Business Studies

Teachers' Guide

Grade 12
(Implemented from 2017)

Department of Commerce
Faculty of Science and Technology
National Institute of Education
Maharagama

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Message from the Director General

With the primary objective of realizing the National Educational Goals recommended by the National Education Commission, the then prevalent content based curriculum was modernized, and the first phase of the new competency based curriculum was introduced to the eight year curriculum cycle of the primary and secondary education in Sri Lanka in the year 2007.

The second phase of the curriculum cycle thus initiated was introduced to the education system in the year 2015 as a result of a curriculum rationalization process based on research findings and various proposals made by stakeholders.

Within this rationalization process the concepts of vertical and horizontal integration have been employed in order to build up competencies of students, from foundation level to higher levels, and to avoid repetition of subject content in various subjects respectively and furthermore, to develop a curriculum that is implementable and student friendly.

The new Teachers’ Guides have been introduced with the aim of providing the teachers with necessary guidance for planning lessons, engaging students effectively in the learning teaching process, and to make Teachers’ Guides will help teachers to be more effective within the classroom. Further, the present Teachers’ Guides have given the necessary freedom for the teachers to select quality inputs and activities in order to improve student competencies. Since the Teachers’ Guides do not place greater emphasis on the subject content prescribed for the relevant grades, it is very much necessary to use these guides along with the text books compiled by the Educational Publications Department if, guides are to be made more effective.

The primary objective of this rationalized new curriculum, the new Teachers’ Guides, and the new prescribed texts is to transform the student population into a human resource replete with the skills and competencies required for the world of work, through embarking upon a pattern of education which is more student centered and activity based.

I wish to make use of this opportunity to thank and express my appreciation to the members of the Council and the Academic Affairs Board of the NIE, the resource persons who contributed to the compiling of these Teachers’ Guides and other parties for their dedication in this matter.

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Learning Outcomes and Model Activities
Competency 1.0: Inquires the basis of business and the environment in which it operates.

Competency level 1.1: Analyses the concept of business.

No. of periods; 08

Learning outcomes:
- Introduces the business concept.
- Explains the needs and wants using examples.
- Compares the needs and wants providing examples.
- Explains the meaning of product.
- Proves that the human needs and wants are fulfilled by products.
- Compares goods and services.
- Shows the relationship between the market and the fulfillment of needs and wants.
- Explains the characteristics of business with examples.
- Explains business activities.
- Lists the business activities of a given business.
- Explains the goals of the business.
- Evaluates the contribution of businesses for the existence of an economy.

Instructions for lesson planning:
- Inquire the needs and wants of a school student.
- List down all the answers on the black/white board.
- Conduct a discussion highlighting the following facts
  - Food, clothes, house, education, health, communication, security are essential for the existence of every human being. These are called as “Needs” since they are commonly needed by everyone.
  - Guide the students to select the needs from the answers written on the board.
  - Inquire from the students about the items used to satisfy their needs from the list on the board.
  - Write down the answers of the students in front of each need.
  - Accordingly introduce that each individual has a different way of fulfilling their needs. These different ways are known as “Wants”.
  - Show that the businesses are created in order to fulfill these needs and wants.
  - Define “Business”
  - Define needs and wants and state examples for them.
  - Show the differences between needs and wants.
  - Group the students in a suitable way and make them engage in the following activity
• Three businesses which fulfill your needs are given below,
  • A bakery
  • A garment manufacturing business
  • A government hospital
• Pay attention on the business which is given to your group.
• What are the needs which are fulfilled by the relevant business ?
• What are the items which are offered by the relevant business to satisfy your needs ?

• Ensure that the human needs and wants are fulfilled by goods and services.
• Explain that they are known as “ Products”.
• State the differences between goods and services.

• Explain “ Market”
• Ensure that the goods and services which fulfil the human needs and wants are obtained by the market.
• Discuss the characteristics of a business and list down the answers on the board.

• Present the following incidents to the students :
  • Selling of a land belonging to one person to another.
  • Selling of curd pots to retail shops by a curd producer.
  • Father donates the land deed to his son.
  • Cutting the hair of a student by a barber in a salon.
  • Cutting the hair of the daughter by the mother.
  • Using the vegetables grown in the home garden for daily consumption.
• Conduct a discussion with the students pointing out whether the above mentioned activities are business activities or not with reasons.
• Explain the students the characteristics of the business one by one.
• Using an existing business as an example, confirm that it is a business activity by the characteristics of it.

• Explain the two main activities conducted by a business.
• Explain with examples that businesses add value to the resources.
• Explain that when producing a garment, obtaining thread, weaving materials from thread, stitching garments from materials are some of the steps which it goes through. At each step a value is added to the existing value.
• Engage in the following discussion to show that the businesses have various goals.
• Take students attention to a society, a private sector enterprise and a government sector business in your area and discuss on which goals they conduct their business activities. Accordingly show them that businesses have various goals.
• Explain the contribution of businesses for economic sustenance.
• Group the students in a suitable way and engage them in the following activity.

<table>
<thead>
<tr>
<th>Three businesses which satisfy human needs and wants are given below,</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. A bakery.</td>
</tr>
<tr>
<td>2. A garment manufacturing business</td>
</tr>
<tr>
<td>3. A government hospital.</td>
</tr>
</tbody>
</table>

- Pay attention to the business you have received,
- Explain how human needs and wants are satisfied by the relevant business.
- Explain how values are added to the resources by the given business.
- State the goal /goals of the business.
- List down the benefits that the economy can gain by the given business.

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**A guidelines to explain subject matters :**

- All the activities related to the production, distribution, selling of goods and services with a profit motive in order to satisfy human needs and wants can generally be defined as business.
- There are businesses which fulfil the needs and wants without a profit motive.
- Accordingly a business is any economic activity which fulfils human needs and wants.

- The physical and mental conditions which are compulsory to be fulfilled by humans are known as needs. Food, clothes, house, education, health, communication, transport, safety are some of the needs.
- Wants are the different ways of fulfilling the needs.
  - Rice, bread, string hoppers, tea are some of the examples of wants which fulfil the need of food.
- The examples of needs and wants are given below

<table>
<thead>
<tr>
<th>Needs</th>
<th>Wants</th>
</tr>
</thead>
<tbody>
<tr>
<td>Food</td>
<td>Rice, bread, string hoppers, tea</td>
</tr>
<tr>
<td>Cloth</td>
<td>Saree, trousers, frock, sarong</td>
</tr>
<tr>
<td>House</td>
<td>Storied house, lodges, hostels, quarters,</td>
</tr>
<tr>
<td>Education</td>
<td>School education, education in pirivenas, private schools, educational courses, books</td>
</tr>
<tr>
<td>Health</td>
<td>Government hospitals, private hospitals, medicines, medical tests</td>
</tr>
<tr>
<td>Communication</td>
<td>Telephone, fax, email, internet facilities</td>
</tr>
<tr>
<td>Safety</td>
<td>Police, army, private security services</td>
</tr>
</tbody>
</table>

- Essential for survival, common to all, limited are some of the characteristics of needs.
- Unlimited, varies from person to person, can be created by businesses, subjective are some of the characteristics of wants.
- The differences between needs and wants are shown in the following table.
Needs | Wants
---|---
- Limited | - Unlimited
- Common to every person | - Differs from person to person
- Essential for survival | - Not essential for survival
- Cannot be created by businessmen | - Can be created by businessmen
- Cannot be changed by social forces. | - Can be changed by social forces.

- Anything offered to the market which fulfils human needs and wants are known as “Products”.
- Products can be categorized mainly as goods and services.
- Following table shows the differences between goods and services.

<table>
<thead>
<tr>
<th>Goods</th>
<th>Services</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Tangible (Can be touched)</td>
<td>- Intangible (Cannot be touched)</td>
</tr>
<tr>
<td>- Can be stored.</td>
<td>- Cannot be stored.</td>
</tr>
<tr>
<td>- Identical products can be produced.</td>
<td>- Varies according to service provider.</td>
</tr>
<tr>
<td>- Separable from the producer.</td>
<td>- Inseparable from the service provider.</td>
</tr>
</tbody>
</table>

- Human needs and wants are fulfilled by products.

- Market is any situation where buyers and sellers meet or connect.
- Goods and services are obtained from the market to fulfil human needs and wants.

- Following are the characteristics of a business.
  - Exchange or selling takes place.
  - Transaction of goods and services take place.
  - Continuous transactions will take place.
  - Motivated by profit.
  - Has a risk.
  - Creates wants.
  - An economic activity.

**Characteristics of business**

1. **Exchange or selling takes place.**
   All the businesses sell or exchange goods and services for monetary value, buying or selling of a goods and services at a price is an essential factor of the business.
   If there is no such selling or exchange then there is no business activity. For example cooking food for family members at home is not considered as a business whereas cooking food to sell is considered as a business.
2 **Transaction of goods and services takes place.**
All the businesses produce or purchase goods and services in order to sell others. They can be consumer goods or industrial (business) goods. Goods which are bought for final/end consumption such as bread, clothes, shoes are known as consumer goods. Goods which are bought for the production of consumer goods such as raw materials, machinery are known as industrial/business goods. Intangibles such as electricity, insurance, banking services are some examples for services.

3 **Continuous transactions take place**
If the transaction of goods and services are done continuously for a long period of time, it is known as a business. If only one transaction takes place it is not considered under business. For example if a person sells his old scooter which was used by him is not a business. But if he sells the scooters on a continuous basis it is a business.

4 **Motivated by profit/benefits**
The basic goal of a business is to earn money and acquire wealth. A profit earned in terms of rupees and cents, an income more than the expenditure, building business relationships, generating business opportunities and providing social welfare are included in profit. Accordingly, there are profit motive businesses as well as businesses with non profit motive but motivated by benefits. Therefore profit in the business field is essential for the expansion of a business.

5 **Has a risk**
There are risks in the businesses due to the uncertainty in earning profit and the possibility of incurring a loss. Since the future of a business is uncertain, changes in the business environment, the inability to control the following facts which affect profit will create an uncertainty for a business.
- Changes in consumer taste, design and demand.
- Changes in production technology and machinery.
- Increase in market competition.
- Scarcity of raw material, power failure and shortage of fuel.
- Employee problems and strikes.
- Fire, theft, burglary and accidents.
- Incorrect management decisions on using the business resources.
Businesses always face risks. Having such risks is a characteristic of a business.

6 **Create wants**
Businesses produce goods and services to satisfy human wants. Some businesses turn raw materials into finished goods to satisfy human wants. Some businesses satisfy human wants by transporting products from a place to a place where there is a high demand for the product. Some businesses satisfy human wants by storing at the time of harvesting in order to provide at the time of scarcity. Accordingly, every business creates human wants by providing goods and rendering services.
7 An economic activity

Businesses are essentially considered as economic activities since they produce goods and services using limited resources and engage in distribution activities. It is money oriented. Businesses are economic activities since they sell goods and services and use limited resources.

• There are two main activities of a business.
  • Fulfilment of needs and wants.
  • Adding value to the resources.

• Value addition is the increment of the value of resources which happens when the nature of the resource is changed during the production of goods and services. When businesses change the nature of the resources there will be a value addition. Accordingly the value addition to the resources will be an activity of the business.

• There can be various goals for a business, some of them are given below,
  • Survival in the market.
  • Profit maximisation.
  • Sales maximisation.
  • Increasing market share.
  • Increasing consumer satisfaction.
  • Maximising the market value of shares.
  • Personal satisfaction of businessmen.
  • Social and community welfare.
  • Employee welfare.

• Businesses also contribute to the existence of the economy. Examples:
  • Satisfying wants which are complex and changing.
  • Innovation.
  • Generating employment.
  • National economic development.
Competency 1.0: Inquires the basis of business and the environment in which it operates.

Competency Level 1.2: Studies the evolution of business and the trends in the business.

No. of periods: 06

Learning outcomes:
- Explains the self-sufficient economy.
- Shows the stages in the evolution of business.
- Explains the difference between direct production and indirect production.
- Explains the evolution of money.
- Compares the past and current forms of trade.
- Explains the difference between commerce and trade.
- Explains the auxiliary services for businesses.
- Explains the electronic commerce.
- Reveals the reasons for the current popularity of electronic commerce.
- Explains the current trends in the business world and the changes in the businesses due to those trends.

Instructions for lesson planning:
- Conduct a discussion with the students that there was a self-sufficient economic system in the past.
- Ensure that during the self-sufficient system they produced the things which they needed on their own. This is known as “Direct production.”
- Ensure the students that since every individual and group produced special products exclusively for them, they were specialized in that product. This is known as specialization. Because of this specialization there was a surplus in production.
- Ensure that, later on, these surplus products were exchanged with the producers of other products, through which trade emerged.
- Conduct a discussion with the students that exchanging of one’s surplus production with other one’s surplus production is known as barter system in which there had been various drawbacks.
- Explain that the trade and indirect production were formed because of the barter system.
- Present the following to the students to ensure the direct and indirect production:
  - A housewife uses green leaves grown in her home garden for daily consumption.
  - A person who runs a small chicken farm sells the eggs which he gets to a retail shop nearby.
  - Mihiri who is keen on making sweets accepts orders for functions.
  - Gamlath who owns a few cows produces curd for home consumption.
  - Farmer Saranapala’s wife sells boilcd corns in the mainroad in front of the house for the people who pass by.
  - Karunawathi who is keen on sewing, sews all the garments of her children and husband.
- Guide the students to identify the situations of direct production and indirect production.
• Explain that to overcome the drawbacks of the barter system, various materials were used as medium of exchange and it was the first step for using money.
• In consequence, explain the evolution of money up to date.
• Guide students to examine various types of money that have been used from the past to the present, presenting them with metal money used in the past or pictures of them, notes and coins that are used currently in Sri Lanka or pictures of them, notes and coins of other countries or pictures of them, cheques or pictures of them, electronic cards or pictures of them.

• Explain the industrial revolution and the improvement of trade.
• Discuss with students, that the present is an era based on electronic commerce and electronic business, the speciality of this era is that businesses are based on information.
• Discuss with students the reasons for electronic commerce being popular currently.
• Discuss the following incidents with students to show the instances where electronic commerce is being used in day to day life as well as in business activities.
• Explain that, when a book is needed to be imported from abroad one can log into the web page, www.amazon.com to find the book and if he wants to buy it he is facilitated to pay the price of the book and other charges by credit or debit card (using the electronic payments) in that web page.
• Explain that, if a doctor is needed to be channeled one can log into the relevant web page of the hospital and reserve an appointment by checking the list of doctors relevant to the ailment and their appointment time, as well as by paying through his bank account or by credit, debit card (electronic payment methods).
• Explain that an institute which imports vehicles from abroad can log into the web page of a foreign vehicle manufacturing institute and by checking all the parts of the vehicles that are produced through the web page, they can place an order for the models of vehicles they needed by paying through an electronic payment method.

• Explain with examples the trends in business in the information era.

**A guideline to explain subject matters.**
• There was a self sufficient economic system in the past
• In that self sufficient economic system, one produced his own requirements by himself.
• Producing his own requirement by himself is known as direct production.
• Specialization was developed through direct production.
• The result of personal specialization is the surplus of production.
• The surplus production caused the barter system.
• Barter system was the first stage of the evolution of business.
• Trade emerged with the barter system.
• Producing for the market is known as indirect production
• Various materials were used as the medium of exchange to overcome the drawbacks of the barter system.
• The evolution of money from the barter system to the present can be sorted as follows:
  • Use of materials
    example: sea shells, tobacco
  • Use of metals
    Example: metals such as gold and silver
  • Use of metal money
    values were imprinted on the face of metal pieces indicating the values. This became the base for the printed metal coins that came later.
  • Use of coins & notes
    To rectify the inconvenience caused by using precious metals as money, notes and coins that don’t contain intrinsic value came into use. This includes notes and coins issued by the government authority.
    Examples -:  
    Sri Lanka – Rupees
    Great Britain – Pound
    USA – Dollar
    Countries in the European Union – Euro
  • Use of bank money
    Usage of current accounts cheques
  • Use of electronic money
    A method in which the transactions are done with computerized networks which was introduced by the development of information and digital technology.
    Examples - Credit cards
      Debit cards
      Prepaid cards
      Micro chips or mobile cash
  • Usage of money is the second stage of the evolution of business.
• With the industrial revolution in European countries, cottage industries converted into large scale industries and trade was expanded.
- There was a development in auxiliary services such as banking, transport, insurance, communication and warehousing due to the industrial revolution.
- Industrial revolution is the third stage of the evolution of business.
- Commerce is the combination of trade and support services (commerce = trade + support services)

![Diagram of commerce and auxiliary services]

- At present there is an era of electronic commerce and electronic business
- When buying and selling activities are conducted through internet, it is known as electronic commerce.
- When all the activities which belong to the business are conducted by the use of internet it is known as electronic business.
- Information era is the fourth stage of the evolution of business.
- Following are some of the reasons for the popularity of electronic commerce
  - Business information can be exchanged without documents
  - Speeding up of business activities
  - Minimizing operational cost and inventory costs
  - Emergence of global market space
  - Increase in the quality of goods and services
  - Saving customers’ time and energy
  - Increasing computer literacy
  - Improvement of infrastructure facilities
- Following are the four important stages of business evolution
  - Batter system
  - Use of money
  - Industrial revolution
  - Information era
• Following are some of the new trends in the business field, because of the improvements in the information technology at present
  • Expansion of globalization
  • Emergence of electronic businesses
  • Use of electronic money
  • Concern on environment
  • Concern on business social responsibilities
Competency 1.0: Inquires the basis of the business and the environment in which it operates.

Competency level 1.3 -: Classifies businesses in terms of different criteria.

No. of periods -: 06

Learning Outcomes:
- Lists the different criteria on which businesses can be classified.
- Classifies the businesses in the school area on those criteria.
- Explains the same business belongs to several categories on various criteria.
- Shows how a given business belongs to several categories on each criteria.
- Shows how the Gross Domestic Product (GDP) is classified in Sri Lanka.
- Present the contribution of each production sectors to the GDP.

Instructions for lesson planning:
- Ask the following questions from the students taking a business in your area as an example.
  - Whether the business belongs to the public (government) sector or private sector.
  - Whether the business is a service business or a business produce goods.
  - Whether the business is profit oriented or non-profit oriented.
  - Whether the business is a small and medium scale business or a large scale business.
- Accordingly explain that the same business can be classified under various criteria.
- Show various criteria on which the businesses can be classified and discuss with students the classifications.
- Instruct students to fill the following table by naming as many businesses as possible in the area.

<table>
<thead>
<tr>
<th>Business Name</th>
<th>According to the nature of production</th>
<th>According to the ownership</th>
<th>According to the goals</th>
<th>According to the scale</th>
<th>According to the production sector</th>
</tr>
</thead>
<tbody>
<tr>
<td>Private</td>
<td>Secondary</td>
<td>Tertiary</td>
<td>Profitive</td>
<td>Large</td>
<td>Agriculture</td>
</tr>
<tr>
<td>Private</td>
<td>Private</td>
<td></td>
<td>Non-profit</td>
<td>S. Large</td>
<td>Industry</td>
</tr>
<tr>
<td>Private</td>
<td>S. Large</td>
<td></td>
<td></td>
<td></td>
<td>Service</td>
</tr>
</tbody>
</table>

- Make students to refer the latest CBSL and the Gross Domestic Production. Explain to the students the contribution of each sector to the GDP comparatively.
A guideline to explain subject matters.

- Business can be classified under the following criteria.
  - According to the nature of the production.
  - According to the ownership/proprietorship.
  - According to the goals.
  - According to the scale.
  - According to the production sector/source of production.

Bases of business classification and the way of classifying them can be shown by the following flow chart.

- Businesses can be classified as primary, secondary and tertiary according to the nature of production.
- Accordingly the businesses which extract the natural resources as its own form for production are known as the primary sector. The businesses which convert the natural resources into other productions are known as secondary sector and the businesses which provide service are known as tertiary sector.
- Following are the classifications of primary, secondary and tertiary according to the nature of the production.

  Primary sector-  
  - Agriculture, forestry and fishing
  - Mining and quarrying

  Secondary sector-  
  - Manufacturing industries
  - Construction industries.
Tertiary:-  
- Electricity, gas providing steam and air conditioning  
- Clarification and distribution of water.  
- Banking, Insurance and real estate etc.  

Ownership of dwelling

- Businesses can be classified as private sector businesses and public (government) sector businesses according to ownership.  
- Businesses can be classified as profit motive businesses and non-profit motive businesses according to the objectives.  
- Businesses can be classified as small and medium scale businesses and large scale businesses according to the scale.  
- Businesses can be classified as agriculture, industries and services according to the production sector or source of industries.  
- The sectorial composition of the GDP is published in the annual report of the Central Bank of Sri Lanka.  

- The sectorial composition of the GDP for the year 2015, according to the annual report of the Central Bank of Sri Lanka is given below.

1. Agriculture, livestock timber and forestry  
   1.1 Tea  
   1.2 Rubber  
   1.3 Coconut  
   1.4 Minor export crops  
   1.5 Paddy  
   1.6 Live stocks  
   1.7 Other faced crops  
   1.8 Plantation development  
   1.9 Timber and forestry  
   1.10 Other agricultural crops.

2. Fishing  
   2.1 Industry

3. Mining and quarrying

4. Manufacturing  
   4.1 Processing (Tea, Rubber, Coconut)  
   4.2 Manufacturing  
   4.3 Cottage industry
5. Electricity, Gas and water
   5.1 Electricity
   5.2 Gas
   5.3 Water

1. Construction Services

2. Wholesale and retail trade
   2.1 Import trade
   2.2 Export trade
   2.3 Domestic trade

3. Hotels and restaurants

4. Transport and communication
   4.1 Transport
   4.2 Cargo handling. Ports and Civil aviation

5. Banking, Insurance, real estate etc.

6. Ownership of dwelling

7. Government service

8. Private services

- Mining and quarrying come under primary sector, when classifying according to the nature of production, but mining and quarrying come under industries when classifying according to the source of industries. According to the nature of production electricity, gas and water come under the tertiary sector but according to the source of industries they come under industries.

The sectorial contribution to the GDP can be presented as a percentage. (Refer the latest annual report of the Central Bank of Sri Lanka)
Competency 1.0: Inquires the basis of the business and the environment in which it operates.

Competency level 1.4: Analyses the business as a process of inputs and outputs.

No of periods -: 06

Learning Outcomes -
• Explains the inputs of different businesses.
• Explains the function of a business.
• Lists the output of different businesses.
• Presents a business as an input, output process using diagram.
• Separates the inputs of a certain product under each type of input.
• Explains with examples that the business functions will vary according to the nature of the business.

Instructions for lesson planning
• Take a production business in your area, inquire from the students about the resources that are used in that business.
• Write those resources on the board.
• Consider a garment factory as an example. Factory buildings, sewing machines, tailors, employees such as supervisors, the land where the business operates, the number of working shifts (hours), designing of clothing, computer aided designing, finding new markets, searching for modern machines, the knowledge possessed by managers, obtaining legal advice are some of the resources used in that business.
• Classify them under the seven main categories of resources.
• Inquire from the students about the functions carried out by that production business and write them on the board.
• Show such as, keeping records of attendance and departure of employees, maintaining leave records, training employees, promoting employees, obtaining needed material stock, checking their quality, obtaining necessary funds, investing funds properly, exploring costs reducing techniques, experimenting with new designs, advertising of products as examples of the functions.
• Classify them under the seven main functions of a business and give an explanation about them.
• Ask the students about the output/output of this garment factory and explain to them that the output of any business can be either goods or services.
• Inquire from the students about the business process of this organization in order to obtain the above mentioned output/outputs.
• According to the answers received, show the business process in order and then explain the components of the business process. i.e. input - output process using diagram.
• Make students engage in the following activity to ensure that an input – output process takes place in businesses.

| Group the students in a suitable manner and provide the following topics. |
| • A site related to concrete production |
| • An institute that produces furniture. |
| • Pay attention to the topic that your group has received. |
| • Show the business process related to that topic in a diagram. |

✍

A guideline to explain subject matters.

