit}{Turnover}\ X\ 100$$

Expenses as a percentage of turnover

$$\frac{Expenses}{Turnover}\ X\ 100$$

Managers Commission = $\frac{percentage \quad commission}{100+percentage \quad commission}$

TRADING ACCOUNT

Opening stock	₦20,000	Sales	
Purchases	₦25,000	N45,000	
	₦45,000		
Less closing stock	₦30,000		
	₦15,000		
Gross profit c/d	₦30,000		
	₦45,000	N45,000	
Expenses	₦15,000	Gross profit b/d	
Net profit	₦15,000	N30,000	
	₦30,000		
		N30,000	

a. Net profit as a percentage of turnover

$$\frac{Net\ profit}{sales} X\ 100$$

$$\frac{15{,}000}{45{,}000} X\ \frac{100}{1} = 33\frac{1}{3}\%$$

b. Gross profit as a percentage of turnover

$$\frac{Gross\ profit}{Sales} X\ \frac{100}{1} = \frac{30{,}000}{45{,}000} X\ \frac{100}{1} = 67\%$$

c. Expenses as a percentage of turnover

$$\frac{15{,}000}{45{,}000} X\ \frac{100}{1} = 33\frac{1}{3}\%$$

MEANING OF TURNOVER

Turnover of a business is the total net sales during a particular period, eg a year. This is the value of total sales of an organization, during an a accounting period, ie, sales less return inward.

MEANING OF RATE OF TURNOVER

Rate of turnover is the number of times the value of average stock of a business is sold during a period. This is used to investigate the market success of the output of a firm. The rate varies from one product to another. Expensive goods have slow turnover rate while perishable goods have repaid rate. This can be computed as:

$$\frac{Cost\ of\ goods\ sold}{Average\ \ stock}$$

Average stock= $\frac{Opening\ \ stock + closing\ \ stock}{2}$

Example: A large scale retail concern had the following balances in its books as at 31st December, 1998

Stock 1st January, 1998	₦8,000
Purchases	₦85,000
Sales	₦120,000
Stock 31st December, 1998	₦7,000
Selling expenses	₦10,000

Questions: You are required to calculate:

i. Cost of goods sold
ii. Net profit
iii. Rate of stock turnover

Solution: Prepare a trading account as shown below:

	Opening stock 8,000	Sales 120,000
	Add purchases + 85,000	
	93,000	
	Less closing stock - 7,000	
	Cost of goods sold 86,000	120,000
		Gross profit b/d
i.	Gross profit +	34,000
ii.	34,000	
iii.		
	120,000	34,000
	Selling expenses 10,000	
	Net profit + 24,000	
	34,000	
	Cost of goods sold ₦86,000	
	Net profit ₦24,000	

	Rate of stock turnover $\frac{Cost\ of\ goods\ sold}{Average\ Stock}$ 86,000	

Opening stock + Closing stock ÷ 2

$$\frac{86{,}000}{(8{,}000+7{,}000) \div 2} = \frac{86{,}000}{7{,}500} = 11.47$$

FACTORS THAT CAN AFFECT TURNOVER

1. Reduction in prices of goods (goods with high prices will have low sales while products with low prices will have high sale).
2. Good will and reputation of the seller.
3. The types of goods (food stuff will have high turnover as compared with electronics).
4. Advertising, Publicity and sales promotion.
5. Nearness of the business to consumers (there will be high turnover when a business is located near the consumers).
6. Constant availability of goods.
7. Credit facilities.
8. Increase in the quantity of goods sold.
9. The variety of goods sold by the seller.

OTHER IMPORTANT RATIO

1. Margin: Margin can be defined as the relationship between the profit and selling price. This is the profit expressed as a percentage of selling price. This could be derived thus:
$$\frac{Gross\ profit}{Selling\ price} X\ 100$$
2. Mark-up: Mark-up is the relationship that exists between the profit and the cost of goods sold. The gross profit will be expressed as a percentage of cost price, using the formula: $\frac{Gross\ profit}{Cost\ price} X\ \frac{100}{1}$

TRADING, PROFIT AND LOSS ACCOUNT

This is the account drawn up to show the gross profit and net profit of a business organization. The contents of:

1. Opening stock: This is the stock of goods at the beginning of the year.
2. Closing stock: This is the stock of goods available at the end of the year.
3. Purchases: Purchases is the total value of goods (Credit and cash purchases) bought for resale by an organization.
4. Sales: This is the total value of goods sold by a business firm. It includes credit and cash sales.
5. Returns inward: These are goods returned by the customers. It must be deducted from the sales for the period.
6. Returns outward: These are goods returned to the suppliers. It must be deducted from the purchases for the period.

7. Carriage inward: This is the cost of transporting goods to the firm. It is normally added to purchases.
8. Carriage outward: This is the cost of transporting goods to the customers it is called carriage on sales and must be treated as expenses.
9. Expenses: These are the expenditure incurred in the running of a business. It is normally deducted from the gross profit in order to show the net profit.

USES OF TRADING, PROFIT AND LOSS:

1. To show the profit
2. For planning purchases
3. For income or Corporation tax purpose
4. For comparison with other years