• Inputs (resources) such as land, labour, capital, entrepreneurship, information, time, and knowledge are used for business activities.
• Consider an institute that produces finished garments as an example.

Land -
• Land where building is situated
• Ventilation
• Sunlight (Natural light)

Labour –
• Physical and mental labour of the tailor
• Physical and mental labour of the supervisor
• Mental labour of the managers
• Labour of the watchmen

Capital –
• Building
• Sewing machines, equipment
• Distributing vehicles
• Materials, thread, buttons, zips
• Money

Entrepreneurship –
• Decision maker of the combination of resources
  (Person who enjoys profits)
• Decision maker who undertakes risks
• Individuals or institutes
Information – • Designs that suit with consumer taste  
• New information about raw materials  
• Information about new technology  
• Information about the market

Time – • Working hours of employees  
• Working hours of machines  
• Time taken to make decisions

Knowledge – • Obtaining patents for new products  
• Skills of garment employees  
• Knowledge processed by managers  
• Knowledge of designing technicians  
• Law advice

• Administration, Production, Marketing, Financial activities, Human resource activities, Research and development are known as basic functions of business.

• Given below are functions of business and some examples

<table>
<thead>
<tr>
<th>Functions</th>
<th>Examples</th>
</tr>
</thead>
</table>
| 1. Administration                 | • Preparing garment employees’ files.  
|                                   | • Providing relevant advice  
|                                   | • Maintaining attendance sheets |
| 2. Production                     | • Obtaining raw materials  
|                                   | • Inventory control  
|                                   | • Quality control |
| 3. Marketing                      | • Distribution of garments  
|                                   | • Advertising  
|                                   | • Deciding of price |
| 4. Financial activities           | • Obtaining funds  
|                                   | • Paying salaries  
|                                   | • Investing funds |
| 5. Human resource activities      | • Recruiting of employees  
|                                   | • Training  
|                                   | • Promoting |
| 6. Research and development       | • Conducting researches on new innovations  
|                                   | • Improving the products  
|                                   | • Exploring low cost methods |
| 7. Management information activities | • Maintaining information system  
|                                   | • Obtaining new information  
|                                   | • Updating the information |
Maintain documents related to business activities and maintaining communication are included in the Administration activities.

Process that converts resources into goods or services is known as production (Operation)

Identifying customer needs and wants and satisfying them are known as marketing.

Obtaining and investing funds and other activities related to it is known as finance.

Attraction, selection, recruitment, training, welfare activities are known as human resource activities.

Improving the quality of products and innovating new products are included in research and development.

Production process can be represented in a diagram as an input – output process as follows.

<table>
<thead>
<tr>
<th>Inputs / Resources</th>
<th>Business Functions</th>
<th>Outputs</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land</td>
<td>Administration</td>
<td>Goods or services</td>
</tr>
<tr>
<td>Labour</td>
<td>Operations (Production)</td>
<td></td>
</tr>
<tr>
<td>Capital</td>
<td>Marketing</td>
<td></td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td>Financial activities</td>
<td></td>
</tr>
<tr>
<td>Information</td>
<td>Human resource activities</td>
<td></td>
</tr>
<tr>
<td>Time</td>
<td>Research and development</td>
<td></td>
</tr>
<tr>
<td>Knowledge</td>
<td>Management information</td>
<td></td>
</tr>
</tbody>
</table>

Business process of a bakery is shown in the following diagram as an input - output process.
<table>
<thead>
<tr>
<th>Input (Resources)</th>
<th>Process</th>
<th>Output</th>
</tr>
</thead>
<tbody>
<tr>
<td>Land –</td>
<td>Production –</td>
<td>Bread</td>
</tr>
<tr>
<td>Land where the bakery is located</td>
<td>• Obtaining the materials</td>
<td>Buns</td>
</tr>
<tr>
<td>Labour –</td>
<td>• Mixing the materials</td>
<td>Cake</td>
</tr>
<tr>
<td>Labour of the bakers</td>
<td>• Making bread</td>
<td>(Bakery items)</td>
</tr>
<tr>
<td>Capital –</td>
<td>Marketing –</td>
<td>Administration –</td>
</tr>
<tr>
<td>Building, oven, trays</td>
<td>• Advertising</td>
<td>• Preparing employees’ files</td>
</tr>
<tr>
<td>Entrepreneurship</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Owner of the bakery/ the ability of the person who combines factors of production</td>
<td>• Distribution</td>
<td>• Maintaining employees’ attendance sheets</td>
</tr>
<tr>
<td>Information –</td>
<td>Financial activities-</td>
<td></td>
</tr>
<tr>
<td>• new technological methods</td>
<td>• Obtaining funds needed</td>
<td></td>
</tr>
<tr>
<td>• Market information</td>
<td>• Purchasing assets</td>
<td></td>
</tr>
<tr>
<td>Time –</td>
<td>Human resource Activities</td>
<td>• Paying for expenses</td>
</tr>
<tr>
<td>• Working hours of employees</td>
<td>• Recruiting employees</td>
<td></td>
</tr>
<tr>
<td>• Overtime work</td>
<td>• Training</td>
<td></td>
</tr>
<tr>
<td>Knowledge –</td>
<td>Research and development activities–</td>
<td>• Promotion</td>
</tr>
<tr>
<td>• Skills of the employees</td>
<td>• Conducting surveys</td>
<td></td>
</tr>
<tr>
<td>• Knowledge about new production</td>
<td>• Conducting researches to improve the quality of the product</td>
<td></td>
</tr>
</tbody>
</table>
Competency 1.0: Inquires the basis of business and the environment in which it operates.

Competency level 1.5: Examines the reasons for the interest of stakeholders in businesses.

No. of periods -: 06

Learning Outcomes -
- Lists the stakeholders of a selected business.
- Explains the reasons for the interest of each stakeholder on businesses.
- Reveals that the reasons for the interest on the business differ with each interested party.
- Explains the importance of interested parties to a business.
- Shows how businesses should perform to fulfil the expectations of stakeholders for the successful existence of a business.
- Decides the priority of the stakeholder on the interest of the business and the ability to influence the business.

Instructions for lesson planning:
- Complete the following diagram asking the parties who are interested on a student

```
Parents

Students
```

- Complete the following diagram inquiring from the students about the interested parties of the school.

```
Students

School
```
Conduct a discussion pointing out the following facts to identify the stakeholders of a business.

- Show that parents, teachers, friends, siblings, relations and government are some of the stakeholders of a student.
- Explain that students, parents, teachers, old students, government and community are some of the stakeholders of a school.
- Explain that, from among the above stakeholders, government and community are also stakeholders of a business and in addition to that there can also be other stakeholders of a business.

Make students engage in the following activity by grouping them in a suitable manner.

<table>
<thead>
<tr>
<th>Pay attention to the business that your group has received among the following businesses.</th>
</tr>
</thead>
<tbody>
<tr>
<td>An institute that sews and sells clothes</td>
</tr>
<tr>
<td>A private medical centre</td>
</tr>
<tr>
<td>A cafeteria</td>
</tr>
<tr>
<td>A book and stationery shop</td>
</tr>
</tbody>
</table>

- Identify a business in your area related to your topic.
- Identify the stakeholders of that business through a group discussion.
- Discuss the expectations of those parties.
- Show how business activities should be performed in order to meet the expectations of those parties.
- Explain why the business should concern about these parties.
- Be ready to present your findings creatively to the class

A guideline to explain subject matters.

- Given below are some of the stakeholders of a business.
  - Owners/shareholders
  - Managers
  - Employees
  - Creditors
  - Customers
  - Suppliers
  - Potential investors
  - Government
  - Community
  - Other parties

Reasons for the interest of each stakeholder are given below.

**Owner** -
- To know if they receive an adequate profit for the money they have invested
- To find about the growth of the business
- To know the market share
Managers –
- To maximize the profit of the business
- To know the growth of the business
- To know the successfulness of the management decisions

Employees –
- To obtain a higher salary
- To obtain a bonus
- To get promotions

Debtors –
- To know the ability of recovering the loans
- To know the safety of the lendings
- To ensure the safety of collaterals

Customers –
- To receive quality goods and services
- To see if the responsibilities are fulfilled properly.
- To ensure the existence of the business

Supplies –
- To receive continuous orders
- To collect money back for the goods supplied

Potential Investors –
- To invest their resources in that business in future

Government –
- To collect taxes/ to give tax reliefs
- To improve the employment
- To measure the economic development

Community -
- To know about the environment protection.
- To obtain job opportunities.

- Given below are some reasons for the importance of stakeholders to a business.

**Parties**

**Reasons for the importance to a business.**

Owners -:  
- To increase the investment
- To ensure the existence of the business

Employees -:  
- To improve the employees’ efficiency
- To retain the employees
- To get the employee attraction

Debtors -:  
- To obtain the funds continuously
- To obtain the funds at low cost
Government -:
  • To get tax reliefs
  • To get infrastructure facilities
  • To obtain technological knowledge

Customers -:
  • To protect the market of the relevant goods and services
  • To build up consumer confidence
  • To create consumer loyalty
Competency 1.0: Inquires the basis of business and the environment in which it operates.

Competency level 1.6: Classifies the business environment which influences the businesses.

No of periods -: 02

Learning Outcomes -:
- Explains the business environment.
- Lists the benefits obtained by the businessman by studying the business environment.
- Classifies the business environment.
- Lists the various environmental forces that influence the business.
- Provides examples for the internal and external environmental forces of a given business.

Instruction for lesson planning
- Inquire from the students about the parties who influence the school activities.
- Explain that the principal, teachers, parents, old students, community, resources of the school and government are some of the parties that influence the school activities.
- Explain with examples that these forces can be categorized as internal and external forces.
- Explain that the principal, teachers, students, minor staff, the resources of the school are some of internal forces and parents, community and the government are some of the external forces.
- Discuss by inquiring from the students the various benefits that the school can get by studying those forces the business can gain various benefits.

A guideline to explain subject matters.
- The environment, in which the factors which influence the business operates is known as business environment.
- Factors of business environment can be categorized into two
  1. Internal Environment
  2. External Environment
- The forces and conditions that influence and exist within an organization are known as Internal environment.
- All forces that influence and exist outside of an organization are known as External environment.
- The specific organizations or groups that influence and belong to external environment of the business are known as immediate environment (Task environment).
- The broad environment of a business and influential groups related to it are known as macro environment or general environment.
The factors of business environment can be shown in a flow chart.

**Business Environment**

**Internal Environment**
- Owners
- Managers
- Employees
- Organisation structure
- Organisation culture
- Resources

**External Environment**

**Immediate Environment**
- Customers
- Suppliers
- Competitors
- Producers of substitute products
- Potential businessmen

**Macro Environment**
- Economic Environment
- Political Environment
- Legal environment
- Demographic environment
- Technological Environment
- Natural Environment
- Social and cultural environment
- Global Environment

- Benefits that a businessman get by studying business environment
  - To identify strengths
  - To identify weaknesses
  - To identify business opportunities
  - To identify threats

- Classifications of business environment can also be shown through the following diagram
Competency 1.0: Inquires the basis of business and the environment in which it operates.

Competency level 1.7: Analyses the influences of internal environmental forces on businesses.

No. of periods -: 06

Learning Outcomes -:
- Lists the internal environment forces that influence the business.
- Provides examples for the strengths and weaknesses related to each internal force.
- Comparatively analyses how the strengths and weaknesses of the internal environment influence the business activities.
- Explains the ways to make business successful by using its strengths and actions that can be taken to avoid threats.

Instructions for lesson planning:
- Ask from the students about the forces inside a school, which impact the day today learning – teaching process of a school.
- Write the answers received on the board.
- Inquire the students about the ways how each force may have an impact on the activities of the school positively and negatively.

Examples -

<table>
<thead>
<tr>
<th>Force</th>
<th>Positive Impacts</th>
<th>Negative Impacts</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Students</td>
<td>• Being disciplined</td>
<td>• Having negative attitudes towards learning</td>
</tr>
<tr>
<td></td>
<td>• Being skilful</td>
<td>• Being backward</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2. Teachers</td>
<td>• Having obtained higher educational qualifications</td>
<td>• Lack of sufficient teachers</td>
</tr>
<tr>
<td></td>
<td>• Being skilful for teaching</td>
<td>• Not undertaking responsibilities/accountabilities</td>
</tr>
<tr>
<td></td>
<td>• Being human</td>
<td>• Lack of commitment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Inadequate training</td>
</tr>
<tr>
<td>3. The space of the</td>
<td>• Having a pleasant environment</td>
<td>• Become ruined</td>
</tr>
<tr>
<td>classroom</td>
<td>• Having adequate space</td>
<td>• Insufficient space</td>
</tr>
<tr>
<td></td>
<td>• Having facilities</td>
<td></td>
</tr>
<tr>
<td>4. Prefects</td>
<td>• Having a good personality</td>
<td>• Being careless</td>
</tr>
<tr>
<td></td>
<td>• Being skilful</td>
<td>• Not undertaking responsibilities</td>
</tr>
<tr>
<td></td>
<td>• Having the strength to face challenges</td>
<td></td>
</tr>
</tbody>
</table>
• Thus, explain to the students that there are internal forces that will have an impact on activities of a school positively and negatively. The positive impact that the forces create are known as strengths and the negative impacts are known as weaknesses.
• Accordingly, explain that the environmental forces that will have an impact on businesses are inside the business and they impact positively and negatively on business, those positive impacts are called strengths whereas the negative impacts are called weaknesses.
• Accordingly, show them, that the internal environment of a business should be examined in order to identify strengths and weaknesses bound with the internal environmental forces of a business.
• Make students engage in the following activity by grouping them in a suitable manner.

<table>
<thead>
<tr>
<th>Given below are three pairs of internal environmental forces of a business that will have an impact on business activities.</th>
</tr>
</thead>
<tbody>
<tr>
<td>- Owners – Resources</td>
</tr>
<tr>
<td>- Managers – Organization structure</td>
</tr>
<tr>
<td>- Employees – Organization Culture</td>
</tr>
</tbody>
</table>

• Focus on the pair of internal environmental forces that your group has received.
• Focusing on a business that is familiar to you, identify the internal environmental forces, which your group has received.
• Identify and note the strengths that each of these forces should have to the success of the business.
• Reveal the weaknesses bound with the force you have received, that will have an unfavourable impact on the success of a business.
• Present ideas on how to use the strengths, which you identified, for the development of the business and how to avoid weaknesses.

**A guideline to explain subject matters**

• In business factors such as,
  - Owners
  - Managers
  - Employees
  - Organization culture
  - Organization structure
  - Resources
  can be shown as internal environmental factors.
• The party, who contributed resources or invested funds in a business and endures profits or losses is owners.
• The party who formulates business plans and makes decisions is the managers.
• The party, who is engaged on relevant works according to the plans and decisions made by the top managers, is employees.
• The organization culture is the beliefs, values, attitudes, norms, habits, behavioural patterns that are shared among everyone in the business and which will be handed over to future generation.
The way in which the functions, resources and authority of a business are distributed to achieve the objective of a business easily is organization structure.

Everything such as land, labour, capital, entrepreneurship, time, information and knowledge that are used as inputs for producing goods and services are resources.

The strengths and weaknesses that are bound with each environmental factor can be shown in a table as follows:

<table>
<thead>
<tr>
<th>Environmental Factor</th>
<th>Strengths</th>
<th>Weaknesses</th>
</tr>
</thead>
<tbody>
<tr>
<td>Owners</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Having a larger number of them.</td>
<td>• Having a smaller number of them.</td>
</tr>
<tr>
<td></td>
<td>• Their increased financial strength.</td>
<td>• Decreased financial strengths in them.</td>
</tr>
<tr>
<td></td>
<td>• Their increased knowledge and experience.</td>
<td>• Lack of knowledge and experience in them</td>
</tr>
<tr>
<td>Managress</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Their increased training and experience.</td>
<td>• Decreased training and development.</td>
</tr>
<tr>
<td></td>
<td>• Ability to take correct decisions.</td>
<td>• Being backward to take decisions.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Taking wrong decisions.</td>
</tr>
<tr>
<td>Employees</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Having clever experienced employees.</td>
<td>• Having inexperienced employees.</td>
</tr>
<tr>
<td></td>
<td>• Having versatile abilities in them.</td>
<td>• Having irresponsible and unaccountable employees.</td>
</tr>
<tr>
<td></td>
<td>• Having good attitudes in them.</td>
<td>• Having un-favourable working habits in them</td>
</tr>
<tr>
<td></td>
<td>• Having motivated employees.</td>
<td>• Having negative attitudes in them.</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Having inefficient employees.</td>
</tr>
<tr>
<td>Organization culture</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Having a positive evaluation and value system.</td>
<td>• Not having an established value system and ethical system.</td>
</tr>
<tr>
<td></td>
<td>• Having an inherent, developed ethics and habits.</td>
<td>• Not having a high supervision.</td>
</tr>
<tr>
<td>Organization structure</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Proper division of work.</td>
<td>• Having conflicts among roles.</td>
</tr>
<tr>
<td></td>
<td>• Proper building up of the organization.</td>
<td>• Lack of coordination among sections.</td>
</tr>
<tr>
<td>Resources</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>• Quantitiveness</td>
<td>• Having outdated resources</td>
</tr>
<tr>
<td></td>
<td>• Qualitiveness</td>
<td>• Lack of resources</td>
</tr>
<tr>
<td></td>
<td></td>
<td>• Not having enough resources.</td>
</tr>
</tbody>
</table>
Competency 1.0: Inquires the basis of business and the environment in which it operates.

Competency Level 1.8: Analyses the influences of task environmental forces on business.

No of periods -: 04

Learning Outcome :-
- Lists the task environmental forces that influences businesses.
- Lists the business opportunities that form from task environmental forces.
- Shows the threats to businesses that form from task environmental forces.
- Provides examples for the influences of the task environmental forces on a business in a selected business.
- Presents proposals to identify business opportunities and make use of them and to face threats.

Instructions for lesson planning:
- Inquire from students about the parties that move closely with the school in order to carry out school activities successfully.
- Conduct a discussion highlighting the following facts.
  - Explain that school development society, parents, old students association are environmental forces that act closely/immediately with a school.
  - Inquire about the impact of those task environmental forces to school.
  - Separate them as favourable and unfavourable impacts.
  - Explain that, through favourable impact opportunities arise to school and through unfavourable impacts threats arise to school.
  - Show that, task environmental forces too will have an impact also on businesses by creating opportunities and threats to a business.
- Make student engage in the following activity by grouping them in a suitable manner.
  - Given below are five immediate environmental forces that will have an impact on business.
    Focus on the environmental force that your group has received.
    - Consumers
    - Suppliers
    - Competitors
    - Potential businessmen
    - Producers of substitute products
- Focus on a familiar business to identify the forces related to the topic.
- Through discussion, identify the supports given by those forces for the success of the businesses
- Identify the unfavourable impacts of those forces for the success of the business.
- Present proposals to make use of the favourable impacts and to avoid unfavourable impacts.
• Explain through the activity that the favourable impacts that were identified by the students are opportunities and unfavourable impacts are threats.

A guideline to explain subject matters.
• Given below are the task environmental forces of a business.
  o Customers (Consumers)
  o Suppliers
  o Competitors
  o Produces of substitute products
  o Potential businessmen

• Buyers of the goods and services of a business are the consumers.
• Factors such as, awareness of consumers, income of consumers etc. will create opportunities for some businesses and will create threats for some business.
• Individuals and institutions that provide resources needed for a business are suppliers.
• Factors such as, providing or not providing quality materials in time by suppliers, giving or not giving discounts etc. create opportunities as well as threats to a business.
• The business that provides similar goods and services as that of the business are competitors of the business.
• Entry of new competitors to the market, existing competitors leaving the market, providing different facilities with goods and services by competitors etc. create opportunities as well as threats for a business.
• Those who supply alternative products or services for the product that the business supply are the producers of substitute products.
• While the availability of plentiful substitute products is a threat to a business, it also creates other business opportunities.
• Those who expect to enter the market create opportunities and threats as well.
Competency 1.0: Inquires the basis of business and the environment in which it operates.

Competency level 1.9: Analyses the influences of macro environmental forces on businesses.

No. of periods -: 06

Learning Outcomes -:
- Lists the macro environmental forces that influence on businesses.
- Explains each macro environmental force.
- Shows the importance of each macro environmental force to businesses.
- Presents examples for the influences of macro environment on businesses.
- Analyses the influence of macro environmental forces on to task environmental forces.
- Explains with examples that there is an inter-relationship between the macro environmental forces.

Instructions for lesson planning -:
- Present an advertisement of a newspaper to the class which states “The salary of the government sector employees increases by 10%”.
- Highlight through a discussion that increasing the salary of employees is an economic factor that impact on any business.
- Discuss that the income of individuals increases through the increment of salary and the way that affects the business sector.
- Prepare a list of macro environmental forces with the students that affect businesses.
- Make students engage in the following activity by grouping them in a suitable manner.
  - Focus on the news headlines that your group has received among the following headlines.

News headlines 1
- The interest rate for loans drops again.
- The new government decides to take over the businesses that are important for the country.

News headlines 2
- The risks of cyclones move away from Sri Lanka.
- Vehicles that operate on solar power to be introduced.

News headlines 3
- The countries in the SAARC region are suggested to use single currency.
- The act of VAT is passed in the parliament.
News headlines 4
- 1/3 of the population in the country uses internet for day today activities.
- Necessary arrangements are made to conduct Dalada perahara on grand scale.

- Identify the macro environmental forces for the news headlines, which your group has received, belong to.
- Explain the impacts that the event you received will have on business.
- Give examples of other events that will have an impact on businesses within macro environment forces have you identified.
- Show the impact on immediate environmental forces of the business from the events that occur in macro environmental forces which you identified.
- Be ready to present your findings creatively to the whole class.

- Discuss the impact of macro environmental forces on business with the students.

A guideline to explain subject matters.
- Macro environmental forces that impact on businesses can be listed as follows.
  - Economic environment
  - Political environment
  - Legal environment
  - Technological environment
  - Demographic environment
  - Natural environment
  - Social and cultural environment
  - Global environment

- Given below are the ways of how each macro environmental force will affect the existence of business.

  **Political Environment**
  Government agencies, political policies of existing government affect businesses.
  examples:
  - Government’s political vision and policies
  - Following open economic policies.
  Businesses should try to get use of the opportunities and face threats implied from this environment.

  **Legal Environment**
  Government acts, rules and regulations will have an impact on the businesses in that country.
  - Consumer affairs authority act
  - Labour rules and regulations
  - Sri Lankan standard act
Businesses should try to conduct business activities according to these rules and regulations and face the opportunities and threats implied from this environment.

**Economic Environment**
While the purchasing power of people influence the existence of businesses, the cost that have to be incurred for business activities also depend on economic factors.
examples:
Inflation, interest rate, gross national product, employment, cost of living, inequality in income distribution savings, investments.
While these factors influence businesses, businesses should try to take advantage of the opportunities and face threats which will arise from that environment.

**Social and cultural environment**
Beliefs, social ethics etc. that individuals possess are included in social and cultural environment.
examples:
- Beliefs of individuals
- Values of individuals
- Customs
- Wishes
- Religious beliefs
While these factors impact on businesses, business activities should be carried out adhering to these factors.

**Technological Environment**
Trends in communication technology and the changes that have happened in agricultural, industrial and medical sector belong to technological environment.
examples:
- New technical inventions
- Rapid change in technology
- Changes in communication technology
- Expiry of products

Business should try to get the use of opportunities and face threats which implies from the changes in technological environment.

**Demographic Environment**
The main factor that connect with businesses is population. That is, market is made up of persons.
examples -:
- Size of the population
- Growth rate of population
- Gender
• Age structure
• Composition of ethnicity
• Level of education
• Composition of family
• Household patterns

Business should try to make use of opportunities and avoid threats.

Natural Environment
Today, there is a global awareness on the damages caused to natural resources. Business activities in many countries have polluted air, water and land. Rules and regulations have been imposed to conduct business activities in order to protect the natural environment. Changes in natural environment will impact on businesses.

example -:
• Finding new natural resources
• Changes in weather and climate
• Location of the land
• Natural disasters

A businessman should try to make use of opportunities and face threats that imply in natural environment.

Global Environment
There are greater opportunities to exchange goods and services from the time of globalisation. The culture of individuals has changed as well. As a result, different kinds of goods and services have entered the world market. Tough competition can also be seen.

example :
• Trade agreements are signed
• Trade blocs being created
• Formation of world organization
• Creating rules and regulations internationally

A businessman should try to make use of opportunities and face threats that imply in global environment.

The impacts of macro environmental forces on the business can be explained through the following examples.

o Under the demographic environment, the demand for goods and services is increased because of the increase in population which will create opportunities to businesses.

o In the same way, decrease in population will decrease the demand which will create threats to businesses.

o Under economic environment, a decrease in interest rate results in increase in borrowing loans which will create opportunities to businesses. Similarly, increase in interest rate limits the borrowing of loans and businesses have to face threats.
Under the political and legal environment, imposing favourable rules and regulations for businessmen will create business opportunities and imposing unfavourable rules and regulations will cause businesses to face threats.

- Most of the time macro environmental forces create opportunities and threats to businesses through influencing task environmental forces.
  For example:
  - Increase in price level of goods and services will cause the increase in price of goods and services supplied by suppliers.
  - Similarly increase in salary level will increase the income of customers, (consumers) who is a force in task environment, which will increase the demand for goods and services.

- The following examples clarify that there are interconnections among macro environmental forces.
  - Gem mines belong to natural environment. But to make it a business activity, one has to take legal approval.
  - When commercial banks install ATM machines for the convenience of customers, they should get the approval from the central bank.

Accordingly, even though macro environmental forces are illustrated separately; it is clear that there are interconnections between them.
Competency 2.0: Inquires how businesses consider the social responsibilities and business ethics in order to adapt to the business environment.

Competency Level 2.1: Evaluates the importance of fulfilling social responsibilities by businesses.

No. of periods: 08

Learning outcomes:
- Introduces the social responsibility of the business through accepted definitions.
- Explains the necessity of fulfilling social responsibilities by businesses.
- Lists the parties to whom businesses should fulfil their social responsibilities.
- Presents the social responsibilities to be fulfilled by a business to each party with examples.
- Shows how social responsibilities are fulfilled to each party by taking a business as an example.
- Lists the benefits obtained by a business by fulfilling its social responsibilities.
- Explains how social responsibilities can be fulfilled to achieve the expectations of all parties.

Instructions for lesson planning:
- Inquire the students about the social responsibilities that businesses should fulfil in order to perform their business activities successfully.
- Lead a discussion highlighting the following facts.
  - Businesses must fulfil their responsibilities to various parties in the society.
  - The parties to whom social responsibilities should be fulfilled and those social responsibilities are different from one another.
- Form a definition for business social responsibilities from the responsibilities that businesses fulfil.
- Make the students engage in the following activity by grouping them in a suitable manner.

Given below are four parties to whom a business should fulfil its social responsibilities. Concentrate on the party that your group has received.
- Owners
- Customer
- Employee
- Society.
- Consider a business in your area and list down the social responsibilities that the businesses have to fulfil to the party which your group received.
- List out more social responsibilities that you think that the business should fulfil to the party you have received.
- State the benefits that the business you selected will get by fulfilling the social responsibilities.
• Form a definition for the business social responsibility.
• Present your findings and creations to the class.
• At the end of the activity, discuss the social responsibilities that businesses should fulfil to each party.

A guideline to explain the subject matters:

• Social responsibility is to perform business activities in an unbiased way to all the stakeholders.
• Different definitions for the concept of business social responsibilities have been presented.
  • “Business social responsibility is the continuous commitment by the business to act ethically and contribute to the economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large.” - World business council for sustainable development -
  “Business social responsibility is about how companies manage the business processes to produce an overall positive impact on society.” - Mallen Baker -
  • “Business social responsibility is to create maximum value for shareholders while performing justly to all interested parties such as consumers, employees, society, government and environment” - Narayan Moorthy -

• Different countries have introduced different definitions for social responsibility.
  • Business social responsibility is about accepting personal responsibility for the actions and its impact on society. - USA -
  • Business social responsibility is about business giving back to the society. - The Philippines -

• A great awareness has to be developed at present about the necessity of fulfilling business social responsibilities.

• There are some developing forces, that will have an impact on the stakeholders and the society in general.
  • Business competition
  • Globalisation
  • Electronic business
  • Environmental pollution

• There are some main parties to whom the business has to fulfill its social responsibility.
  • Customer
  • Employees
  • Owners
  • Society

• According to the following diagram business social responsibilities should be fulfilled to each party.
• Social responsibilities, that should be fulfilled to each party by businesses, can be presented separately.

• Business should take steps to meet the expectations of all the stakeholders when fulfilling the social responsibility.

Example -
1. When fulfilling social responsibilities towards customers the following have to be considered. When providing quality products at a reasonable price, harmless goods/services to consumers. A business should provide job rights and other facilities to the employees, adequate economic benefits to owners and perform in an eco-friendly manner to the society while ensuring the fulfillment of the stakeholder expectations without causing any disadvantage.

2. When fulfilling the social responsibilities towards owners, giving a reasonable earning/profit is important, a business should also provide products at a reasonable price to the customers, welfare services to the society, employee rights and other facilities to employees while ensuring that the social responsibilities towards each party is fulfilled.

• A business can obtain various benefits by fulfilling social responsibilities.

Examples:
• Ensure the existence of business.
• Develop business goodwill/image.
• Ensure business trust
• Satisfy customers
• Achieve the business objectives.
Competency 2.0: Inquires how businesses consider the social responsibilities and business ethics in order to adapt to the business environment.

Competency Level 2.2: Evaluates the contribution of businesses to the sustainable development by acting in an environment friendly.

No. of periods: 06

Learning outcomes:
- Explains sustainable development.
- Explains how a business can contribute for the sustainable development.
- Shows how a business contributes to the sustainable development by using an existing business as an example.
- Explains how a consumer can contribute to the sustainable development.
- Presents the proposals to minimize the adverse effect of business activities.

Instructions for lesson planning:
- Present the following quote by Seattle - Red Indian leader to the students.
  “When the last tree is cut and all the rivers have dried out and the last fish has been caught man will understand that money cannot be eaten.”

- Ask the students of their view on the above quotation in relation to the environment and fulfillment of man’s needs and wants.

- Explain to the students, that there would be no resources for the future generation because of the misuse of resources at present.

- Explain that while fulfilling the needs and wants of the present generation, the future generation’s needs and wants should be focused.

- Define sustainable development.
- Introduce the three fields of sustainable development and explain each.
- Make students engage in the following activity by grouping them in a suitable manner.

- Given below are the three pillars on which sustainable development has been built up. Focus on the topic that belongs to your group from among them.
  - Economic sustainability.
  - Environment sustainability
  - Social and cultural sustainability.
- Concentrate on the topic you have received.
- Show how businesses can contribute to the topic you have received using examples.
Discuss the business activities that hinder sustainable development, under the topic you have received using examples.
Suggest proposals to minimise these adverse effects.
Present your findings to the whole class.

A guideline to explain subject matters:

- Sustainable development is development which meets the needs of the present, without compromising the ability of future generations to meet their own needs. World commission on environment and development
- Sustainable development is built up of three pillars that are equally important.
  - Economic sustainable development
  - Environment sustainable protection
  - Social sustainable development

Economic sustainable development
Traditionally economic development was considered as the progress in GDP. It is expected here to improve human welfare by enhancing the quality of life, and reducing the consumption of resources. It is important here to empower people to have a better standard of living while earning wealth in engaging in economic activities and providing the present and future generations with prosperity and protection by confirming a high standard of life style and eradication of poverty of the people world wide. A competitive market is important for this and it is expected to reach an economic sustainable development by producing eco friendly products that are affordable.

Environment sustainable protection
There are limited resources in the world for us. Every human being who lives on earth needs clean air, water, suitable habitat to live in as well as fertile land to produce adequate food. It is expected to satisfy the basic human needs such as air, water, food and shelter through environment sustainable protection by the quality presence, maintainance and protection of the basic human needs.
In sustainable environment protection, human activities for the protection of global environment and for the future generations are expected while considering on how to do effective changes without destroying the natural environment. Adverse effects that have risen such as global warming, destruction of forestry, excessive fishing in oceans should be focused here. To satisfy human needs, natural resources should be extracted from environment. Environment sustainability can be protected through consuming resources, which cannot be replaced, at a lower speed rather than the speed they take to replace themselves naturally.

Social sustainable development
To ensure a sustainable future, needs and wants of people could be satisfied equally/ fairly. In other words, while human needs and wants can be fulfilled at a high standard, there shouldn’t be corruption or violation of others’ rights to do so. To ensure this position in social sustainable development, it emphasises on giving equality, social capital, social integrity, commitment of community and development of human rights, social responsibility, social justice to everyone. It is expected in social sustainable development to have human development by satisfying human needs while not violating the needs of future generations.
The way that businesses can contribute to sustainable development
While selecting strategies and activities by a business to fulfill needs and wants of a business itself and its stakeholders, it should develop and protect natural and human resources for future needs. Then that becomes a sustainable use of a business.

To make sustainable development a reality, cannot be done only by one business working for it alone, rather consumers including total world-economic community should actively contribute for that.

Contribution of businesses for economic sustainability

• There are some facts that a business should concentrate on working towards economic sustainability.
  • Economic development and stability
  • Efficiency (Use of resources)
  • Competition
  • Production and consumption
  • Employment
  • International trade.

• There are some steps that can be taken by a business to ensure economic sustainability
  • Job designing
  • Empowering skills
  • Efficient use of resources
  • Efficient usage of capital
  • Risk management
  • Empower economic development
  • Growth in benefits of stakeholders
  • dfrInvestment for national economic growth.
• Introducing innovation
• Developing technology
• Contributing to the development of business infrastructure.
• Employee welfare
• Improving exchange and transaction process.
• Encouraging production process.

**Contribution of businesses for environment sustainability**

- There are some facts that should specially be focused on by businesses when achieving environment sustainability.
  - Consumption of resources.
  - Raw materials and waste management.
  - Risk management
  - Protection of natural and cultural heritages.

- There are some activities that can be done by a business to ensure environment sustainability
  - Buying eco friendly products.
  - Engage in activities by retaining resources such as raw material, energy, water in the production process.
  - Putting into practice concepts such as 3R, 4R, 5R in waste management.
  - Use of eco friendly transport modes.
  - Use of dangerous substances in a safe manner.
  - Minimising the pollution of water, air and soil
  - Taking action to protect bio diversity.
  - Acting in accordance with environment rules and regulations.
  - Working together with government and non government firms for environment protection/ eco friendly activities.
  - Usage of eco friendly powers such as solar power.

**Contribution of businesses for social and cultural sustainability**

- There are some facts that a business should focus on to ensure social and cultural sustainability.
  - Enhance the standard of living of people
  - Provide equal opportunities to people.
  - Create social integrity
  - Encourage international participation.
  - Maintain human capital
  - Protect local traditions and customs
  - Protect cultural environment.
  - Take action to minimise poverty (people in need)
  - Employee relationships.
• There are some steps that can be taken by a business to ensure social and cultural sustainability
• Respect for human diversity
• Contribute to the protection of human rights.
• Act with equity and provide equal opportunities.
• Contribute to the essential facilities such as education, health and transportation
• Contribute to the social assurance activities,
• Contribute to respect and protect cultural diversity
• Contribute to protect law and peace.

Concepts that businesses use for sustainable development at present

4R concept for sustainability
Accumulating an unbearable amount of waste for a day in production and consumption activities has become a global problem. Therefore, concentration is focused on to it globally to achieves sustainable development through 4R concept in : production consumption waste management.

4R is,
• Recycle
• Reuse
• Reduce
• Replace

Recycle
Waste is separated here to form a material to produce another product. Here the physical state of substance is changed. Recycling can be done in two ways to have two outcomes. 1. Materials with lower value are transformed into products, with higher value (upcycle) eg : Producing paper from hay. 2. Products with higher value is transformed into materials with lower value (low cycle) eg : Making irons by crushing vehicles that are discarded (in Japan).

Reuse
Using products that can be used over and over in production and consumption activities is known as re use.
eg : Using lunch boxes (Can be used over and over) instead of lunch sheets.

Reduce
This means the reduction of waste that is released to the environment. This can be done easily by reducing the discarding amount used at consumption or production. The contribution to sustainable development can also be done by eliminating the use, by avoiding the use, or by not using the harmful products at all.
eg : Not using non degradable polythene for packing Not bottling drinking water in plastic bottles,
Replace
Among the natural resources that are used in production, the replacement of resources that are replaceable is known as replace.
   eg: Start a reforestation project by a firm that uses timber as its a raw material
       Farming fishery resources by a business that engages in fishing industry.

Adverse effects of business activities
   • Import low quality products expecting more profits.
   • Mislead customers at high competition
   • Unbiased employee welfare.
   • Conducts business activities by wasting natural resources.
   • Release waste and pollute environment.
   • Create advertisements that don’t suit our society and culture.
   • Designing cloth which will not suit our society and culture.
**Competency 2.0**: Inquires how businesses consider the social responsibilities and business ethics in order to adapt to the business environment.

**Competency Level 2.3**: Confirms the necessity of a code of ethics for the success of businesses.

**No. of periods**: 06

**Learning outcomes**:
- Explains the concept of business ethics.
- Gives examples for the good and bad that occur through businesses.
- Shows the necessity of following business ethics.
- Lists the factors to be considered when forming a business code of ethics.
- Proposes suitable business ethics in relation to each factor according to own experiences.
- Discusses the business ethics followed by an existing business.
- Forms/ prepares a code of ethics which suits an assumed business.
- Explains the differences between business ethics and social responsibilities.

**Instructions for lesson planning**:
- Inquire about what should be and shouldn’t be done at home, school, religious places or a public place as a good citizen.
- Conduct a discussion highlighting the following
  - Explain that respecting elders, helping elders are some of the good activities that should be done at home.
  - Show that greeting teachers, arriving at school on time are some of the good activities that should be done in school.
  - Show that removing headwear, shoes etc when entering religious places, engage in religious activities properly are some of the good habits that should be followed in religious places.
  - Show that protecting public property, respecting others are some of the good activities that should be followed at public places.
  - Accordingly, explain to the students that doing favourable activities and not doing unfavourable activities are known as business ethics.
  - Explain that in a similar way, businesses also should follow ethics when dealing with customers.
  - Make students engage in the following activity by grouping them in a suitable manner.

Given below are three institutes that supply goods and services.
- An institute that repairs motor vehicle.
- An institute that renders private travelling services.
- A factory that produces garments.
- Lead a discussion about the institute that you have received.
- List down the positive and negative activities that could happen in the institute given to you.
- Develop a suitable code of ethics for that business.
• Show the advantages that the institute may gain by implementing such ethics.
• List down the factors that you consider while developing a code of ethics.
• Get ready to present your findings creatively to the whole class.

A guideline to explain the subject matters:
• Business ethics means to act favourably to all the interested parties acknowledging the
good and bad.

• It is important for businesses to follow business ethics.
  eg:
  • By supplying quality goods and services, fairness can be fulfilled, thereby increasing their
    trust on business.

  • By following ethics related to accounting, financial irregularities and misconduct can be
    avoided by ensuring trust.

  • By following ethics related to the rights and responsibilities of both employers and
    employees, unfairness by caste, social status, religion or gender can be avoided, thereby
    leading to a better human resource management.

• Following factors should be considered when forming a code of ethics
  • Business
  • Customers
  • Employees
  • Competition
  • Socio culture
  • Organisational culture
  • Practicalness

Examples

Business : What is the nature of business? Does it produce goods or services? Is it a small
scale or a large scale business? etc should be considered.

Customers : Their demand patterns, communication, religious and social cultural factors etc
should be considered.

Employee : Which level employee, their environment, their needs and wants etc should be
considered.

Competitors : Are there competitors? what are the ethics they follow? etc should be
considered.

Socio - culture : Rooted cultural values and norms of ethical groups and their sub cultures
should be considered when forming a code of ethics.

Organisational culture : Customs and practices, values, habits, attitudes of the business
should be considered.

Practicalness : It should be considered, if ethical code of system can practically be
implemented when formulating it.
• When the code of ethics of a business is written it is known as ethical code of system/
  code of ethics.
**Competency 3.0**: Confirms the necessity of maintaining businesses having relationship with the government.

**Competency level 3.1**: Investigates how the government intervenes in businesses.

**No. of periods**: 04

**Learning Outcomes**;
- Shows that the intervention of the government in business is implemented through the central government, provincial councils and local authorities.
- Explains separately how intervention is done by the central government, provincial councils and local authorities, using a selected business organization as an example.
- Shows various government interventions on businesses.
- Gives examples of each intervention on businesses.
- Explains the importance of government assistance and guidance received by the businesses.

**Instructions for lesson planning**.
- Inquire from the students about the facilities they receive from the government to make their educational activities successful.
- Lead a discussion highlighting the following points.
  - Explain the way how government assists the students by providing uniforms, providing text books, school buildings, scholarships, and season tickets at concessionary rates, sports equipment and removing of garbage.
  - Explain that providing uniforms, providing text books are done by the central government, constructing of buildings, and providing sports equipment are done by provincial councils and removing of garbage is done by the relevant local authorities.
  - Explain to the students, in addition to that, various guidance such as providing syllabuses and teachers’ manuals, coaching sport activities, teacher training, inspecting of school buildings whether they are built according to standards are done by the government.
  - Accordingly, ensure that businesses are assisted and guided by central government, provincial councils and local authorities.
  - Discuss, in the similar manner, the ways of providing various assistance and guidance by the government to make business activities successful.

Make students engage in the following activity by grouping them in a suitable manner.

- From the following businesses, focus on the business institute that your group has received.
  - A farm that grows paddy
  - An institute that exports garments
  - An institute that provides transport service
- Imagine that the business you received is being conducted by yourselves.
- Mention the assistance that can be received from the government to conduct the relevant business.
- State the guide that the government provides to lead the relevant business in the correct path.
- List the government institutes that provide each of those assistance and guidance.
- Categorize those institutes under the central government, provincial council and local authorities.
- Explain why it is important to provide those assistances and guidance by the government.
- Be ready to present your findings creatively to the whole class.

- After engaging in this activity, discuss the way that the government interferes into businesses and how they are important to businesses.

A guideline to explain subject matters.
- Given below are the ways that the government’s influence occurs on businesses in Sri Lanka.
  - Central government
  - Provincial council
  - Local authorities (Urban councils, Town councils, Municipal councils)

- Given below are few examples on how government interferes in businesses.
- By providing infrastructure
  Examples :-  Central government – Providing electricity
  Provincial councils – Maintenance of roads
  Local authorities -: removing of waste

- By being a competitor
  Examples :-  Central government – Implementing government sector t.v channels competing with private sector t.v channels.
  Provincial councils – Conducting businesses competitively with private sector in each provincial council.
  Local authorities – Building up markets and renting them equally as the private sector.

- By being a customer
  Examples :-  Central government - Buying paddy, buying various office equipment, selling through Lak Sathosa.
  Provincial councils - Providing and receiving defence service
  Local authorities - Maintaining cemeteries

- By forming policies
  Examples :-  Central government – Implementing monetary and fiscal policy
  Provincial councils – Implementing business names charter
  Local authorities – Implementing environmental policies
• By imposing rules and regulations
  Examples -:  Central government – Consumer affairs authority act, standards act
  Provincial councils – Imposing rules and regulations for private buses
  Local authorities – Passing the plans for buildings and imposing rules
  and regulations.

• By being a tax collector
  Examples -:  Central government – Collecting tax through Inland revenue
  department
  Provincial councils – Collecting tax through provincial revenue
  department
  Local authorities – Collecting rates

• The importance of assistance and guidance that businesses receive from the
government
  o  Being forward to register businesses
  o  The goodwill of the business is being improved
  o  Contributing to the development of the country
  o  Receiving the acceptance of the government and public
**Competency 3.0**: Confirms the necessity of maintaining businesses having relationship with the government.

**Competency level 3.2**: Shows how businesses contribute to the achievement of economic aims of the government.

**No. of periods**: 04

**Learning outcomes**:
- Explains the economic goals of a government.
- Explains how businesses contribute to the achievement of the goals of the government.
- Shows how a business contribute to the achievement of government goals by taking a selected business as an example.
- Shows that the goals of both the Government and businesses can be achieved through the inter-relationship of both parties.

**Instructions for lesson planning**
- Inquire from the students about goals that a business aims to fulfil
- Discuss such as,
  - Survival in the market
  - Profit maximizing
  - Sales maximizing
  - Increasing trade value of market shares
  - are some of the goals of a business.
- Just like businesses, the government too has goals, explain those goals

- Explain the various ways that businesses contribute to fulfil those objectives

- Make students engage in the following activity by grouping them properly and by providing them with the following reading materials
  - Relevant recent year central bank report
  - Relevant recent year adaptation of budget proposals
  - Adaptation of relevant Satahana magazine

- Given below are some economic goals of a government. Focus on the economic goals that your group has received from among them.
  - Economic growth and development
  - Full employment and fair income distribution
  - International trade and economic stability
A government works to achieve the following economic goals.

**Economic growth and development**
While economic development takes place through the continuous growth of the production process, in addition to that the long term growth of human and social indices is known as development.

**Full employment**
Not only everyone who wishes to, provide their labour has been occupied in a service, but also a situation where all the resources have been occupied in effective production activities in an economy.

**Fair income distribution**
Distributing of total production of a country equally among all the people in that country.

**Economic Stability**
The ability of an economy to endure nationally an internationally without a crisis is known as economic stability.

Economic stability consists of two parts.
1. Internal price stability
2. External price stability

• While controlling inflation, stabilizing price level, controlling the interest rate are done through internal price stability,
• Stability of foreign exchange rate is done through external price stability.

**Favourable international trade**
Protecting the state of balance of payment through conducting foreign trade activities satisfactorily is expected through this
• To achieve the economic goals of the government, businesses contribute in various ways.

• Payment of taxes
Paying taxes, that should be paid to the government, without evading by oneself on earned profit and income.

• Use of indigenous resources
Using indigenous resources for production as much as possible

• Following policies that the government implements
Implementing and following the fiscal and monetary policies that have been implemented by the government, in the correct way.

• Following the rules and regulations
Contributing to build up a favourable business environment by following rules and regulations imposed for businesses in the exact way.

• Contribution to the employment
Using of human and all the other resources efficiently when conducting business activities effectively.

• Minimize damage to the environment
Conducting eco-friendly business activities by all the businesses.

• It is important to have a mutual relationship among the government and businesses. Businesses are motivated when essential facilities are rendered by the government. In the same way, through the development of businesses the goals of the government will be fulfilled. Also, because of the development of businesses the government can receive a tax income. This income can be used for the development of infrastructure and other functions. Therefore it is important to build up a mutual relationship among the government and businesses.
**Competency 3.0**: Confirms the necessity of maintaining businesses having relationship with the government.

**Competency level 3.3**: Evaluates the importance of conducting businesses according to the fiscal policy of the government.

**No. of periods**: 06

**Learning outcomes**:
- Explains the government fiscal policy.
- Shows the necessity of implementing fiscal policies of the government.
- Presents the structure of the government income and expenditure using a diagram.
- Classifies the taxes and gives examples for each type.
- Gives examples for the government non-tax income.
- Analyses the impact of budget proposals on businesses considering the current year’s budget proposals.

**Instructions for lesson planning**
- Get the answers for the following questions by giving students to refer to the relevant information of government expenditure and revenue in the recent central bank report.
  - What are the ways that the government receives income?
  - What are the categories of expenditure of the government?
  - What is the source that provides the highest income?
  - Give examples for various expenditures.
  - What are the different taxes that the government has imposed?
- Explain fiscal policy using the received answers for the above questions.
- By referring to a recent year central bank report, explain the way of categorizing income and expenditure using a diagram.
- Discuss the impact of the budget proposals on businesses by taking the recent year budget proposals into consideration.

**A guideline to explain subject matters**
- The functions done by the government related to its revenue and expenditure is known as Fiscal policy.
- The goals of the Fiscal policy is to protect the macroeconomic stability.
- The revenue of an economy received from tax and non-tax within a financial year is known as government revenue.
- The total expenditure done within a year for recurrent and capital expenditure to fulfil the economic goals of a government is known as government expenditure.
- The budget proposal of a government reflects its Fiscal policy.
- Government revenue can be classified as follows.
Government tax revenue can be classified as follows.

Tax Revenue

- Income Tax
- Value added Tax
- Excise Duties
- Customs Duties
- Other Taxes

- Tax is a must payment imposed on a person or an institute by a government or an authorized institute of a government.

Income tax: The tax that is imposed on the income of individuals and institutions.
Example: Corporation tax, Payee Tax

Value added tax: The tax that is imposed on the added value of goods and services.
Example: Tax on added value on wholesale and retail sale, tax on added value on exports.

Excise duties: The tax that is imposed on some products produced within the country.
Example: Tax on liquor products, Tax on tobacco products

Customs duties: The tax charged by the customs department on importing products from foreign countries.
Examples: Tax on imported motor vehicles

Other taxes: The taxes charged from other parties apart from above taxes.
Examples: Development tax of Barbour and airport, levy of cess, telecommunication tax.

- Tax income can be classified as direct tax and indirect tax.

Government tax revenue

Direct tax
- Individual income tax
- Corporate tax
- Nation Building tax
- Capital gain tax

Indirect tax
- Value added tax
- Customs duties
- Excise duties
• Tax that is charged on income or assets of businesses and has to be paid by relevant party itself is direct tax.
• Tax that is charged on goods and services and can be transferred to another party is indirect tax.
• Non-tax revenue of the government can be shown as follows.

```
Non tax revenue

<table>
<thead>
<tr>
<th>Profits and Dividends</th>
<th>Charges and Fees</th>
<th>Interest income</th>
<th>Other income</th>
</tr>
</thead>
<tbody>
<tr>
<td>E.g.: Profits and dividend from government institution</td>
<td>E.g.: Charges for motor vehicles license</td>
<td></td>
<td>E.g.: revenues from lotteries</td>
</tr>
</tbody>
</table>
```

• Government expenditure can be classified as follows.

```
Government expenditure

<table>
<thead>
<tr>
<th>Recurring expenditure</th>
<th>Capital expenditure</th>
</tr>
</thead>
</table>
```

• Recurrent expenditure: Expenditures that are incurred again and again within a year to maintain continuous government services. These are known as current expenditure as well.
  Examples: Salaries and wages, payment of interest

• Capital expenditure: Expenditure that are incurred for long term investment by the government.
  Examples: Construction of main roads, Construction of bridges
(The composition of income and expenditure of a government may change based on the budget proposals)

• Categorize income and expenditure of the government by referring to a recent year central bank report.
• While government imposes different taxes at different times, it also cancels different taxes. The income that is received from taxes are spent on different projects.
  Examples: Construction of roads, Construction and development of airport, development of harbour.
• Given below are few examples for the impact on businesses from a government fiscal policy.
  o While imposing customs duties for imported goods, imports become limited and inland production can be improved/ inland industries can be protected.
  o By imposing taxes on inland products the prices of goods and services may be increased.
  o Since a government spends on infrastructure facilities, business activities are made simple.
Competency 3.0: Confirms the necessity of maintaining businesses having relationship with the government.

Competency level 3.4: Evaluates the importance of conducting businesses according to the government monetary policy

No. of periods: 06

Learning outcomes:
- Explains the government monetary policy.
- Explains the goals of monetary policy.
- Shows the strategies that can be used by the government to control the financial activities of a country.
- Explains each financial control instrument followed by the government.
- Analyses the influences on businesses from financial control instruments that are followed by the government.

Instruction for lesson planning.
- Present the students with some flashcards including the following statements.
  o The interest rate of commercial banks drops.
  o Statutory reserves that commercial banks must maintain in central bank is increased.
  o The central bank issues treasury bills.
  o Additional loans for potato farmers.
- Discuss with students inquiring the meaning of each statement.
  Example: When considering, “The interest rate of commercial bank drops”, it means, the interest for the money deposited by people in commercial bank is low and the interest for the loans borrowed from commercial bank is low as well.
- Discuss the impact of those sentences to commercial banks.
  Example: When considering, “The interest rate of commercial bank drops”, it means the interest paid for deposits reduces, people reduce to deposit whereas the interest charged for loans will also reduce the demand for loans increases.
- Discuss the impact of those sentences to businesses.
  Example: When considering, “The interest rate of commercial bank drops”, it means, since the reduction in interest, businessmen get loans easily at low interest and invest them in businesses, through which production increases and the businesses can be expanded.
- Explain the impact of the statements included in other flashcards as well as in the above way.
A guideline to explain subject matters.

• The policy that a government follows, to control the money supply of a country is monetary policy.
• The central bank of Sri Lanka executes monetary policy on behalf of the government.
• The main aim of the government monetary policy is to maintain the stability of the price of a national economy. Otherwise to control the inflation. Here, it is expected to maintain the stability of the price level for a long period of time.
• Following instruments are used to execute government monetary policy.
  o Interest rate
    The main instrument, that a government uses, to control the money supply is interest rate. The central bank identifies this also as standing facility rate. The standing facility rate is of three main parts.
    - Standing deposit facility rate (SDFR)
    - Standing lending facility rate (SLFR)
    - Bank interest rate

Standing deposit facility rate
This is the interest rate paid when commercial banks and primary dealers invest their surplus funds in government securities.

Standing lending facility rate
This is the interest rate charged by the central bank when commercial banks and primary dealers obtain funds by pledging government securities that they hold in central bank.

Bank interest rate
This is the interest rate that the central bank, as a final loan provider, charges from commercial banks who have obtained loans for liquidity issues.

• Changing statutory reserves requirements (SRR)
  The amount of deposit that commercial banks must maintain in central bank relevant to the deposits they hold in them is the statutory reserve. Changes in this percentage result in increase and decrease in money supply. A reduction in the reserve requirements will result in an increase in money supply whereas an increment in the reserve requirement will result in a decrease in money supply.
• Open market operations (OMO)
The buying and selling of government securities by central bank is known as open market operations. When the central bank buys securities the money supply increases and when it sells them the money supply decreases.

• Changing the discount rate
The money supply of an economy can be controlled through changing the discount rate when the parties, who have bought government securities, discount them at commercial banks before their maturity date.

• Imposing credit limits.
Imposing of credit limits occurs in two ways:
  o Imposition of quantitative credit limits
    Controlling of total credit by increasing and decreasing bank credits which impact on total money supply is known as imposition of quantitative credit limits.
Examples :-
  - Setting minimum ratios between assets and capital of commercial banks.
  - Setting the minimum money to be deposited when issuing Letters of credit.

  o Imposition of qualitative credit limits.
    Controlling the direction of flowing loans in an economy, in other words, motivating the flow of loans for the sections which are aimed to be motivated and limiting the flow of loans for the sections which are aimed to be demotivated is known as imposition of qualitative credit limits.
Example.
  - Recommending fields for providing loans
    - Such as for agriculture industry
    - Entrepreneurs etc.
  - Showing the ways to be followed for inactive loans.

• It is a direct strategy of the central bank of Sri Lanka to control the loans as a monetary policy instrument. Here, the central bank of Sri Lanka has received the authority to quantitatively and qualitatively control the sectors such as the amount of loans that the bank system provides, the repayment time of loans and the securities that should be obtained for loans.
When controlling the amount of loans, it is done by imposing limits for a maximum amount of loans, that a certain bank has been provided on a certain day or time, or by fixing growth rate of loans. Moreover, to encourage the amount of loans provided for prior field of the economy, fixing the least amount of loans for different production sectors or fixing maximum amount of loans on consumptional loans, to limit the growth of consumptional loans at an inflation period, can be done.
The imposition of orders, such as the maximum time for repayment of loans and the nature or the value of securities that banks should obtain for those loans, can be done as well. At an inflationary situation, orders such as to discourage the consumption loans, to fix the shortest duration for repayment of the consumptional loans and to keep securities with higher values can be done to control the inflation.

- When implementing monetary policy it impacts on businesses in various forms. Examples :- When the interest rate of central bank is reduced the interest rate of commercial banks is also reduced. Then the amount of loans that investors borrow increases, resulting increase in investment. Through which the production increases and the prices of goods and services decrease. Since the price of goods and services decreases, sales of businesses increase resulting in increase in profit.

When the interest rate of central bank is increased the interest rate of commercial banks is also increased. Then the amount of loans that investors borrow also decreases, resulting decrease in investment. It results in decrease in production and increase in the price of goods and services. Since the price of goods and services increase, sales decrease resulting in decrease in profits.
Competency 3.0: Confirms the necessity of maintaining businesses having relationship with the government.

Competency level 3.5: Shows the necessity of conducting businesses adapting to the procedures taken by the government for consumer protection.

No. of periods:- 05

Learning Outcomes:-
- Explains the concept of consumer protection.
- Gives the reasons for the more importance of consumer protection.
- Lists separately advantages of consumer protection to consumers and businessmen.
- Explains consumer rights.
- Explains consumer responsibilities.
- Explains the behaviour of a rational consumer according to consumer rights and consumer responsibilities.

Instructions for lesson planning
- Present the following role play to the classroom with three children who voluntarily participate to it.

  Role play
  Consumer: Mudalali, can I have a good bottle of jam?
  Narrator: He takes a bottle of jam from the shelf and puts it in a polythene bag and gives him.
  Businessmen: Here you are. Give me Rs. 150 and take this bill also.
  Narrator: The child examines the bottle of jam which he has brought home throwing the polythene bag on the road. He notices that the expiry date has been passed and the price has been changed. The father takes the bottle of jam back to the shop.
  Consumer: The price of this bottle of jam has been changed and the expiry date has also passed. I don’t want this bottle of jam. Give me, my money back or give me another bottle.
  Businessmen: Sold item cannot be taken back. The money also cannot be returned.

- According to the role play, discuss the following trade malpractices that have been happened.
  Examples:-
  - The price has been changed.
  - Selling expired products.
  - Submitting conditions that the sold items couldn’t be taken back.

- Make students engage in the following activity to discuss about trade malpractices.

- Given below are few statements adopted from newspapers. Focus on the statement that your group has received.
Statement 1
A group of people, who were trying to sell packets of curry powder mixed with wheat flour, has been arrested by The Consumer Affairs Authority.

Statement 2
Complaints have been received that the consumers are being given boxes of matches, toffees etc. instead of balance money after the purchase of goods.

Statement 3
It is found through a survey that there are containers and bottles used for bottling drinking water without SLS certification.

Statement 4
A person has been arrested for fraudulently altering the number on the stickers attached on oranges that are to be sold in the market and grown using pesticides and chemical fertilizer.

- Lead a group discussion about the incident that your group has received.
- Identify trade malpractices done by businessmen in those incidents.
- What are the other trade malpractices you know apart from those malpractices.
- Name institutions and individuals where complaints for such malpractices can be made.

- Present findings of students to class
- Explain consumer protection and its need.

- Given below is a conversation among three school students.
  Suresh – I have bought a new bag.
  Sachinda – Let me see, Looks good, how much is it?
  Suresh – There, the price is marked, one thousand five hundred rupees.
  Sachinda – The price has been changed, hasn’t it ? Another price is pasted over it.
    Didn’t you ask from Mudalali?
  Suresh – No, I didn’t, I was scolded even when I was selecting bags. He didn’t tell details when I asked.
  Buddhika – If I were you, I wouldn’t buy such products. We have a right to select any product for the price we pay. Besides, we have the rights to know even the details of the products.

- Inquire about the consumer rights that come up with the above conversation
- Lead a discussion highlighting the following points.
  o There are consumer rights to ensure sufficient consumer satisfaction for the money paid.
Those rights are internationally accepted rights.
There are also consumer responsibilities just like consumer rights.
A consumer can protect consumer rights when he acts according to consumer responsibilities.

A guideline to explain subject matters.

- Consumer protection is the legal cover that ensures customer receives sufficient satisfaction for the money he pays.
- Given below are some reasons for the need for consumer protection now than before.
  - The abundance of goods and services in the market.
  - Since the increased competition, there is more space for malpractices in the market.
  - Market has become complex with the free trade.
  - The deterioration of society and culture that can happen with globalization.
  - The need for making consumers aware to avoid environmental pollution
- Given below are some advantages for consumers and businessmen from consumer protection

For the Consumer

- Getting an opportunity to consume products that give a value to the paid money.
- Being protected from trade malpractices.
- Since consuming quality goods and services, consumer’s health and protection is ensured.
- Because of the consumer protection, legal cover can be obtained at the time necessary.
- A suitable environment is risen for consumer to live.

For the Businessman

- Having supplied quality products, the consumer’s trust can be gained.
- The profit is increased through the increase turnover of businessman.
- Reduction of waste since they are produced according to standards.
- Being created a favorable business environment since there is no unfavorable anti-competitive practices.

- Few internationally accepted consumer rights are implemented at present.
- John F. Kennedy, a former president of USA, has decelerated the following consumer rights.
  - Right to safety
  - Right to be informed
  - Right to choose
  - Right to be heard
• Apart from the above, consumer international has declared the following consumer rights.
  o Right to satisfaction of basic needs
  o Right to redress
  o Right to consumer education
  o Right to live in a healthy environment

• The eight consumer rights mentioned above are the internationally accepted consumer rights.

• Just like consumer rights, there are consumer responsibilities also pertaining to consumers.
  o Critical awareness
  o Active participation.
  o Social concern
  o Environmental awareness
  o Cooperation

• A mindful consumer attempts to select products with a value for the money he pays and products with higher standards. Similarly, he takes steps to inform the relevant authorities when the consumer rights are broken and business malpractices are taken place. Moreover he behaves as a rational consumer by protecting the environment he lives in, being concerned about society and by acting cooperatively.
Competency 3.0: Confirms the necessity of maintaining businesses having relationship with the government.

Competency level 3.6: Inquires the role of government institutions working for consumer protection.

No. of periods: 05

Learning outcomes:
- Lists the government institutions working for consumer protection.
- Explains the aims and functions of the consumer affairs authority.
- Explains the aims and functions of SLSI.
- Shows the importance of the consumer affairs authority and SLSI for businesses.

Instructions for lesson planning.
- Give students to observe packaging with standard symbols (SLS, ISO), some price altered packaging and packaging with outdated/ no expiry date.
- Inquire from the students about the information that a consumer can obtain through the above packaging.
- Inquire on what consumer rights are violated from the information mentioned in those packages. (Right to be informed, Right to safety)
- Inquire what trade malpractices are done by producers/traders. (Being changed the price, selling outdated products, not mentioning expiry date)
- Discuss with the students about the institutions to where such trade malpractices can be informed.
- Discuss that there are institutions working for consumer protection.
- Introduce the aims and functions of consumer affairs authority.
- Explain the aims and functions of Sri Lanka Standards Institution.
- Explain the importance of consumer affairs authority and Sri Lanka Standards Institution for business.

Guidelines to explain subject matters.
- Given below are some government institution that work for consumer protection in Sri Lanka
  o Consumer Affairs Authority
  o Sri Lanka standards institution
  o Measurement Units, standards and services department
  o Central Environmental Authority
  o Office of the Divisional Medical Officer of Health
  o District Secretariat Office

- Consumer Affairs Authority is established to fulfill the following goals.
• To protect consumers against the selling of goods or the providing of services which are hazardous to the life and property of consumers.
• To protect consumers against unfair trade practices and guarantee that consumer interest shall be given due consideration.
• To ensure that, whenever possible, consumers have adequate access to goods and services at competitive prices.
• To seek redress against unfair trade practices, restricted trade practices or any other form of exploitation of consumers by traders.

• Functions of Consumer Affairs Authority are given below.
  o Control or eliminate restrictive trade agreements among entrepreneurs.
  o Eliminate abuse of dominant position with regard to domestic trade or economic development within the market or in a substantial part of the market.
  o Eliminate any restraint of competition adversely affecting domestic or international trade or economic development.
  o Investigate or inquire into anti-competitive practices and abuse of a dominant position.
  o Maintain and promote effective competition between persons supplying goods and services
  o Promote and protect the rights and relationships of consumers with respect to the price, availability and quality of goods and services.

• Consumer Affairs Authority is important for businesses in the following manner.
  o Since production, supply, storing, transporting and selling take place according to the standards that are imposed by the authority, profit increases while the waste is being reduced.
  o Consumer trust is gained for focusing on protecting consumer rights.
  o The image of the institute grows since business malpractices are avoided.
  o Minimization of legal situations that businessman has to face.
  o Minimization of unwanted competition among businesses.
  o Ability to compete fairly since no monopoly conditions are created.

• The aims of Sri Lanka standard institution.
  o Prepare standards on the national and international basis in relation to production process and processing.
  o Promote standardization and quality control in industry and commerce and establish and maintain laboratories and library services for that purpose.
  o Examine whether the locally produced and imported goods comply with the standards.
  o Provide research facilities for the activities of standardization and quality control.
  o Implement a certification marks scheme.
  o Provide for co-operation with international standards institutions and other similar organizations.
Functions of Sri Lanka standards institution.

- Formulates standards
- Implements standards
  - Voluntarily
  - SLS certification system
  - Pre export investigation
  - Import investigation
  - Examination of sea food prepared for export
- Implementing ISO standards
- Organizing training programmes on standardization and quality control
- Promoting standardization and quality control activities
- Numeration services for equipment
- Popularizing consumer education
- Library services, sale of local and foreign standards and information services
- Implementing international standards on quality system

Sri Lanka standards institution is important for businesses in the following manner.

- Ability to face competition through selling products with SLS mark.
- Ability to acquire advantages by overtaking production companies that do not possess SLS mark.
- Ability to minimize customer complaints.
- Ability to expand market share since government come forward to buy products that are with SLS mark.
- Ability to succeed in international trade through obtaining ISO certification.
- The acceptable level of product increases since consumer needs and legal need are included in standards.
- Increasing the productivity while minimizing the waste.
- By improving the image of company, the morale of employees also improve.

- Promote standardization and quality control activities through education, guidance and other means.
Competency 4.0: Ascertains the need of establishing and maintaining different types of business organisations formally.

Competency level 4.1: Introduces “the organisation concept” and classifies the business organisations in accordance with their ownership.

No of periods: 02

Learning outcomes:
- Defines what organisation is and gives appropriate instances.
- Lists the characteristics found in a formal organisation.
- Defines “business organisations“
- Classifies business organisations on their ownership
- Lists out private sector business organisations.
- Lists out public sector business organisations.
- Categorizes the business organisations according to the ownership and presents them diagrammatically.

Instructions for lesson planning:
- Inquire the names of some organisations that the students are aware of.
- Inquire why they are named as organisations.
- Make the students ascertain correctly what an organisation is.
- Inquire from the students whether the school is a formal organisation, 
- Explain how the school can be identified as a formal organisations.
- Make them ascertain further what an organisation is, using examples of businesses located close to the school.

- Group the students appropriately and make them engage in the following activity.
  - List out as many as possible the names of business firms that you are familiar with in the vicinity of the school.
  - Make an attempt to categorise them as the private sector businesses and public sector businesses.
  - Present your findings to the entire class.

A guideline to explain subject matters:
- A social unit made up with a group of individuals joining together having a common goal is an organisation.
  Examples: School, temple, church, shop
Some common characteristics of a formal organisation are given below:
- Has a goal
- Involves individuals
- Has an organisational structure.

Business organisations are the enterprises engaged in production, distribution and selling of goods and services with the objective of earning profits or achieving social well being.

Business organisations can be categorised as private sector businesses and public sector businesses based on the ownership.

Classification of businesses based on ownership can be shown as a flow chart:

```
Business Organisations

Private sector business organisation
- Sole Proprietorship
- Partnership
- Incorporated Companies
- Co-operative Societies

Public Sector business organisations
- Business under the central Government
- Business under the Provincial Council
- Business under local Authorities
  - Departments
  - State corporations
  - State companies
```
Competency 4.0: Ascertain the need of establishing and maintaining different types of business organisations formally.

Competency level 4.2: Examines the characteristics, advantages and limitations of sole proprietorship business organisations.

No of periods: 04

Learning outcomes:
- Explains the sole proprietorship business.
- Describes the significant characteristics of sole proprietorship.
- Lists the advantages and limitations of sole proprietorship.
- Explains the rules and regulations applicable when registering a sole proprietorship.
- Describes the procedure of getting a sole proprietorship registered.

Learning aids:
- Application for the registration of business names.
- Application for the registration of business names obtained from the Grama Niladari.

Instructions for lesson planning:
- Approach the lesson recalling how business organisations were classified based on ownership in the previous lesson.
- Inquire about the types of business organisations can be seen in the immediate vicinity.
- Point out the names of the most of these business organisations indicate the ownership of them.
- Discuss the characteristics of such businesses pointed out by the students and note them on the board.
- Explain what a sole proprietorship business is, using the student responses noted down on the board.
- Point out the significance found in a sole proprietorship business organisation.

Get the students to identify and record the following:
- Advantages of sole proprietorship
- Disadvantages of sole proprietorship
- Point out the advantages and limitations of a sole proprietorship, considering the findings of the students.

Explain the procedure of registering the sole proprietorship business.
Guidelines to explain subject matters:

- Where the ownership of the business is held by a single individual it is called a sole proprietorship,
  Examples: Chanuli Super centre
              Dasatha Book shop
              Imalka saloon

- The following significant characteristics can be observed in a sole proprietorship
  - The owner provides the capital required on his own,
  - All managerial decisions are made by the owner
  - The unlimited liability of the owner
  - Not a legal entity.
  - Registration is not compulsory.
  - Enjoy profits and losses alone.
  - Faces risks alone.
  - ·No continuity
  - Accounting is not compulsory.
  - Not liable for the taxes in the name of the business.

- Some advantages of a sole proprietorship business are as follows:
  - Easy to initiate
  - All the profits belong to the owner.
  - Ability of independent decision making.
  - Fewer rules and regulations are applicable.
  - The ability of keeping the business information confidentially.
  - Termination of the business is convenient.
  - Possibility of maintaining direct relations with the customers
  - Control is convenient.

- Some of the limitations in the sole proprietorship are given below:
  - The unlimited liability of the owner.
  - The problems/ difficulties will increase when needed the additional capital.
  - Possibility of the decisions, made by the owner himself being unsuccessful.
  - Not a legal entity
  - No continuity
  - Management being inconvenient with the expansion of the business.
  - Bearing losses alone.

- If a sole proprietorship business is carried on in a name other than the full name of the owner, then it’s compulsory to register the business name in the provincial council’s provincial Business name registrar under the business name ordinance No 6 of 1918. On the practical note this registration can be performed at the relevant divisional secretariat office of the area.
• If the registration is done, the following procedure should be followed.
  • Obtaining an application form for the registration of business names of a sole proprietorship business from the divisional secretariat office of the area.
  • Obtaining report for the registration of a business name from the relevant Grama Niladari.
  • Submission of the completed registration form, the report obtained from the Grama Niladari and relevant registration fee to the divisional secretary.
  • Issue the certificate of registration of the business name by the divisional secretary after having examined the relevant documents above.
**Competency 4.0:** Ascertains the need of establishing and maintaining different types of business organisations formally.

**Competency level 4.3:** Inquires the characteristics of partnership and points out the advantages and limitations of it.

**No of periods:** 08

**Learning outcomes:**
- Defines a partnership business as per the Partnership Ordinance.
- Lists out the significant characteristics of a partnership.
- Explains the partnership agreement.
- Describes how a partnership can be created.
- Appreciates the importance of a partnership deed.
- Reveals the details that are normally included in a partnership deed.
- Explains the provisions of section 24 of the Partnership Ordinance 1890.
- Explains the procedure of getting a partnership registered.
- Lists out the procedure advantages and limitations of a partnership.
- Compares a sole proprietorship business and a partnership comparatively.

**Instructions for lesson planning:**
- Recall the problems faced by those who are carrying out a proprietorship business.
- Inquire from the students about the possible action that can be followed with this regard.
- Point out that bearing losses individually and the inability to increase capital can be overcome by getting another person involved in the business.
- Ascertain the fact that there after it becomes a partnership.
- Define a partnership as per the Partnership Ordinance.

- Explain the essential characteristics of a partnership.
- Explain the significant characteristics of a partnership.

- Explain what a “Partnership agreement” is and a “Partnership deed” is.
- Point out the importance of a partnership deed and explain the general information included in a partnership deed.

Group the students appropriately and make them involved in the following activity.

- Assume that your group is expecting to commence a partnership,
- Prepare a Partnership deed for the partnership including the basic information given below.
  - A name of the partnership
  - The names and addresses of the partners.
  - Details on the capital contribution
- The way of distributing the profits.
- The objectives of the partnership
- Limitations on the drawings of the partners.
- Information about the interest on drawings and the interest on capital
- Admission of a new partner
- The retirement of an existing partner.
- Conditions on the investment of additional capital
- Conditions on dissolution of partnership.

- Present students’ findings to the whole class.

- Evaluate the findings of each group
- Explain the application of section 24 of the partnership ordinance 1890 when there is no written partnership agreement or when there is a problem of a content not included in the available written partnership agreement.
- Explain that the process followed for the registration of the partnership is similar to the registration process of the sole proprietorship.

- Based on the characteristics of the partnership discussed above engage the students in the following activity.
- Compare the sole proprietorship and the partnership comparatively as per the criteria given.

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Sole proprietorship</th>
<th>Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of members</td>
<td></td>
<td></td>
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<tr>
<td>Capital investment</td>
<td></td>
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<tr>
<td>Management</td>
<td></td>
<td></td>
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<tr>
<td>Liability</td>
<td></td>
<td></td>
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<tr>
<td>Entitlement of profit/ loss</td>
<td></td>
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<tr>
<td>Decision making</td>
<td></td>
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<tr>
<td>Termination of the business</td>
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</tbody>
</table>

- Explain the advantages and limitations of a partnership.
- Discuss the advantages of the partnership in relation to the sole proprietorship.

**A guideline to explain the subject matter.**

- In the Partnership Ordinance 1890 the partnership is defined as follows:
- The relationship between the individuals who carry out a business with a profit motive is partnership.

According to the above definition the following characteristics must be there in a partnership,

- Profit generating objectives.
- The existence of the business activity
• Existence of individuals.
• Having a mutual relationship.

Example – Gonewardana & Sons
Don Carolis & Sons

• Some specific characteristics of the partnership are given below:
  o There should be a minimum of two partners and a maximum of twenty partners.
  o There must be an agreement between the partners
  o Having an agreement on profit sharing.
  o Every partner is an agent and a head of himself and other partners.
  o The existence of any kind of a business affair.

• Partnership agreement is the terms and conditions agreed on by the partners at the beginning of a partnership regarding its initiation and succession.
• A partnership agreement can be oral or written or implied.
• The written agreement between the partners is known as the partnership deed or the partnership constitution.
• A partnership deed is important for the following reasons.
  o The ability to solve any disagreement or conflict which may arise among the partners.
  o Convenience in carrying out the partnership activities.
• A partnership deed will include the following information.
  o Basic information about the business.
    E.g.: Business name, Names and addresses of the partners, nature of the business, time duration of the business.
  o Details about the investment of capital
  o Information on sharing profits and losses.
  o The objective of the partnership
  o Limitations on partners’ drawings
  o Information about interest on capital and drawings.
  o Conditions on the dissolution of the partnership.
  o Conditions on the investment of the additional capital
  o The action to be taken in the event of an admission of a partner, retirement of an existing partner or the death of a partner.

• When there is no written agreement or when there is a dispute which is not related to disputes stated in the agreement, it is necessary to follow Section 24 of the Partnership Ordinance 1890 which becomes effective,
• The following points are included in Section 24 of the Partnership Ordinance.
  o While the profits and losses are shared equally among the partners, in the event of the dissolution of the partnership, the partners have a right to get an equal share of the capital.
o Any expenditure incurred by the partner personally on behalf of the partnership, it has to be reimbursed to the partner.
o Partners are entitled for a 5% interest for the money invested in addition to the agreed capital.
o No partner is entitled to an interest on capital
o Every partner has the right to participate in the management of the business.
o No partner has the right to receive a salary for the services rendered to the partnership.
o A new partner cannot be admitted to the partnership without the consent of the existing partners.
o The regular disagreement which occurs in the partnership can be solved by taking the decisions made by the majority. Anything which changes the future of the partnership can be put into effect only if there is an agreement among all the partners.
o While the books of accounts of the partnership should be kept at the head office, a partner has the right to inspect them at any time and take copies of the accounts,

- The registration process of the partnership is similar to the registration process of the sole proprietorship.

- Several advantages of partnership business are given below:
o Easy to commence.
o Can be dissolved easily
o Possibility of gathering immense capital
o Ability to make use of multiple skills and talents of people.
o The liabilities will be distributed among many partners.
o Through collective liability, enthusiasm and efficiency will be enhanced.

- Some limitations of partnership are given below:
o The liability of the partners are unlimited.
o The disagreement and disputes between the partners can adversely affect the business.
o There is no continuity.
o All the partners are liable to the conduct of a single partner.

A sole proprietorship and a partnership can be compared as follows:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Sole proprietorship</th>
<th>Partnership</th>
</tr>
</thead>
<tbody>
<tr>
<td>No of members</td>
<td>Single individual</td>
<td>Minimum 2 maximum 20</td>
</tr>
<tr>
<td>Capital investment</td>
<td>Invest by the owner alone</td>
<td>Invested by the partners</td>
</tr>
<tr>
<td>Management</td>
<td>Is performed by the owner</td>
<td>Performed by the partners</td>
</tr>
<tr>
<td>Liability</td>
<td>Solely responsible</td>
<td>Collectively responsible</td>
</tr>
<tr>
<td>Entitlement to profits/losses</td>
<td>Enjoys alone</td>
<td>Shared collectively</td>
</tr>
<tr>
<td>Decision making</td>
<td>Independently</td>
<td>Collective decision making</td>
</tr>
<tr>
<td>Dissolution of business/termination</td>
<td>There is no dissolution. Termination of the business can be done as desired.</td>
<td>Dissolution may be voluntary or as a result of a court order.</td>
</tr>
</tbody>
</table>
Competency 4.0: Ascertains the need of establishing and maintaining different types of business organisations formally.

Competency level 4.4: Compares the various types of incorporated companies and their significant characteristics.

No of periods: 10

Learning outcomes:
- Defines incorporated companies.
- Explains the significant characteristics of incorporated companies.
- Lists the advantages and limitations of limited companies.
- Explains the procedure of incorporating a company.
- Explains the documents used for registering an incorporated company.
- Classifies incorporated companies.
- Lists the characteristics of each type of incorporated companies.
- Presents examples for each category of companies.
- Explains the criteria for comparing the incorporated companies.
- Compares various types of incorporated companies based on the criteria.
- States the type of business organisations correctly according to the given name of the businesses, it belongs to.

Instructions for lesson planning:
- Explain with examples what an incorporated company is.
- Explain the significant characteristics of incorporated companies.
- Explain the procedure of incorporation of a company and the document required.
- Show the classification of incorporated companies using a flow chart.
- Explain each type of company and their specific characteristics.
- State the criteria used in comparison of companies.
- Provide the following topics to the students.
  - Private limited companies
  - Public limited companies
- Instruct students to compare these two types of companies using relevant criteria.
• Explain how to use the criteria in making comparisons between a private limited company and a public limited company by taking the findings of the students into consideration.

• Engage the students in the following activity based on specific characteristics of incorporated companies.

<table>
<thead>
<tr>
<th>Activity</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Divide 10 voluntary students into two groups.</td>
<td>Instructions to have a debate on the topic “Incorporated companies have more advantages than disadvantages.”</td>
</tr>
<tr>
<td>Instruct each student a time limit of two minutes.</td>
<td>Allocate the remaining students into two groups and assign them the task of listing out the advantages and disadvantages revealed through the debate.</td>
</tr>
<tr>
<td>Instruct them to have a debate on the topic “Incorporated companies have more advantages than disadvantages.”</td>
<td>Allow the students to select the topic at random, start the debate.</td>
</tr>
<tr>
<td>Allocate each student a time limit of two minutes.</td>
<td>Instruct the students to present the list of the advantages and disadvantages to the entire class at the end of the debate.</td>
</tr>
<tr>
<td>Divide the remaining students into two groups and assign them the task of listing out the advantages and disadvantages revealed through the debate.</td>
<td>Evaluate the student activity make comments pointing out the short comings if any.</td>
</tr>
</tbody>
</table>

A guideline to explain the subject matters:
• A collection of individuals incorporated under the companies act No. 7 of 2007 can be introduced as a company.
  E.g. – Aralia company Ltd
  Pratheeba Company (Pvt.) Ltd

• Given below are some specific characteristics of incorporated companies.
  o Being an independent entity incorporated under the Company Act.
  o Becoming an independent legal entity that is distinct from its shareholders.
  o Continuous existence or ability to have perpetual succession.
  o The liability of members / shareholders being limited.
  o Accumulation of the capital, through share issues.
  o Ability of transferring shares.
  o The management being carried out by the board of directors.

• Some advantages of limited companies are given below:
  o Ability to raise a large amount of capital
  o The possibility of beginning large scale businesses.
  o Ability of recruiting a smart management team to carry out its business affairs.
  o Ability to attract new investors because of the limited liability of shareholders.
  o The death or resignation of a shareholder does not have any adverse effect on the business.
  o Ability to assemble qualified and skillful human resources.
  o The business having a legality.

• Some limitations of limited companies are given below:
  o Legal impacts being strict.
o Procedure of establishment being complicated and expensive.
o Since the voting power is based on the number of shares held by each shareholder (1 vote for 1 share), minority shareholders are not being strong enough in influencing management decisions.
o Profit is subjected to double taxation because tax is levied on the profit of the company as well as on dividends paid to the shareholders.
o Even the procedure of dissolution being complicated.

o The incorporation of a company should take place according to the companies act of a particular country, while in Sri Lanka the incorporation of a company is exercised in accordance with company act No. 7 of 2007 and registered with company registrar at the department of company registrar.

- The following procedure should be followed when incorporating a company.
o Register the name of the company.
o When it is confirmed that the proposed name of the company is not similar or identical as the name of an existing company, the following documents have to be submitted for the registration.
  - Application for the registration of the company.
  - The articles of association
  - The statement containing the consent of each founder to act as the director
  - The statement containing the consent of the founder secretary to act in that company
  - The most important document to be submitted to the registrar of companies is the Articles of Association which contains the objectives of company, the rights and responsibilities of the shareholders, information about the management and administration etc.
  - After the Registrar of Companies has satisfied himself that all documents are in order and that the relevant fees have been paid, he will issue the Certificate of Incorporation.

As per the Companies Act No. 7 of 2007, the following types of companies can be incorporated.
The characteristics of each category of companies can be listed out as follows:

**Limited Companies**
- A company where the liability of the shareholders is limited to the amount paid or agreed to pay, in respect of the shares purchased, can be introduced as a limited company. There are three types of limited companies.
  - **Private limited company**
    Companies that do not have the authority of issuing shares or other securities to the public and having a minimum of 1 and a maximum of 50 shareholders are known as private limited companies.
    - Some characteristics of a private limited company are given below:
      1. The minimum number of shareholders is one and the maximum is 50. This maximum does not include the shareholding staff members of the company.
      2. The minimum number of directors is 1.
      3. The shares of the company cannot be sold in public.
      4. Without assuring the credit rating of the company, the profits can be distributed as per the desire of all shareholders.
    Some examples of private limited companies
    - Central depository (Private) Ltd
    - Lanka clear (PVT) Ltd
    - Srilanka Electricity (Private) Co.Ltd
  - **Public limited companies**
    Companies having the authority of issuing shares and debentures to the public and having a minimum of one shareholder with a maximum of unlimited shareholders can be identified as public limited companies.
    - Some characteristics of Public limited companies are as follows:
      1. Having a minimum of 1 shareholder and maximum of unlimited number of shareholders.
      2. The minimum number of directors being two.
      3. The ability of issuing shares or the securities in public.
      4. Insolvency test is required prior to the distribution of dividends to the shareholders.
  - **Listed public companies (Quoted companies)**
    A company listed in the Colombo Stock Exchange is known as the ‘Quoted (listed) companies’
    E.g.; DFCC bank PLC, Ceylinco PLC
  - **Unlisted companies (unquoted companies)**
    Companies that are not listed out in the Colombo Stock Exchange are known as unlisted companies.
    E.g.; Ceylon Biscuit company LTD, Maliban Biscuit Co. LTD
Off shore companies
A company incorporated in a particular country but carrying on its business activities outside
the country are known as offshore companies.
These companies also should be registered in accordance with the Companies Act of the
country where it is carrying out its activities.
E.g. : For a Sri Lankan company to be able to carry on its business activities in Singapore it is
necessary to be registered in Singapore as well.
Examples : Sunrecko Marine Company
Asia Pacific Company

Unlimited companies
The liability of shareholders is unlimited companies where according to the articles of association,
the liability of the shareholders not being limited to the value of the shares that have been issued,
are known as unlimited companies.

Companies limited by Guarantee
Where an issue of shares does not take place, but the liability of the members is limited to a
guaranteed amount as stated in the Articles of Association, such companies are known as
companies limited by guarantee.
Examples; Colombo Stock Exchange (GTE) Ltd.

A company limited by Guarantee has the following characteristics:
- An issue of shares not being practised.
- The extent of the contribution of each member in the event of winding up the company has
to be specified in the Articles of Association.
- Minimum number of members being two and maximum not being limited.
- Sharing profits not being performed in such a company,
- Establishment of focusing on the public purposes.

Overseas company
- A company that has been established in Sri Lanka but has been incorporated outside Srilanka is
  known as a foreign company.
- A foreign company that has been established in Sri Lanka must, submit details about itself within
  a period of a month to the Registrar of Companies in Sri Lanka.
- The Registrar of companies will inspect the documents submitted and if satisfied, during the
course of one month its name will be added to the list of foreign companies as a registered
foreign company.
Example : Hongkong and Shanghai Banking Corporation (HSBC)

- The following criteria are followed when different types of companies are compared.
  o No. of members
  o Liabilities
  o The raising of capital
  o Administration and management
• Based on the criteria, a private limited company and a public limited company can be compared as follows:

<table>
<thead>
<tr>
<th>Criteria</th>
<th>Private Limited Company</th>
<th>Public Limited Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>No. of members</td>
<td>Minimum 01 Maximum 50</td>
<td>Minimum 01 Maximum Unlimited</td>
</tr>
<tr>
<td>Liability</td>
<td>Limited to the value of shares purchased</td>
<td>Limited to the value of shares purchased</td>
</tr>
<tr>
<td>Capital Raising</td>
<td>Shares/ securities can’t be issued to the general public</td>
<td>Shares can be issued to the general public</td>
</tr>
<tr>
<td>Administration and management</td>
<td>Carried out by a board of Directors Minimum 1 director</td>
<td>Carried out by a board of Directors. Minimum 02 directors.</td>
</tr>
</tbody>
</table>

Assessment and Evaluation.

• Involve the students in the following activity
  o Guide the students to write the names of business entities come across on their way to school as far as possible. (Having informed on the previous day will be convenient)
  o Let them assume the type of business organisation in which each entity belongs, according to the business name.
  o Point out using instances that the type of business organisation can be determined with the business name.
Competency 4.0: Ascertains the need of establishing and maintaining different types of business organisations formally.

Competency level 4.5: Analyses the modern trends of the co-operative business sector inquiring its significance.

No of periods: 04

Learning outcomes:
- Defines the co-operative sector.
- Lists the significant characteristics of a co-operative business.
- Reveals the policies of co-operatives
- Lists the benefits and the limitations of the co-operative sector.
- Explains the procedure of registering a co-operative society.
- Lists the modern trends in the co-operative business.
- Brings proposals to improve the co-operative sector business.

Instructions for lesson planning:
- Inquire the initial objectives of many private sector businesses recalling the knowledge gained from the previously discussed business organisations.
- Highlight the fact that there are non-profit making organisations as well, considering the student responses.
- Highlight that the co-operative unions are also the private sector non-profit making business organisations, considering the student responses.
- Explain how the co-operative sector business has been introduced by the international co-operative alliance.

- Present some instances for co-operative sector business using the existing co-operative societies in the area.
- Explain the significant characteristics of the co-operative sector business.

- Explain the co-operative policies.
- Inquire the advantages and limitations of the co-operative business from the students using the knowledge already gained about that field.

- Explain the registration procedure of a co-operative society.

- Discuss the modern trends of the co-operative sector business.
• Inquire the examples of such trends from the students.

• Involve the students in the following activity
  - Make a list of co-operative societies in your area operating in different fields.
  - Identify and note down the goods and services provided by those societies.
  - Give proposals for the development of this business.

• Evaluate the students’ responses.

A guideline to explain subject matters:
• The international co-operative alliance has defined the co-operative sector business as follows:
  “A co-operative is an autonomous association of people united voluntarily in their
communeconomic, social and cultural needs and aspirations through a jointly owned and
democratically controlled enterprise.”
  Examples: Maharagama Multi-purpose Co-operative society Ltd
            Cloth- weavers’ co-operative society Ltd
            Fisheries co-operative society Ltd

• Significant characteristics of a co-operative business are as follows:
  - An independent business organisation
  - Consist of a group of individuals who have got together voluntarily.
  - Collective ownership of its members.
  - Having common needs and expectations.
  - Democratically controlled business.
  - Value of a share is unchanged (Value of a share is Rs.100)
  - Having one vote for each member (one man one vote)
  - Any surplus that is earned will be distributed to the members according to the value of the transaction each member has performed with the co-operative society.
  - Profit making is not the initial objective.

• The 1995 General Assembly of the International Co-operative Alliance held in Manchester has stated its co-operative policies as follows:
  - Voluntary and open membership
  - Democratic control of members
  - Member economic participation
  - Autonomy and independence
  - Co-operative education, training and provision of information.
  - Co-operation among co-operatives regionally, Nationally and internationally
  - Concern for the community.
• Some benefits of a co-operative society are given below:
  o 10 persons can get together to initiate a co-operative society conveniently at a low investment.
  o The existence of democratic control
  o The provision of goods and service at a reasonable price.
  o The ability to engage in different types of business activities in different fields.
  o Engaging in activities with mutual co-operation
  o Any surplus gained by the society is distributed among the members. (contributor reimbursement)

• Some limitations of a co-operative society are as follows:
  o Limited means of fund raising
  o Restricted to the co-operative policies.
  o Co-operative outlets are opened for only a limited time in a day.
  o Public sector interference
  o Credit sales don’t take place.
  o Most probably the board of management will be inefficient, since they are elected by voting.

• The procedure to be followed when registering a co-operative society
  o This is registered under the co-operative development commissioner of the co-operative development department in accordance with the co-operatives societies act No 05 of 1972 under the co-operative development commissioner of the relevant provincial council.
  o In order to get a co-operative society registered, any 10 people who are above 18 may apply to the co-operative development commissioner together with the followings.
    ▪ Application form
    ▪ 2 copies of the interim constitution
    ▪ Feasibility report of the proposed economic activity
    ▪ The minutes of the general meeting at which the resolution for the registering of the co-operative society was approved.
    ▪ A certificate ascertaining that all those who have signed the application form, have paid their membership fee and that this fees is under the custody of the working committee.
    ▪ A route map giving directions to the address of the society.

• When the co-operative development commissioner has inspected and confirmed that the documentation supporting the application for the registration is in order in accordance with the co-operative act, he will issue a certificate of registration.
Some trends in the co-operative can be stated as follows:
- The commencement of modified self-service outlets.
  Example: Co-op city, co-op super
- Approaching new business fields
  Examples: Co-operative insurance, fuel filling stations etc.
- Usage of electronic payment system.
- Opening of mobile shopping centres.

Some proposals for the development of co-operative are given below:
- Extending the business hours.
- Directing attention to the possibility of selling on credit terms.
- Selecting experienced, effective and skilful persons to the management board.
- Usage of various promotional strategies
- Expansion of self service outlets.
- Arranging showrooms for consumer attraction
- Increasing the benefits of the members
- Launching a member promotion propaganda
- Application of modern technology in provision of consumer service.
**Competency 4.0:** Ascertains the need of establishing and maintaining different types of business organisations formally.

**Competency level 4.6:** Investigates the significant characteristics of specific businesses and inquires about their benefits and limitations.

**No of periods:** 08

**Learning outcomes:**
- Introduces franchise business.
- Point outs the parties associated with franchised businesses.
- Explains the inter relationship between the franchisor and the franchisee.
- Lists the support services that the franchisor provides to the franchisee.
- Classifies the franchise businesses.
- Points out the benefits and limitations of franchise businesses.
- Provides examples for the franchise business.
- Explains how business combinations are formed.

**Instructions for lesson planning:**
- Explains what franchise business is
- Introduce the parties who are involved in the franchise business.
- Explain the inter relationship between the franchisor and franchisee using a franchising agreement.
- Explain the support services provided by the franchisor and the functions to be performed by the franchisee.
- Categorise franchise businesses and explain with examples.
- Explain the benefits and limitations of a franchise business to the franchisor and franchisee separately.
- Explains what is meant by business combinations.
- Explain with examples how business combinations are formally created
- Group the students in a suitable manner and engage them in the following activity.
Given below are three cases related to the business combinations.

Case 1
Two prominent organisations in the finance field “Sinha Finance Co. Ltd” and “Kashyapa Finance Co. Ltd” have made arrangements to jointly establish a new company called “Kashyapa Sinha Finance Ltd.”

Case 2
“Ranrasa Co.” is a strong and leading manufacturer in the Jam and Cordial production industry. They have made arrangements to purchase a glass bottle manufacturing organisation called “Ajantha Glass Manufactories” – A new entrant to the business field.

Case 3
Surupika and Vionica are two high spirited entrepreneurs who have followed a course in self-employment at a vocational training organisation. While Surupika is carrying out a business called “Suroopa”, as a manufacturer of ladies footwear. Vionica is carrying out business as a yoghurt manufacturer. Now they are making arrangements to join together to set up an even stronger business called “Samagi Products” in the near future.

- Study carefully the case that your group has received.
- Identify the method of business combination in that case.
- List out the returns that will be gained through the method of business combination that you have identified.
- Present your findings to the class.

A guideline to explain the subject Matter:

- **Franchises**
The types of business organisations which is conducted by a particular business firm involved in provision with a certain goods or service and in order to assign the authority of selling that good or the service to another business organisation in a specific trade zone are known as franchises.

Two main parties are involved in a franchise business.
- Franchisor – This is the franchising company that permits the franchisee company to market the products under its brand name.
- Franchisee – This is the organisation that receives permission from the franchisor company.

Example:

<table>
<thead>
<tr>
<th>Franchisor</th>
<th>Franchisee</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mc Donald</td>
<td>Abans Restaurants (Pvt) Ltd</td>
</tr>
<tr>
<td>KFC</td>
<td>Cargills Ceylon Limited</td>
</tr>
<tr>
<td>Pizza hut</td>
<td>Gamma Pizza craft Lanka (Pvt) Company</td>
</tr>
</tbody>
</table>
The agreement between the franchisor and the franchisee at the commencement of the franchise business is called the “Franchise Agreement.” Under this agreement while the franchisee receives permission to use the franchisor’s trade name, logo and brand, the agreement includes the rules and regulations of the franchisor, the services provided by the franchisor and the financial conditions, the initial payment the franchisee should make and details of the monthly royalty payments.

- As per the agreement the franchisor provides the following support services to the franchisee.
  - Granting permission to use the trade name.
  - Provide management training
  - Provide marketing assistance
  - Provide financial assistance.
  - Helping in the completion of the layout of the business.
  - Supplying the products or goods and equipment.
  - Provide the required technical knowledge.

- According to the agreement the franchisee should fulfil the following.
  - Agree to act in accordance with the conditions of the franchisor
  - Making capital investment
  - To make purchase of goods only from the franchisor or his authorized suppliers.
  - To make the payments as agreed with the franchisor.

- Franchised businesses can be categorized as follows:
  - Product franchises
  - Manufacturing franchises.
  - Business format franchises.

**Product Franchises**
Franchises such that the franchisee receives authorization to purchase goods from the franchisor with the brand name and to resale them are known as product franchises.
Examples: Outlets selling petroleum products (IOC Fuel stations)

**Manufacturing Franchises**
There are franchises where the franchisee receives the authority of manufacturing and distributing the products under the franchisor’s brand name.
Examples: An organisation that bottles and distributes soft drinks like Coca cola, Pepsi cola etc.

**Business Format Franchises**
This is where the franchisee receives permission to carry on the business following the franchisor’s procedure and with his brand name.
Examples: Outlets similar to McDonalds, KFC, Pizza Hut where meals are manufactured and supplied.
Some benefits of the franchise business method are given below

**To the franchisor**
- Ability to expand his business without further investment
- Ability to share the costs of advertising with the franchisee
- Ability to obtain returns from the investment of the franchisee
- Ability to obtain spontaneous returns with the franchisee’s efficiency
- Being nourished by the franchisee.

**To the franchisee**
- Ability to acquire a large market niche from the goodwill of the franchisor
- Declining the tendency to be unsuccessful
- Publicity being convenient because of a popular trade name
- Ability to get management training from the franchisor
- Possibility of receiving financial support from the franchisor
- Ability of obtaining raw materials at a minimum price.

Some limitations of franchise businesses are given below

**To the franchisor**
- The franchisee’s un-success may affect adversely on profits
- Any unfavourable activities of the franchisee can have an adverse effect on the goodwill of the franchisor
- Retention of most of the profits earned, by the franchisee himself.

**To the franchisee**
- Because the franchisor retains his control, the franchisee does not get perfect autonomy
- Need of incurring a greater cost to receive a franchise
- The possibility of profitability being an uncertainty
- A certain level of risks is involved because of the dependence on the goodwill of the franchisor.
- The franchisee facing severe inconvenience because of the need of adherence to the franchise agreement.

Business combinations
- It is a trend in the business field to act as business combinations.
- Joining up of two or more businesses and engaging in business activities can be introduced as ‘Business Combinations’.
- Business combinations can happen in two ways
Mergers (Amalgamation)

- In a merger two or more companies are converted into a single business entity.
- This may be practiced as one company purchasing the assets and liabilities of another company or where the companies will terminate all their business activities and then join up to form a new company.

Acquisitions

- In an acquisition, one company purchases a majority of the ordinary share capital of the other company. The company purchasing the shares gains the power of control.

Business combinations through amalgamation or acquisition can take place in three ways.

- Horizontal combinations
- Vertical combinations
- Conglomerate combinations

The combination of two or more businesses engaged in similar business activities is known as a horizontal combination.

Examples:
- The combination of two footwear manufacturing companies
  - MBSL Savings Bank Ltd, Merchant Bank of Sri Lanka PLC and MBSL Financial Services Ltd combined on 2015.01.01 to form the Merchant Bank of Sri Lanka and Finance PLC.
  - Microsoft-a software development organization purchasing the Computer software unit of Nokia.
  - Opening Fair First Insurance company Ltd on 28th February 2017 amalgamating with the Union Assurance General company Ltd and Asian Alliance General company Ltd.
  - DFCC bank and DFCC development bank combined to form DFCC bank PLC.

Joining together with business units at different stages in the production/marketing process in the same industry is known as vertical combinations.

Examples: A shoe manufacturing company combining with a leather manufacturing company and a shoe marketing company.

Joining together with businesses that are not in the same industry is known as a Conglomerate combination.

Example: A shoe manufacturing company combination with a biscuit manufacturing company.
The methods of business combinations can be depicted in the following manner.

- (1) Vertical combination
- (2) Horizontal combination
- (3) Conglomerate combination
Competency 4.0: Ascertains the need of establishing and maintaining different types of business organisations formally.

Competency level 4.7: Points out the importance of public sector business organisations inquiring about their characteristics.

No of periods: 04

Learning outcomes:
- Inquires the reasons for the business activities being carried out under the control of state.
- Classifies the state sector business organisations.
- Gives examples for the state sector business organisations.
- Inquires the characteristics of the state sector business organisations.

Instructions for the lesson planning:
- Inquire from the students about the businesses carried out by the public sector.
- Explain what public sector businesses are
- Explain the reasons for business to be carried on by the public sector
- Categorise the state sector business organisations.
- Point out the characteristics of each category of state sector businesses and explain with examples.

A guideline to explain subject matters:
- All the business entities carried out and controlled by the state or a local authority are known as state sector or public sector enterprises.
- Businesses are carried out by the public sector for the benefit of the general public.
- The state sector involves in business activities for the following reasons:
  - To control the pricing levels in the market that make it impossible for the private sector to gain unreasonable profits.
  - To prevent the emergence of monopolistic firms.
  - To engage in business fields that are required for national defence.
  - To provide the essential goods and services to the general public at reasonable prices.
  - To minimize the wastage of natural resources through proper governmental planning and control of business.
  - To maintain non-profit making large scale projects that the private sector does not wish to engage in.

- Different categories of state sector business organisations are:
  - State corporations / statutory boards
  - Government departments
  - State companies
  - Businesses under the Provincial Councils and local authorities.

- The following characteristics are obvious in a State Corporation,
  - Being established under a special or General Act
  - Having a legality
  - Full ownership or major ownership being with the government possession
• Being controlled by a Board of Directors appointed by the government.
• Capital being generated through government loans, reinvestment of dividends and contribution of the general public to debt capital.
• Having the main objectives of providing with an efficient service to the public at a minimum price.
  Examples: • Sri Lanka Transport Board
  • Mahaweli Authority of Srilanka
  • Sri Lanka Rupavahini Corporation
  • Sri Lanka Petroleum Corporation

• State corporations are nominated by various names such as Board, Authority, Institution, Council, Bureau etc.

• The following characteristics can be observed in a Government department.
  o Being subject to direct government control through a ministry.
  o All activities are subject to the establishment code, financial regulations and government policies.
  o Most probably they are organisations involved in the provision of services.
  o Even though a department does not have a legality it is necessary to present itself to the law in the official name of the head of the department.
  o Allocation of necessary funds through the annual budget of the government.
  Examples: • Education Department,
  • Agriculture Department,
  • Health Department,
  • Department of Government railways.

• The following characteristics can be observed in a state company.
  o Being a company incorporated under the Companies Act as a public limited company.
  o Excess 51% of the total capital belongs to the state organisations.
  Examples: • Srilanka Insurance Company Ltd
  • Lanka Phosphate Company Ltd
  • Srilanka Telecom
  • Litro Gas Ltd
  • State Trading Company

• Companies under the control of a local authority should have the following characteristics.
  o Maintained under the provincial council, urban councils and Pradeseya sabha.
  o Ownership being with the respective local government authority
  o Necessary funds being allocated through the respective local authority or the central government
  o Being administrated by the local government authority.
Competency 5.0 : Evaluates the contribution of entrepreneurship in social, economic and personal development

Competency level 5.1 : Exhibits the interest of being an entrepreneur by studying the importance and the benefits of entrepreneurship

No of periods: 06

Learning Outcomes:
• Constructs a definition for entrepreneurship by studying accepted definitions.
• Evaluates the importance of entrepreneurship.
• Explains the relationship between entrepreneurship and businesses.
• Lists the personal, institutional social and economic benefits of entrepreneurship.
• Collects the benefits of a selected business, separately to the entrepreneur, institute, society and to the economy.
• Explains the relationship between entrepreneurship and the economic development.

Instructions for lesson planning
• Present the following statements to the students
  • Gayan conducts a supermarket which was converted from a retail shop, owned previously by his father.
  • Sujeeva has produced a herbal cure for the suppression of dengue from his own prescription and presented it to the market.
  • Nalaka runs a bus which used to run at a loss on the same route after adding new features to it.

• Inquire from the students about the special characteristics that are in the above mentioned people.
• Highlight through a discussion that modernisation, innovation and risk management are there in those people.

• Explain that those kind of characteristics should be included in the entrepreneurship concept and different definitions for entrepreneurship have been presented by different people.

• Get the student to form a common interpretation from those definitions,

• Explain the importance of entrepreneurship
• Explain the relationship between entrepreneurship and businesses.

• Considering an entrepreneur in your area, discuss with the students by inquiring the benefits received by
  o Entrepreneur
  o Society
  o Economy

• Explain the relationship between entrepreneurship and economic development.
• Explain the trends in entrepreneurship.

A Guideline to explain subject matters
• Given below are a few definitions that have been presented for entrepreneurship.
• “An entrepreneur is someone who perceives an opportunity and creates an organization to pursue it. The entrepreneurial process involves all the functions, activities and actions associated with perceiving opportunities and creating organizations to pursue them”
  William. D. Bygrave

• “An entrepreneur is the person who destroys the existing economic order by introducing new products and services, by creating new forms of organization, or by exploiting new raw materials”
  Joseph Schumpeter

• “Entrepreneurship is the bridge between capital and labour”
  Oxford dictionary

• “Entrepreneurship is facing up to uncertainties”
  Richard Nantinut

• “Entrepreneurship is the ability to launch a new company and carry it on successfully”
  International labour Organisation

• According to the above definitions, an interpretation about entrepreneurship can be built up as follows
  “Entrepreneurship is the process of extracting the environmental opportunities creatively and generating innovation while bearing risks.
  Or
  “Entrepreneurship is the process of producing innovations by managing risks and identifying business opportunities to satisfy human needs and wants”
The importance of Entrepreneurship

- There is an enormous need for entrepreneurs who can find innovations and react to changes in the world that changes rapidly.
- There is a need for generating innovations to survive in the competitive business world.
- There is a need for entrepreneurs in every organization, since entrepreneurs are the ones who can give leadership to the changing world.
- There is a need for generating innovations to uplift the living standards through satisfying human needs and wants at high level.
- The need for developing business functions in confrontation with the technology that changes day by day
- The ability to create employments through starting new businesses

The relationship between entrepreneurship and businesses

The process of producing innovations and managing risks to satisfy identified human needs and wants is known as entrepreneurship.

To satisfy human needs and wants, the production of goods and services, distribution and all the other related activities in it, can be explained widely as businesses.

Accordingly, the production of goods and services and all other related services in it are engaged by businesses as well as through entrepreneurship. But, identifying business opportunities, risk management and innovations are done by entrepreneurship when compared with businesses.

Accordingly it is clear that all enterprises are businesses whereas all businesses are not enterprises. Similarly, the end result of entrepreneurship is known as business.

The benefits of entrepreneurship

Through entrepreneurship, individual, institutional, social and economic benefits can be gained.

Examples:

- Individual benefits
  - Having opportunities to make use of individual abilities.
  - Being able to get higher benefits through higher commitments.
  - Creating social status and acceptance.
  - Having a self-satisfaction.
  - Obtaining personal and financial gains.

- Institutional benefits
  - Being easy to face competition
  - Expansion of business activities.
  - Continuous development.
  - Expansion of market shares
  - Becoming the expertise in the industry.

- Social and economic benefits
  - Creation of new employment opportunities.
  - Creation of income opportunities.
Entrepreneurship and economic development
• The relationship between entrepreneurship and businesses can be clarified by the following points:
  o Increase in national production as innovations are generated through entrepreneurship.
  o Increase in the level of employment through producing new employment opportunities.
  o Economic development becomes faster through producing new employment opportunities.

Increase in production → New employment opportunities → Increase in income level → increase in purchasing power → increase in demand for goods

• Increase in economic development through expansion of business activities and generating of new competitive markets.
• Increase in demand for regional resources that are being used.
• Creating an economic development as new businesses come to existence.

Trends in entrepreneurship
• Global Entrepreneurship
• Social Entrepreneurship
• Green Entrepreneurship
• Intra Entrepreneurship

Global Entrepreneurship
Engaging in trade globally is meant by this. In other words, no matter wherever in the world, with the use of technology, the ability to work beyond the borders through communication with any other country or countries or places in the world. Distribution of goods and services successfully from one place to all over the world to supply products for fulfilling identified consumer needs and wants of each country is harvesting the yield of entrepreneurship globally. It is important here to have known about other cultures. It is important for this to maintain good relationships with other countries and nations. Opportunities can be generated by identifying differences among nations and among cultures.

Social Entrepreneurship
This means to engage in innovations to solve social problems with the intention of social service. Benefits such as mental satisfaction, acceptance, praise, mutual help etc... are expected through social entrepreneurs. The aim of social entrepreneurship is to make the world a better place.

Green Entrepreneurship
This refers to the activities done with awareness of an entrepreneurial view to positively impact the natural environment with high risk for environmental and social problems or needs. Green entrepreneurs consider that protecting the environment is their core concept. They are very sensitive for environmental issues. They positively impact on natural environment through their business activities.
Intra Entrepreneurship
Creative people who are in different posts in organisations make changes in products and production methods. Top managers motivate those people to work creatively. This kind of entrepreneurship that introduces changes in an organisation and implements them within an institute is known as intra entrepreneurship.
Competency 5.0: Evaluates the contribution of entrepreneurship in social, economic and personal development

Competency level 5.2: Studies the process of entrepreneurship.

No of periods: 06

Learning Outcomes:
- Proves that the entrepreneurship is a process.
- Introduces the process of entrepreneurship.
- Lists the steps of entrepreneurship process.
- Shows the process of entrepreneurship by a diagram.
- Explains each of the steps of the entrepreneurial process.

Instructions for lesson planning:
- Recall the previous knowledge about the way a businessman can identify opportunities through an environmental study.
- State that, an entrepreneur acts step by step to make those opportunities become a reality.
- To ensure the steps of entrepreneurship process, arrange for a volunteer student to read out the following story to the class.
  When we were small, our mother used to feed us with each kind of green leaf every day. But because of the busy work schedule of the present mothers, they don’t have time to grow, prepare or cut green leaves to feed children. I have been thinking of a solution for this for a long time. I gathered information, carried out a research. As a result of this dedication, I planned to bring packeted green leaves to the market. I presented cut, prepared and hygienically packeted green leaves to the market that were grown in my own garden using organic fertilizers. I had many obstacles, but didn’t get discouraged. Today, I’m carrying on my business very successfully.
- Conduct a discussion highlighting the steps of the process of entrepreneurship that are included in this story.
- Make the students engage in the following activity by grouping them in a suitable manner.
  - Imagine that your group is intending to produce a new product.
  - Introduce the product that your group intended to produce.
  - Explain the way how the idea emerged for this product.
  - List the resources you need to produce that product.
  - Discuss the way to acquire those resources.
  - Explain how you make that idea become a reality.
  - What are the benefits you expect through implementing the above business idea?
- Present all the students’ findings to the class.
- Arrange the steps of the entrepreneurship process in order and explain each one of them briefly.

A guideline to explain subject matters:
- All the functions that are used to do the activities such as identifying business opportunities and formulating an organisation to use them is known as entrepreneurial process.
- The steps of entrepreneurial process are given below:
- Entrepreneurial process can be shown as a following diagram.

```
  Discovery
  ↓
Concept development and preparing business plan
  ↓
  Resourcing
  ↓
  Actualization
  ↓
  Harvesting
```

**Step 1 – Discovery**
At the first step of the entrepreneurial process, an entrepreneur generates ideas, identifies opportunities through environmental study and studies the market place as well.

**Step 2 – Concept development and preparing business plan.**
In this step a business plan is prepared. It presents a detailed program which clarifies the business idea.

**Step 3 – Resourcing**
In this step, the entrepreneur identifies financial, human and physical resources that are needed to start the business and he tries to acquire them.

**Step 4 – Actualization**
In this step the entrepreneur carries out the operational activities and he uses resources to fulfil the aims of business.

**Step 5 – Harvesting**
This is the step in which the entrepreneur takes decisions regarding the future growth and development of the business.
**Competency 5.0:** Evaluates the contribution of entrepreneurship in social, economic and personal development

**Competency level 5.3:** Exhibits the ability to act as an entrepreneur by developing the entrepreneurial characteristics and competencies.

**No of periods:** 08

**Learning Outcomes:**
- Explains “an Entrepreneur”.
- Explains the difference between the entrepreneur and the businessman.
- Lists the entrepreneurial characteristics and skills.
- Lists the entrepreneurial characteristics and skills of entrepreneurs by studying the biography of entrepreneurs.
- Explains the importance of entrepreneurial characteristics and skills to be a successful entrepreneur.
- Exhibits the entrepreneurial characteristics in made situations.
- Inquires the ways from which entrepreneurial characteristics and skills can be developed.

**Instructions for lesson planning:**
- Present the following statements to the students in order to introduce the entrepreneur.
  
  **First statement**
  Rupika is now conducting a beauty salon, which her mother was running, at a new building that is equipped with modern facilities.
  
  **Second statement**
  Sanjaya has produced a special new filtering equipment that can remove harmful materials in the water which cause kidney disease and has presented it to the market at a reasonable price.

- Get students focused on these two statements.
- Inquire from the students that can be named as an entrepreneur from these two individuals.
- Inquire the reasons from students for naming him as an entrepreneur.
- Inquire how the other person can be named and ask the reasons for it.
- Introduce who an entrepreneur is, based on the responses of the students and explain the difference between an entrepreneur and a businessman.

- Taking an entrepreneur in the area or an entrepreneur known by students as an example. Inquire from the students of the entrepreneurial characteristics and skills he has.
- Explain entrepreneurial characteristics and skills from the responses of the students and show the way how those characteristics and skills can be developed.
• Make students engage in the following activity by grouping them in a suitable manner.

<table>
<thead>
<tr>
<th>• Take students to an open area.</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Give the following instructions to play the game.</td>
</tr>
<tr>
<td>o In front of you is a quantity of hot, burning lava.</td>
</tr>
<tr>
<td>o Your group must cross the lava to get to the other side.</td>
</tr>
<tr>
<td>o There are only a few pieces of planks available to keep the feet (The number of pieces of planks must be less than the number of students. Pieces of paper can be used instead of planks)</td>
</tr>
<tr>
<td>o Give the pieces of planks to the first students in the group and instruct to place one piece at a time on the lava to enable the group to cross to the other side. (A distance of about 10 feet is sufficient)</td>
</tr>
<tr>
<td>o A piece of plank (a piece of paper) cannot be on lava which wasn’t touched by a foot of a student.</td>
</tr>
<tr>
<td>o Meanwhile, instruct the members of the other group to remove any plank instantly if a student’s foot hasn’t been placed on it.</td>
</tr>
</tbody>
</table>

• Lead a discussion highlighting the following facts after giving opportunities to all the groups to take part in this game.

• Inquire from students, the reasons for the success of the groups that successfully completed the task.

• Inquire the reasons for the failure of the unsuccessful groups.

• Highlight such as, not discussing with all in the group before crossing the task, not appointing a leader, no proper communication while crossing etc... as facts.

• Discuss the obstacles they faced while they were trying hard to cross.

• Ensure that, in the same way an entrepreneur also has to make a journey to his aims which is very difficult and needs lots of commitment and he should win the obstacles strategically that comes in his way.

A guideline to explain subject matters:

• An entrepreneur can simply be identified as, one who generates innovations by extracting environmental opportunities creatively while taking risks.

• There is no accepted definition to introduce who an entrepreneur is. The following definition can be given regarding an entrepreneur.

  “The person who sees changes in the market place as opportunities for businesses is an entrepreneur. His armoury is product innovation.”

  Peter F. Drucker
• The difference between an entrepreneur and a businessman can be shown as follows.

<table>
<thead>
<tr>
<th>Entrepreneur</th>
<th>Businessman</th>
</tr>
</thead>
<tbody>
<tr>
<td>Commences a business with his own idea or new concept.</td>
<td>Commences a business with an existing idea or concept.</td>
</tr>
<tr>
<td>The business opponent of the entrepreneur is himself.</td>
<td>Has other business opponents.</td>
</tr>
<tr>
<td>The entrepreneur prepares himself for new business opportunities.</td>
<td>The businessman is always engaged in his business activities.</td>
</tr>
<tr>
<td>Is an innovator</td>
<td>Is traditionist</td>
</tr>
<tr>
<td>Faces risks</td>
<td>Engages in activities protectively</td>
</tr>
<tr>
<td>When problems arises, faces them courageously to overcome them.</td>
<td>Gets discouraged when faced with difficulties.</td>
</tr>
</tbody>
</table>

• Some entrepreneurial characteristics are given below:
  o Willingness to take risks
    He likes to face risks rather than avoid risks. But facing any risk is not meant by this.

  o Creativity
    This refers to the ability to see, think and take actions differently.

  o Commitment
    This refers to work with great enthusiasm until he achieves his objectives.

  o Self-confidence
    While an entrepreneur has to face several problems, he has the belief that he can successfully overcome them.

  o Self-reliant
    He has a desire to put his own ideas into effect rather than being dependant on others’ ideas.

• Some entrepreneurial skills are given below:
  o Leadership skills.
    He is the leader of his business. He leads the followers formally by encouraging them to get the work done.

  o Interpersonal skills
    Maintains a favourable relationship with both internal and external parties.

  o Communication skills
    Information is a resource for him. Maintains a proper co-ordination to achieve objectives.

  o Basic management skills
    Possesses basic management skills such as planning, organising, leading and controlling.
• Given below are the ways of developing entrepreneurial characteristics and skills.
  o Self-evaluation
    First one should identify entrepreneurial competencies specifically and then he should
    conduct a self-evaluation such as, to what extent those competencies are present in him?
    what competencies he doesn’t have, and what competencies are there within him that
    should further be developed.
  o Training
    Participating in various training programs to develop his entrepreneurial competencies.
  o Education
    An education on entrepreneurship apart from general education.
  o Profiting from experiences
    The experience gained through working in other enterprises or by working as an
    entrepreneur himself.
Competency 6.0: Appreciates the contribution of small & medium scale businesses in economic development.

Competency level 6.1: Appreciates the importance of small & medium scale businesses inquiring their characteristics.

No of periods: 08

Learning outcomes:
- Defines small & medium scale industries considering accepted criteria.
- Lists the special characteristics of small & medium scale industries.
- Presents examples for the contribution of small & medium scale industries towards the economic development of a country.
- Explains the importance of entrepreneurship to the success of small & medium scale businesses.
- Lists the factors that should be considered in initiating and carrying out small & medium scale businesses.
- Analyses the reasons for small and medium scale businesses being successful or unsuccessful.

Instructions for Lesson Planning
- Inquire from students about the small & medium scale business enterprises found in the area and note down their names on the black/white board.
- Initiate a discussion about information such as the number of people employed by each small & medium scale business, the raw materials they consume, the technology they use, the market for their product, the services made available to the area etc.
- Based on this information revealed, explain the characteristics of small & medium scale businesses.
- Taking a large-scale business enterprise as an example, explain how it is different from small and medium scale businesses.
- List out the factors that differentiate large scale businesses from small & medium scale businesses.
- Explain that small & medium scale businesses can be separately identified based on these factors.
- Based on the above characteristics and criteria, built up definition for small & medium scale businesses.
- Explain how small & medium scale businesses contribute in economic development of a country, based on the above discussion.
Instruct the students to make a list of points that should be considered before starting a small and medium scale business.

Based on the details that the students come up with, discuss the factors that must be considered in setting up and carrying on a small & medium scale business.

Recall a business that has become unsuccessful in the area and discuss the reasons for the failure of that business.

A Guideline to Explain Subject Matters

- Various criteria are used both nationally and internationally to define the small & medium scale industries. These criteria are based on quantitative and qualitative factors.
- The factors that can be numerically quantitative are known as quantitative factors. Examples: The amount of invested capital, number of persons employed, the energy that is in use, annual turnover.
- The factors that cannot be measured numerically are known as qualitative factors. Examples: Types of business organizations, the technology in use, the nature of the market.
- Based on the above criteria, various definitions have been proposed both nationally and internationally. Examples: “A small business is one that is independently owned and independently operated but not gained any authority in the field.”
  (Small scale Business Administration” institute in the United States of America)
- In Sri Lanka too, various organizations used various criteria in order to define a small scale business. Examples:

<table>
<thead>
<tr>
<th>Institution</th>
<th>Criteria</th>
</tr>
</thead>
<tbody>
<tr>
<td>1 Industrial Development board</td>
<td>1 Where the invested capital does not exceed Rs.4million.</td>
</tr>
<tr>
<td>2 Institute of Industrial Technology</td>
<td>2 Where the invested capital does not exceed Rs.4million.</td>
</tr>
<tr>
<td>3 Small Industries Department</td>
<td>3 Where the invested capital does not exceed Rs.4million.</td>
</tr>
<tr>
<td>4 Ministry of Industrial Development</td>
<td>4 Where the invested capital does not exceed Rs.20million</td>
</tr>
<tr>
<td>5 Department of Census &amp; Statistics</td>
<td>5 Business with less than 25 employees</td>
</tr>
<tr>
<td>6 Ministry of Rural Industries Development</td>
<td>6 Business with less than 50 permanent employees.</td>
</tr>
<tr>
<td>7 Central Bank of Sri Lanka</td>
<td>7 Businesses using less than 50Kw amperes electricity</td>
</tr>
</tbody>
</table>
Characteristics of Small & Medium scale businesses are given below:

- Having a small market
- Invested capital being low
- A fewer number of staff being employed.
- Family labour being used most probably.
- Decision making is based solely on information available personally
- The management of the business being independent, most probably owner is the chief manager.
- The business mainly being targeted to the local markets.
  (However, there are some small & medium scale businesses that supply goods to overseas markets as well)
- Compared to large scale businesses they have less financial bonds
- Modern technology being used.

Small & medium scale businesses contribute to the economic development of a country in various ways.

Examples:

- As these businesses are labour intensive more employment opportunities are available.
- Contribution in growth of the national product.
- Utilizing inland resources
- Minimizing the problems of urbanization as a result of the regional development.
- The inequality in income distribution being minimized.
- The supplement of raw materials and finished goods required for the large scale businesses.
- Engaging in business affairs which are not performed by large scale businesses.

When small & medium scale businesses are begun and continued, the following factors should be considered.

- Studying and evaluation of one’s own abilities and skills
- The market available for the production and the possibility of entering that market.
- Studying about the opening capital and working capital requirements
- Studying of the type of business organization.
- Type of Business organizations and existing rules and regulations.
- Existing competition.

There are several reasons that have an impact on the success or failure of small & medium scale businesses.

- The reasons for the success of small & medium scale businesses:
- Availability of sufficient infrastructure facilities
- Incentives such as financial and tax relief.
- Having an expanded market
- Providing with various institutional and marketing facilities.
- Having a sound management
- The enthusiasm and commitment of the business men.

- The reasons for the failure of small and medium scale businesses:
  - Financial problems
  - Inability to face the competition in the market
  - Weak points in management
  - Less entrepreneurial skills
  - Insufficient infrastructure facilities
  - Less awareness of modern technology and modern technology not being applied.

- Some reasons for the importance of entrepreneurship for the success of small & medium scale business are as follows:
  - The beginning of a business is risky and this can be minimized through the risk management abilities of the entrepreneurs.
  - The business becomes successful mainly on the commitment and interest of the entrepreneur.
  - The self-confidence and determination of the entrepreneur has a direct impact on the success of small and medium scale businesses.
  - Similarly, businesses can be made successful by developing the entrepreneurial competencies of the entrepreneur.
Competency 6.0: Appreciates the contribution of small & medium scale businesses in economic development.

Competency level 6.2: Investigates the incentives that are available to make small and medium scale businesses successful.

No of periods: 07

Learning Outcomes:
- Lists the incentives taken by the government for the development of small and medium scale businesses.
- Categorises the incentives furnished by the government as financial and non-financial.
- Tabulates the institutions providing incentives to small and medium scale businesses and the types of incentives gained.
- Identifies the incentives granted to a selected business and categorises them as financial and non-financial.
- Lists the currently performed projects from which the incentives are granted for the success of small and medium scale businesses.
- Tabulate the incentives furnished to a selected business by projects and the incentives furnished by those projects.

Instructions for lesson planning:
- Show a picture of a mother assisting her baby to stand to the class.
- Hold a discussion highlighting the following facts.
  - That it is necessary to give a helping hand until the child is able to walk and it becomes unnecessary when the child is able to walk alone.
  - Similarly that it is difficult for the small and medium scale businessman also to stand alone.
  - Therefore that different types of assistance and incentives are needed.
  - When the business is strong and step ahead on its own, further support is not necessary and from then onwards the businessman will make the business a success.
  - Discuss that just as a mother shows great care to give a helping hand to her child, a government also takes various steps to encourage small and medium scale businesses and that for this purpose there are government organisations as well as non-government organisations.
- Divide the students into suitable groups and engage them in the following activity.

Given below is a conversation that took place among several business acquaintances who got together during the tea break at a seminar of the Provincial Commercial Board. Pay attention to the statements made by the businessman that your group has been identified with.

Dhanawardena: If I was able to invest another twenty five lakhs in my business I would be able to capture the entire market in the area.
Vipulasena: My problem is not that. That is about not having a proper way to sell the products. If I manage to sell the goods, I will overcome all the problems.

Keerthisena: I cannot capture the market with the machinery and methods that I am using. If I am able to get some new machines I will be able to enter the foreign market as well.

Kalinga: I suppose I am not getting sufficient returns for the money I invest. Some people carry on a successful business without investing much money. I think I have not utilized my money in the correct manner.

- Consider the statement of the businessman your group has received and identify and write down his requirements (problem)
- Identify whether it is a financial or non-financial requirement.
- Make a list of individuals and firms that are available in our country for performing their requirements.
- Identify whether those firms are public sector or not.
- Make a list of the services rendered by those firms.
- Present the findings of the students to the entire class for discussion.
- Categorize the steps that the government has taken to encourage small and medium businesses as financial and non-financial.
- Categorise the organizations that provide these incentives as government and other.
- Select a business that you know from your area and tabulate the projects that have provided incentives for it and the types of incentives those projects provide.

A guideline to explain subject matters:

- The incentives taken by the government to encourage small and medium scale businesses can be divided as follows:
  - Financial incentives
  - Non-financial incentives

- Some examples for the financial incentives provided by the government to small and medium scale business are given below:
  - Short term, long term loans
  - Financial assistance
  - Tax concessions
  - Refinancing facilities.

- Some examples of non-financial incentives provided by the government to small and medium scale businesses are as follows:
  - Advisory services
  - Entrepreneur development programmes.
  - Research and technological services.
  - Provide infrastructure facilities.
  - Provide market facilities.
  - Offering awards and awards of excellence.
• Organisations that provide incentives to small and medium scale businesses can be divided into two categories.
  o Government institutions
  o Other institutions

• Examples for some of the government institutions that provide incentives to small and medium scale businesses are as follows:
  o Industrial development board
  o Export development board
  o Sri Lanka standards institution
  o National development bank
  o Industrial technology institution

• Examples for other institutions that provide incentives to small and medium scale businesses are as follows:
  o Sarvodaya
  o JICA (Japanese International Co-operation Agency)
  o Private organisations involved in preparing taxation
  o Sanasa (Thrift and credit co-operative society)
  o Private banks and financial institutions

Some organisations that provide incentives to small and medium scale businesses and the incentives they provide are as follows:

<table>
<thead>
<tr>
<th>Organisations</th>
<th>Incentive provided</th>
</tr>
</thead>
<tbody>
<tr>
<td>National Entrepreneur Development Authority</td>
<td>• Provide financial assistance</td>
</tr>
<tr>
<td></td>
<td>• Conducting entrepreneur development training workshops.</td>
</tr>
<tr>
<td>Small and Medium scale entrepreneurship board</td>
<td>• Provide foreign market facilities</td>
</tr>
<tr>
<td>Industrial Development Board</td>
<td>• Advisory services</td>
</tr>
<tr>
<td></td>
<td>• Provide technical knowledge</td>
</tr>
<tr>
<td></td>
<td>• Infrastructure facilities</td>
</tr>
<tr>
<td>Export Development Board</td>
<td>• Marketing facilities</td>
</tr>
<tr>
<td></td>
<td>• Advisory services</td>
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<tr>
<td>Sri Lanka Standards Institution</td>
<td>• Advisory services</td>
</tr>
<tr>
<td>National Development Bank</td>
<td>• Provide financial facilities</td>
</tr>
<tr>
<td>Industrial Technological Institute</td>
<td>• Provide technical knowledge</td>
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<td></td>
<td>• Provide advisory services</td>
</tr>
<tr>
<td>Sri Lanka Small and Medium scale Industrial Board</td>
<td>• Financial facilities</td>
</tr>
<tr>
<td></td>
<td>• Offering excellence awards</td>
</tr>
</tbody>
</table>

• Several projects that provide incentives for the success of small and medium scale business currently are given below:
  o Interest free loan schemes without securities for women - micro entrepreneurs (Liya Isura)
  o Introducing micro entrepreneur loan schemes without securities for women making available working capital requirements through the Regional Development Bank (CBSL report 2014)
• Suwana
With the financial backing of the Japan Bank for International Co-operation (JBIC), the National Development Bank provides re-financing for the development of small industry entrepreneurs. This is known as SMILE (Small and Micro Industries Leader and Entrepreneur promotion projects). At present the 3rd stage of this project is in operation.

• Shanya
This is a loan scheme that is being implemented with the financial patronage of the Asian Development Bank. The DFCC and other commercial banks participate in this scheme.

• Sanasa Loan Project
This is a loan scheme that provides loan facilities to agrarian, livestock, small industry, trading and commercial activities. National Development Trust Fund and membership deposits are utilized for this purpose while the administration is exercised by the Sanasa Apex Development Society.

• Co-operative Rural Bank Loans
Loan are furnished for Agrarian, fisheries, Livestock management, trading and commercial activities. National Development Trust Fund and membership deposits are utilized here. Administration support is extended by the multi-purpose Co-operative Society and Co-operative Development Department.

• Samurdhi / Divineguma Development Loan Scheme
This scheme was initiated to provide loans and other services to the Samurdhi and Divineguma beneficiaries. The fund requirement for this scheme is made available from government grants and savings deposits of the membership. Control of this scheme is exercised through the divineguma Development department. (Government has announced that Samurdi/ Divineguma banks work jointly with Regional Development Banks) (Ref. The CBSL report - 2014)

• Agrarian Bank Pilot Project.
This is a project of the Agrarian Development Department under the purview of the Ministry of Agriculture Development and Agararian services. Farmers are provided with short and long term loans for planting purposes. The Farmers Trust Fund established in Agriculture Department and membership deposits are utilized for this purpose. (Draw the attention of the students towards the current projects)
Competency 7.0: Evaluates the contribution of money and financial institutions for the existence and growth of businesses.

Competency level 7.1: Ensures the importance of using money to facilitate transactions.

No. of periods: 04

Learning outcomes:
- Defines ‘money’.
- Points out the necessity of using money for exchange.
- Explains the functions of money and their importance with examples.
- Points out the characteristics of a good currency.
- Explains the various types of money/currency used in exchange.

Instructions for lesson planning:
- With the assistance of volunteer students present the following role play.
  
  Role Play 1 – 2 Characters
  - A potter and a paddy cultivator

  The actions of the characters
  - The potter approaches the paddy cultivator.
  - Gives out pots and asks for paddy.
  - The exchange takes place.
  - Both of them depart with satisfaction.

  Role Play 2 – 2 Characters
  - A potter and a carpenter

  The actions of the characters
  - The potter approaches the carpenter with pots.
  - He gives out pots and asks for a chair.
  - The carpenter says that he does not require pots and that he needs rice to give a chair.
  - The transaction does not take place.
  - Both of them depart unsatisfied.

  Role Play 3 – 2 Characters
  - A retailer and customer

  The actions of the characters
  - The customer selects goods and presents a currency note to make payment.
  - The retailer puts the currency note to the drawer and gives the balance cash.
  - The customer goes away with satisfaction.
Role Play 4 – 2 Characters

- A supermarket owner and a customer

The actions of the characters

- The customer selects goods needed and presents a plastic card to the shop owner for payment.
- He imitates the action of that he is inserting the card into a machine and issues a bill.
  The customer signs it.
- The customer exits with satisfaction.

- Conduct a discussion after the role plays and highlight the following facts.
  - That in Role Play No. 1 a good was exchanged for another good.
  - That in Role Play No. 2 the exchange of goods was not completed and there are some reasons caused for it.
  - That in the Role Play No. 3 the transaction was completed with cash in use.
  - How the transaction was completed in Role Play No. 4 using a credit card or debit card as the paying instrument.
  - At present various paying instruments are used in completion of a transaction.

- Point out clearly the necessity of using money in exchange of goods and services.

In order to highlight the functions of money, group students in an appropriate manner and engage them in the following activity.

<table>
<thead>
<tr>
<th>Viraj sold his motor vehicle to Lahiru for Rs. 3.0 million. Lahiru paid Rs. 2.0 million at that moment itself to Viraj who deposited the money in the bank. Lahiru agreed to pay the balance Rs. 1.0 million in 2 months.</th>
</tr>
</thead>
<tbody>
<tr>
<td>o Study the case that you have received carefully.</td>
</tr>
<tr>
<td>o Identify the functions that have been performed using money.</td>
</tr>
<tr>
<td>o Present the findings of students to the entire class.</td>
</tr>
</tbody>
</table>

- Introduce the functions of money and explain their importance with examples clearly.

- Point out the characteristics of an appropriate currency.
- Explain the various types of money used in exchange.
A guideline to explain subject matters:

• Anything that is generally accepted in exchange of goods and services is considered as money.

• The requirement of money for exchange can be pointed out as follows.
  ○ In the past the direct exchange of goods without the use of money was called ‘barter system’
  ○ Various difficulties were encountered in the barter system.
  ○ Therefore, the need of a common medium of exchange that was acceptable to all was felt.
  ○ That medium of exchange was known as money (currency).
  ○ Accordingly, the necessity of money in exchange is obvious.

• The functions of money can be stated as follows
  ○ Being a medium of exchange
  ○ Being a standard of value for measuring
  ○ Acting as a store of value
  ○ Acting as a deferred payment

• **Being a medium of exchange**
  Acting as the intermediary in the exchange of goods and services, or else the price of goods and services is paid in terms of currency
  Example: The purchase of a mobile phone for Rs. 30,000.

• **Acting as the means of measurement in measuring the value.**
  It is use of money for the measurement of the value or worth of goods and services. This is known as the price. Since this facilitates accounting it becomes a unit of account.
  Example: Setting the price of a pair of shoes as Rs. 1999.90.

• **Acting as a store of value**
  Money can be stored, notes and coins can be used in the future by storing them without getting outdated or depreciated.
  Example: Saving Rs. 10,000

• **Acting as a deferred payment medium.**
  An agreement can be made (signed) regarding a future payment currently. That means the possibility of purchasing goods and services at present, under the terms and conditions to settle the payment down on a particular future date determined.
  Example: Buying a stock of goods in January 2017 for Rs. 5,000 agreeing to make the payment in March 2017.
Some characteristics of a good currency are given below:
  o Having a general recognizion.
  o Durability
  o Difficulty in imitation
  o Easy movability
  o Easy identifiability/homogeneity
  o Ability to divide into small units (divisibility)

Money can be categorised in the following manner.

**Currency**
Notes and coins issued on the orders of the financial authority are known as currency. Currency is identified as valid money and it has a 100% liquidity.
Examples: Coins and notes

**Bank Money**
The balances held in demand deposits or current accounts in commercial banks are known as bank money. The payments are made with bank money using cheques. Though this doesn’t possess a 100% liquidity as currency, it is advanced in liquidity than near money.
Example: Current account deposits in a commercial bank.

**Near Money**
Nevertheless of having a 100% liquidity as currency these are the assets that function as a store (accumulation) of value and could be converted to cash easily.
Example: Time deposits and savings deposits owned by the public in commercial banks.
  - Treasury Bills
  - Commercial Papers

**E-money**
The money evolved as a result of information and digital technology which are used in payments of inland and international transactions.
Example:
  - **Debit Card**
The cards that can be used only by those who have money in the bank account are called debit cards and the paid amount is debited to the account through electronic media.
  - **Credit Card**
This is a special type of card that can be used to make payment for goods and services on credit terms and to take money from ATM’s, nevertheless of having a bank account.
  - **Pre-paid Card**
These are the cards receivable through the payment of money in advance.
The following services (facilities) are available to make these methods of card payment convenient.

- Automatic Teller Machine (ATM)
- Automatic Deposits Machine (ADM)
- Cheques Deposits Machines (CDM)
- Electronic Funds Transfer point of sales
- Telebanking facilities
- Internet banking (online banking)
- Television banking.
**Competency 7.0**: Evaluates the contribution of money and financial institutions for the existence and growth of businesses.

**Competency level 7.2**: Studies the system of financial bodies supporting enhancement of the businesses in Sri Lanka.

**No. of periods**: 08

**Learning outcomes:**
- Classifies the system of financial institutions in Sri Lanka based on the annual report of the Central Bank of Sri Lanka.
- Classifies the given set of financial institutions under each type.
- Explains the financial institutions that belong to each type with examples.
- Points out how financial institutions of each type contribute to the business operations.

**Instructions for lesson planning.**
- Group students in an appropriate manner and engage them in the following activity.

Given below are a set of financial institutions.

List them under the following headings.
- Central Bank
- Licenced Commercial Bank
- Licenced specialized bank
- Licenced finance companies
- Specified financial leasing companies
- Primary dealers
- Share brokers
- Unit trust

- Point out how the organisations belonging to each of the above categories contribute to businesses functions.
- Explain with examples the financial institutions that belong to each category.
A guideline to explain subject matters:

- The financial institutions in Sri Lanka are categorized as follows:
  - Banking Sector
    - Central Bank of Sri Lanka
    - Licensed commercial banks
    - Licensed specialized banks
  - Other financial institutions that accept deposits
    - Licensed finance companies
    - Co-operative Rural Banks
    - Thrift and credit co-operative societies
  - Specialized financial instructions
    - Specialized financial leasing companies
    - Primary dealers
    - Share brokers
    - Unit trust/Unit trust management companies
    - Market intermediaries
    - Venture Capital companies
  - Contracted savings institutions
    - Insurance companies
    - Employee Provident Fund
    - Employee Trust Fund
    - Approved Pension and Provident Funds
    - State service Provident Funds

(As per the Central Bank Annual Report 2015)

- How financial institutions contribute in business activities

  - Central Bank of Sri Lanka
    Central Bank of Sri Lanka, the main institution that performs its activities as an agent of the government, implementing the financial policies of the country. (The services of the Central Bank of Sri Lanka will be discussed in Competency Level 7.3)

  - Licensed Commercial Banks
    These are the financial institutions that maintain current accounts and other savings accounts with the ability of creating money.

    There are many licensed commercial banks registered under the CBSL and Monetary Board out of which a few belong to the state sector the majority to the private sector.

Examples:
Government sector commercial banks – Bank of Ceylon
People’s Bank
Private sector commercial banks – Sampath Bank  
Commercial Bank PLC  
Hatton National Bank  
Seylan Bank

(The services rendered by licensed commercial banks will be discussed in Competency Levels 7.4 and 7.5)

• Licensed specialized banks
These are a special type of institutions that has procured a license from the Central Bank of Sri Lanka to undertake business activities as a specialized bank under the Bank Act. The speciality is that they are not authorised to operate current accounts. However, they are authorised to accept deposits for Savings Accounts and time deposits or term deposits.
Examples: National Savings Bank  
Sri Lanka Savings  
Regional Development Bank  
State Mortgage and Investment Bank

• How the licensed commercial banks contribute in business activities
  o Accepting time and savings deposits  
  o Providing loan facilities to entrepreneurs involved in different fields  
  o Underwriting of company shares  
  o Providing leasing facilities  
  o Providing management advisory services

• Licensed finance companies
These are a special type of public companies that has procured a license from the Central Bank of Sri Lanka under the Finance act with the purpose of accepting time deposits and providing with investment loan facilities based on those funds.
Examples: L.B. Finance PLC  
Sinha Putra Finance PLC  
The Finance Co. PLC  
Singer Finance PLC

• Some activities of licensed finance companies are as follows
  o Providing hire-purchase facilities  
  o Sale of land and property  
  o Finance leasing  
  o Providing short-term loans  
  o Investing in public state securities  
  o Accepting time deposits
• Co-operative Rural Banks
This is an organization that provides loans to its members as one of its main activities and also accepts time and fixed deposits from members as well as non-members. This is the banking sector of multi-purpose co-operative societies.
Examples: Co-operative Rural Bank of Maharagama Multi-purpose Co-operative Society.

• Activities of Co-operative Rural Banks
  o Receiving deposits from members as well as non-members
  o Pawning activities
  o Maintenance of Savings and Fixed Deposit accounts
  o Providing loan facilities to members for agriculture, manufacturing, and industrial and marketing activities.
  o Popularizing the co-operative life-style among rural people.

• Thrift and credit Transaction Co-operative Society (SANASA)
This is a special type of institution registered with the Co-operative Commissioner under the Co-operatives Act which provide with loan facilities only to members by utilizing the deposits obtained as savings and membership shares while aiming and having as its objectives, the encouragement of savings and the provision of loans to members
Examples: Nelumkulama Sanasa Society
            Attanagalla Sanasa Society

• SANASA societies perform the following activities
  o Operating marketing centres to market the productions of members.
  o Marketing of equipment in the field of activity of the society at concessionary prices.
Example: Fisheries Co-Operative Societies – Fishing gear
  o Accepting deposits and providing loans to its members.

• Specialised Leasing Companies
These are the companies registered with the Central Bank especially for leasing activities. Provision of finance facilities as per the requests of businessmen to enable the leasing of machinery and other assets required for their use is the main business activity of these finance companies. The main income of these companies is the rent collected through leasing these assets.
Examples: Assetline Leasing Company Ltd
          LOLC Micro Credit Ltd
          SMB Leasing PLC
          Isuru Leasing Company Ltd

• Benefits gained by a businessmen from leasing companies
  o The ability to use high valued assets without paying the full value up front.
  o The lease rent paid in respect of a lease being free from income tax.
- Being able to overcome any losses and capital losses that result through obsolescence of machinery and other assets
- The ability of earning higher returns without making large investments.

**Primary Dealers**
The market where government securities are marketed for the first time earning money is the primary market. The firms that have been granted permission by the Central Bank of Sri Lanka to participate in the primary market are known as Primary Dealers.
The main responsibility of Primary Dealers is to participate in the primary auctions and secondary market dealing with Securities.
Examples: Capital Alliance Co.
Ceylinco Sriram Securities Co.
Bank of Ceylon
Sampath Securities Co.

**Share Brokers**
Organizations that act as mediators for buying and selling of shares debentures in incorporated companies is known as broker companies. It is necessary to obtain a license from the Securities and Exchange Commission to carry on business as a share broker.
Examples: Asha People’s Securities Co.
Asia Securities (Private) Co.
John Keels Share Broker (Private) Co.
J.B Securities (Private) Co.

**Activities of share brokering companies**
- Accepting buying and selling orders from investors.
- Opening of accounts in the Central Depository System on behalf of investors.
- Advising investors about making investments in shares and debentures.
- Assuring the highest returns to investors through market analysis and preparation of reports on surveys conducted the share market.
- Assist with the listing of companies.
- Assisting the public limited companies in generating of capital.

**Unit Trust/ Unit Trust Management Companies**
A Unit Trust is an investment fund that has been raised through the sale of units to investors. The funds thus collected are deposited in an investment portfolio by professional fund managers. The returns generated are distributed among the investors on the unit price of the Unit Trust.
- An unit Trust consists of three parties.
  - Unit trustee
  - Fund management company
  - Unit holders or investors
The connection between these parties can be shown diagrammatically as follows.

![Diagram of connections between parties](image)

Examples:

<table>
<thead>
<tr>
<th>Unit Trustee</th>
<th>Fund Management Company</th>
</tr>
</thead>
<tbody>
<tr>
<td>Namal Unit Trust</td>
<td>National Asset Management Company</td>
</tr>
<tr>
<td>Ceybank Unit Trust</td>
<td>The Unit Trust Management (Pvt) Co.</td>
</tr>
<tr>
<td>Ceylon Savings Fund</td>
<td>Ceylon Asset Management Co.</td>
</tr>
</tbody>
</table>

• Returns from investment in Unit Trusts
  o Reducing the risk through diversification of investments
  o Possibility of obtaining the services of professional managers for investment management.

• Market Intermediaries
  While Underwriters, Investment managers and Marginal suppliers are included in this, they act as mediators in the sale of financial instruments. For these services, the buyer and seller of the financial instrument is levied a service charge.

  **Underwriters**
  In the sale of securities to the public by a public limited company, the organization that contracts to pay and purchase any unsold securities within the given period, is known as the underwriter.

  **Investment managers** provide various services during the issue of securities to the public.
Some of these services are:
  o Issuing of investment applications for the issue
  o Accepting applications
  o Allocation of securities to the investors
  o Financial management about the issue
  o Advertising activities

**Marginal suppliers** are the organizations involved in debt collecting on behalf of the supplier and providing with factoring services. This is also known as debt factoring.

- **Venture Capital Companies**
  These are companies specialized in meeting the capital requirements of businesses of new entrepreneurs. They also provide funds for the commencement of new businesses, for the expansion of existing business, for business acquisitions and purchase of businesses etc. In addition, they also engage in underwriting, loan syndication etc.
  Examples: Central Finance Venture Fund Ltd.
  L Lanka Ventures Ltd.
  NDB Venture Investments (Pvt) Ltd.

- **Insurance Companies**
  Insurance companies are the institutions involved in raising funds through the issue of various insurance policies and performing financial intermediary services lending in the financial market and making investments.
  Examples: Sri Lanka Insurance Corporation Ltd.
  Ceylinco Insurance Co Ltd.
  Janashakthi Insurance Co. Ltd

- **Provident and Pension Funds**
  There are pension funds and provident funds administrated by the state sector management and private sector management.
  Examples:
  Funds under state management
  Employees Trust Fund – This is administered by the Employees Trust Fund Board coming under the purview of the Ministry of Policy Planning, Economic Affairs, Child, Youth Cultural Affairs.
  State Service Provident Fund
  This fund is managed by the Pensions Department
  Employees Provident Fund – (EPF)
  This is the largest pension fund for the private sector employees in Sri Lanka and is administered by the Labour Commissioner. The responsibility of management of this fund is with the Central Bank of Sri Lanka.

Funds managed by the private sector and approved pension and provident funds are administrated under the purview of the Labour Department.
Competency 7.0 -: Evaluates the contribution of money and financial institutions for the existence and growth of businesses.

Competency level 7.3 -: Explains the role of the Central Bank of Sri Lanka.

No. of periods -: 02

Learning outcomes:
• Introduces the Central Bank of Sri Lanka.
• Explains the objectives of the Central Bank of Sri Lanka.
• Lists the functions of the Central Bank of Sri Lanka.
• Explains the impact of the functions of the Central Bank of Sri Lanka on businesses.

Instructions for lesson planning
• Make an introduction on the Central Bank of Sri Lanka.

• Explain the objectives of the Central Bank of Sri Lanka.

• Explain the functions of the Central Bank of Sri Lanka.

• Explain the impact of the functions of the Central Bank of Sri Lanka.

• Group students in an appropriate manner and engage them in the following activities.

| News Item – 1 |
The Central Bank has announced the following currency values.  
   American Dollar – Rs. 134  
   Euro – Rs. 143  
   Sterling Pound – Rs. 208 |

| News Item – 2 |
Rs. 10 coins representing the various provinces have been issued. |

| News Item – 3 |
The Central Bank of Sri Lanka issues Treasury Bills to absorb the excess liquidity available in the market.
News Item – 4
The Central Bank of Sri Lanka raises the reserve ratio to be maintained by Commercial Banks in it.

News Item – 5
30% of the balance on the Employees Provident Fund is to be made available to private sector employees.

- Identify the function of the Central Bank of Sri Lanka incorporated in each of the news items mentioned above.
- Explain how each of the functions impacts on business.

- Present student findings to the class.

A guideline to explain subject matters:
- The Central Bank of Sri Lanka which was established on 28th August 1950 under the Monetary Act No. 58 of 1949 is the principal institution that represents the state as its agent to implement the financial policies of the Sri Lankan government. Its founder Governor was Mr. John Exter.
- Its organization of affairs is carried out by a monetary board consisting of 5 persons namely, the Governor of the Central Bank, the Secretary of the Finance Ministry overlooking finance and 3 other appointed members.

- The Central Bank of Sri Lanka has two main objectives in view.
  - To maintain economic and price stability.
  - To maintain stability of the financial system.

Maintain economic and price stability.
The maintenance or protection of the value of the domestic currency is price stability. Through this the economy is expected to be maintained devoid of inflation and deflation. Less inflation leads to a better economy. This helps to have sustainable economic development and higher employment levels.

Maintaining the stability of the financial system.
The ability of economy to sustain itself is known as the stability of the financial system. The creation of security in the financial system makes it possible to identify and minimize any threats to the stability and strengthen the financial process, this way a favourable atmosphere will be dawn for both depositors and investors.
The central bank of Sri Lanka engages in the following activities in order to achieve its objectives.

- The main activities of the Central Bank.
  - Manipulation of finance policies.
  - Manipulation of exchange ratio policies.
  - Management of Sri Lanka’s official foreign reserves.
  - Issuing and distribution of the currency in use.
  - Working as the supervisor of banks and non-banking institutions.
  - Working as the financial agent, banker and the economic advisor of the government.
  - Providing facilities to maintain the Central Bank’s settlement accounts of the commercial banks and primary traders’ clearance and settlement.

- The agency activities of the Central Bank.
  - Management of state loans.
  - Foreign exchange control.
  - To work as the primary institution concerned with rural loan schemes for small scale finance institutions.
  - Management of the Employees Provident Fund.

- How the activities of the Central Bank are supportive to the success of businesses can be explained as follows.
  - Sri Lanka Inter-bank payment system – SLIPS
    - This system with the use of computers is used for the settlement of inter-bank transactions.
    - This inter-bank payment system that was carried out by the Central bank has been entrusted to Lanka Clear (Private) Co.Ltd which is owned jointly by the Central Bank and commercial banks.
    - The following clearing activities are carried out by Lanka Clear (Pvt) Co.Ltd.
      - Exchange of cheques and bank drafts and calculating net balances.
      - Keeping the Central bank and other banks informed about this net balance.
  - Lanka Clear Private Co. Ltd has introduced a common card for transactions under the brand name “Lankapay”.
    - This is a network that embraces financial markets across the world based on the latest technologies. International money transfer between banks are facilitated through this system.
  - RTGS – Real Time Gross Settlement System
    - This is a computer system that has been set up using modern technology and standardised for
the settlement of high value transfers among banks within Sri Lanka without any time delays. This is important because settlements can be done in a very short time. This is the only national payment system in the country for high value transactions.

- SSDS – Scriptless Securities Depository System
  This is a system used to effect paperless transactions in the buying and selling of securities instead of the printed security certificates. This is also known as Lanka Secure. This avoids the risk of the investor in the safe keeping and selling of printed securities.

When the two systems above are combined, it is known as Lanka Settle System.
(RTGS+SSDS= Lanka Settle System)

- Central Bank activities contribute to there being security when making investments in businesses, the ease of financial transactions being conducted in an efficient manner which in turn ensures success in businesses and their long term existence.
Competency 7.0: Evaluates the contribution of money and financial institutions for the existence and growth of businesses.

Competency level 7.4: Points out the impact of various deposits undertaken and loans of commercial banks for the operation and growth of businesses.

No. of periods -: 06

Learning outcomes:
- Names the various deposits maintained by the commercial banks.
- Compares the similarities and differences of various deposits maintained by commercial banks.
- Points out the importance of various deposits maintained by commercial banks for a businessman.
- Classifies the loans provided by commercial banks.

Guidelines for lesson planning:
- Inquire from the students about the main services rendered by commercial banks.
- Explain that the main services are those associated with deposits and loans.
- Inquire from students about the various types of deposits maintained by commercial banks and explain the special characteristics of each type of deposit.
- Point out how these various types of deposits are important to businessmen.
- Group students in an appropriate manner and engage them in the following:
  - Given below are 3 pairs of deposits maintained by commercial banks.
    - Current accounts and Savings deposits
    - Savings deposits and Fixed deposits
    - Current accounts and Fixed deposits
  - Compare the similarities and differences in the pair of deposits that your group received.
  - Present group findings to the class.

Explain each type of different loans provided by commercial banks.

A guideline to explain subject matters:
- There are two main services rendered by commercial banks.
  - Services related to deposits
  - Services related to loans
Deposit related services
Maintaining Current Accounts (Demand deposits), saving deposits and fixed deposits are deposit related services carried on by commercial banks.

Current Accounts (Demand deposits)
A type of account that has facilities to do transactions with cheques and are not entitled to any interest on the balance. Bank overdraft facilities may be available while transactions can be carried out through teller cards.

Saving Accounts
This type of accounts have been introduced with the purpose of encouraging savings and accumulating an interest on the balance. Money can be deposited or withdrawn on the discretion of the depositor. Transactions may also be done through teller cards.

Fixed Deposits
This is a deposit of a fixed sum of money for a fixed period, attracting a fixed rate of interest. A higher rate of interest is payable relative to Savings deposits.

Some of the benefits that can accrued to the businessmen, holding a current account among the above mentioned deposits are as follows.
- The ability to make payments through cheques
- Ability to obtain remittance facilities
- Ability to make payments on standing orders
- Ability to obtain overdraft facilities
- Ability to obtain a report of the transactions (Bank statement)

Lending related services
- Overdraft
- Loans
  - Business Loans
  - Consumer Loans

Overdrafts
- A bank overdraft is a specific approval granted by the commercial banks to a current account holder to issue cheques up to specified value over and above the credit balance available in the account. These are in two types as temporary overdrafts and permanent overdraft.
- When an overdraft facility has been granted by the bank, the bank will honour cheques drawn by the account holder, up to the limit of the overdraft. Therefore, the value of cheques drawn for more than the available balance in the current account is known as the bank overdraft. Normally a higher rate of interest is charged on overdraft.
• A Permanent Overdraft Facility is where the facility allowed in continuously. In order to obtain a permanent overdraft facility it is necessary to provide some assets as security.
• Temporary Overdraft Facility is where the bank will honour cheques drawn in the excess of the balance in the account.
• A bank loan is a loan furnished by a bank at a fixed rate of interest on the condition of repayment within an agreed period in instalments together with the relevant interest.

• Bank loans are of two types
  o Business loans
  o Consumer loans

• A financial facility allocated to an individual or business on short term, medium term or long term basis to meet their business requirements, by a bank is known as a business loan.
• Loan facilities granted by banks to consumers for purchasing of assets or to meet emergency needs are known as consumer loans.
• In order to get an overdraft facility a current account is essential, but it’s not necessary for a loan.
Competency 7.0 -: Evaluates the contribution of money and financial institutions for the existence and growth of businesses.

Competency level 7.5 -: Points out the impact of the services rendered by commercial banks on the business operations.

No. of periods -: 06

Learning outcomes:
• Lists the services of commercial banks.
• Explains each service rendered by commercial banks separately.
• Explains how those services influence on business activities.
• Lists the services obtained from commercial banks by a selected business institution.

Instructions for lesson planning:
• Inquire from the students about the other services rendered by commercial banks besides the main services of accepting deposits and providing loans, relevant to the activities of business organizations.
• Discuss some of the responses of students and divide them into suitable groups and involve in the following activity.

- Select a business entity located in your area.
- List the services they have obtained from commercial banks under the following heading.
  - Types of deposits
  - Types of loans
  - Other services.
- Present students’ findings to the entire class.

- Explain how, other services rendered by commercial banks, influence on business affairs.

A guideline to explain the subject matters:
• Besides accepting deposits and providing loans, commercial banks also provide with the following services that have an impact on business activities.
  • Agency services :
    Commercial banks, perform as a representative an agent of customers when necessary.
    Examples:
    - Purchase and sales of securities.
    - Putting standing orders into effect.
    - Payment of water bills and electricity bills.

• Leasing services
(Explained in Competency 7.2)
• **E-banking**
The facilities furnished through the internet to enable customers to carry out their banking needs are known as electronic banking services. Some such facilities are mentioned below:
  - **Home banking**
  This is to access the bank’s website through one’s home computer and using the secret pin number to carry out the necessary banking transactions online.
  - **Tele banking**
  This is where the customer is able to use his phone (instead of going to the bank) to access the bank and carry out the necessary banking transactions.

• **Pawning Services**
An important service furnished by a commercial bank is to provide emergency loans to customers, mortgaging jewellery items as securities.

• **Safety locker facilities**
Commercial Banks also undertake to protect an individual’s gold, silver, gems, jewellery, deeds and other important documents. Banks maintain special safety lockers for this purpose.

• **Purchase and Sale of Foreign Exchange**
In accordance with Foreign Exchange regulations, commercial banks undertake to purchase foreign currency from customers and also to sell them their requirements of foreign currency.

• **Credit Card Services**
This is a type of card issued by a commercial bank or other licenced business entity, through the use of which a customer can purchase goods or services from authorised dealers up to a specified value. It is also possible to obtain cash up to a limit, at an Automatic Teller Machine, using the credit card.

Examples:
  - Visa Card
  - Master Card
  - American Express Card

• **Money Remittance Activities**
This means the collection of money due to the account holder on his behalf. Here, sending money to an individual in a foreign country as well as receiving money from an individual in a foreign country also takes place.

• **Issue of Traveller’s Cheques**
This is a special type of cheque that is used by the local and foreign travellers that enable them to carry out their various transactions easily and safety. Traveller’s Cheques are issued in commonly used currencies and in different denominations. The traveller gives the local currency notes he possesses to the bank who will issue Traveller’s cheques for an equivalent
value subject to bank service charge. Then the tourist on his travels will exchange the traveller’s cheques at a local bank according to his cash requirement.

• **Automatic Banking Services**

This is an electronic method of funds exchange that is available to bank account holders who can enjoy a lot of facilities that his bank has made available, at any time of the day. Through this the customers are able to obtain the following services from banks.

- Advantages to customers because of automatic banking services:
  - Withdrawal of cash using the teller card (ATM)
  - Depositing cash in the account
  - Transferring funds from one account to another
  - Ability to check the balance in the account
  - Availability of bill payment facilities

- Advantages to the bank because of automatic banking services:
  - Cost reduction
  - Reduction in the rush at the Bank
  - Increase in accuracy
  - Possibility of reducing the work force
  - An increase in banking service will result in increased profits

• **Issuing of Letters of Credit**

A letter of credit is a confirmation issued by the importers’ bank to the exporter’s bank on the request of importer as the assurance that they will pay the cost of the goods supplied by the exporter on behalf of the importer.

• **Other services**

Examples:
- Insurance services
  A commercial bank will tie up with an insurance company to provide insurance facilities to its customers.
- Providing medical services (E-Channelling, E-Billing)
- Installation of ATM machines in highly populated locations.
- Installation of ATM machines that are specially meant to accept cash and cheque deposits.
Competency 7.0: Evaluates the contribution of money and financial institutions for the existence and growth of businesses.

Competency Level 7.6: Points out how transactions can be made easy by using cheques.

No. of periods -: 08

Learning Outcomes -: 
- Defines a “cheque”.
- Introduces the main parties involved in a cheque.
- Explains the basic characteristics of a cheque by studying a cheque.
- Classifies cheques.
- Differentiates between the bearer cheque and the order cheque.
- Presents the factors to be considered when drawing a cheque.
- Explains the necessity of crossing cheques after explaining the crossing.
- Classifies the types of crossing by studying the given crossed cheques.
- Explains how general crossing and special crossing can be done.
- Explains the endorsing of cheques.
- Explains what is dishonouring of cheques and when dishonouring takes place.
- Creates a format of a cheque for a particular payment by using the given information.

Instructions for lesson planning -: 
- Show a cheque leaf to the students and ask what they know about it.
- Note down the student responses on the board and define a cheque.
- Introduce to the students, the main parties involved in a cheque.

- Make available a photocopy of a cheque to each group and engage them in the following activity.
  - Study the cheque very carefully.
  - Make a list of the information that you have identified on the cheque.
  - Present students’ findings to the class.

- Explain the basic characteristics of a cheque.
- Get a format of a cheque drawn and mark its main elements.

- Describe the types of cheques.

- Explain the facts to be considered in writing a cheque.
• Explain what ‘crossing’ a cheque is and its importance.

• Display photocopies or formats of cheque with the different types of crossings and involve them in the following activity.

  • Study carefully the cheques you have received.
  • Pay attention to the ‘crossings’ in the cheque.
  • Explain what is meant by those ‘crossings’.
  • List out the differences you noticed in different ‘crossings’.

  • Present students findings to the class.
  • Taking the student findings into consideration, explain the different types of ‘crossings’.
  • Explain the ‘general crossing’ and ‘special crossing’.
  • Explain clearly the different notations on the crossings.

• Introducing the endorsing of cheque.

• Introduce to the students the different notations of dishonouring a cheque. Inquire in to the notations made by the bank, explain to them and discuss the occasions and why a cheque is dishonoured.

A guideline to explain the subject matter :-

• A cheque can be introduced as the written order issued by a bank current account holder (drawer) to the commercial bank (drawee) asking to pay the amount stated on the cheque to the person named thereon (payee) or to the bearer of the cheque.

Main parties involved in a cheque:
  Drawer : Account holder
  Drawee : The commercial bank where the account is maintained
  Payee : The person named on the cheque or the person entitled to receive the stated amount on it.

Basic characteristics of a cheque
1. Date
2. The name of the Bank and branch
3. Payee’s name
4. The term ‘Or Bearer’
5. The value of the cheque in words and figures
6. The word ‘Pay’
7. Drawer’s signature
8. Magnetic Ink Character Recognition Strip (contains cheque number, Bank ref number, Branch number and account number in order)
9. Check counter foil

There are mainly two types of cheques

**Bearer cheques**
This is a cheque where the printed notation “or bearer” has not been cancelled. While, in the absence of an endorsement this cheque can be assigned to another person by merely handling it over, to a great extent it is similar to carrying out a transaction using currency notes.

**Order cheques**
This is a cheque where “or Bearer” has been struck off and in its place “order” has been mentioned. When a cheque like this is being assigned to another person it is necessary to be endorsed. There is a higher safety level in an ‘order’ cheque over a ‘bearer’ cheque.

Some of the facts that should be taken into consideration when drawing a cheque are given below:

- Indelible ink should be used when writing a cheque.
- The relevant details should be mentioned on the counter foil.
- Any errors made in writing the cheque must be struck off with a single line with the drawer’s full signature.
- The cheque must be written in only one language.
- The drawer’s signature must be made as per the specimen given to the bank when opening the account.
- Attention must be paid to the date placed on the cheque and also to the steps taken subsequently for its safety.
- The drawer’s signature must not be placed on a ‘blank’ cheque.
• Crossing the cheque
Drawing two parallel lines across the face of the cheque or stating the name of a commercial
bank is known as ‘crossing’ a cheque. While any person can make a ‘crossing’ on a cheque, it
is only the drawer that can make such a ‘crossing’ invalid.

• The necessity to ‘cross’ a cheque.
  o This gives an additional safety for the cheque.
  o To ensure that the ‘payee’ stated on the cheque will receive its value.
  o To prevent paying to the cheque at the bank counter.

• There are two types of crossings.
  o General crossing
  o Special crossing

**General crossing**
Drawing two parallel lines across the face of the cheque with or without any statements is
called a General crossing.

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General crossing:

- Not negotiable
- Account payee only
- Up to a maximum of Rs. 5000

**Special Crossing**
Stating the name of a commercial bank with or without the parallel lines is a “special crossing”.
A cheque of this nature must be deposited in an account of the bank name stated on it.

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Special crossing:

- Bank of Ceylon
- Not negotiable People’s bank
- Account payee only People’s bank
- Only up to a maximum of Rs. 5000. People’s Bank, Maharagama
• Stating ‘not negotiable’ within the parallel lines means that such a cheque can be endorsed and transferred and that when such a transfer takes place the transferee does not have a greater right to it than the transferor. Therefore, when a cheque with this notation is received the person receiving should be fully aware of the rights of the transferor.

• When the cheque is crossed “Account Payee Only” it means that the cheque must be deposited in an account bearing the payee’s name. This notation limits the cheque being transferred to another person.

• The notation “Only up to Rs. 5,000” limits the maximum amount that can be written on the cheque.

• Endorsement of cheques
Writing the name of the payee on the reverse side of the cheque, exactly as it is stated on the face of the cheque is known as endorsement. (Any person in whose name the cheque is drawn must write his name on the back of the cheque when it is being transferred.) This endorsement confirms that the transfer is legitimate.

• Instances where the endorsement is necessary.
  o When the ‘Payee’ deposits the cheque in his account
  o If it is an ‘Order’ cheque, when it is being transferred
  o When a cheque without crossings is presented to the bank counter for encashing.

• Dishonouring of cheques
Where a bank rejects the payment for a cheque that has been presented, it is known as the cheque being dishonoured.

• Instances where a cheque may be dishonoured.
  o Insufficient funds in the account
  o Where the drawer stops payment (countermanded)
  o Where the drawer becomes bankrupt
  o Where the drawer dies and this is intimated to the bank
  o Where a garnishee order has been received (a court order)
  o Because of an error in writing the cheque (technical errors)
  o Where the account has been closed

Assessment and Evaluation
Read the following information carefully

Suppose that you have to pay a sum of Rs. 10,000 to Chatura Bandara. While you maintain your current account at the Bank of Ceylon, Maharagama; Chatura Bandara maintains his accounts at the People’s Bank, Anuradhapura. It is proposed to make this payment by cheque today itself. Draw a format of a cheque and write the relevant details on it ensuring maximum safety.
Competency 7.0 -: Evaluates the contribution of money and financial institutions for the existence and growth of businesses.

Competency level 7.7 -: Points out how transactions can be made convenient by using e-money.

No. of periods -: 06

Learning outcome:
- Explains what e-money is.
- Explains the types of e-money in use.
- Explains the characteristics of an e-cash card and the parties involved in such a card.
- Lists the advantages and disadvantages of using e-cash.
- Tabulates the significance of each type of e-money that is in use.

Instructions for lesson planning:
- Display some electronic cards to the class and inquire from the students what they know about each card.
- Conduct a discussion highlighting the following points.
  - Types of card, characteristics of the cards, organizations issued
- Explain what electronic money is
- Explain the types of electronic money in use.
- Give an electronic card to each group of students and make them involved in the following activity to identify the characteristics of an e-cash card.
  - Observe the card you received very carefully.
  - The type of cards it belongs to
  - The institution that has issued the card
  - The number of the card
  - The name of the card holder
  - Date of expiry of the card
  - Identify the other important characteristics and write them down.
- Point out characteristics of an electronic cash card.
- Introduce the parties involved in electronic cash.
• Point out the advantages and disadvantages of making transactions using electronic money.

A guideline to explain subject matters:
E-money
The electronically exchange of cash or the cash exchanged through a computer network is known as e-money. As a result, a fund transfer takes place from one party to another party (Electronic Fund Transfer).

Types of electronic money:
- Credit cards
- Debit cards
- Prepaid cards
- Smart cards
- Micro Chips

Credit Cards
Cards that are issued by a commercial bank or authorised institution that allow a person to obtain goods or services up to a specified value from authorised dealers are known as Credit Cards.

An electronic verification system is used to verify the validity and credit limit when a credit card is presented to a businessman. When the card is inserted in the card machine at the sales outlet these details are revealed.

However, in electronic commerce the presentation of the card is not necessary and the transaction can be carried out by providing the relevant details about the card.

Examples: Ceybank Visa – Bank of Ceylon
- People’s Visa – People’s Bank
- Master Card – Sampath Bank
- Seylan Visa – Seylan Bank

• Advantages and disadvantages of making transactions through Credit Cards

Advantages to the customer:
- Having an account is not a requirement to obtain a credit card.
- An interest free loan for a given period.
- Cash can be obtained through an ATM machine within the credit limit.
- Being entitled to discounts and bonus points.

Disadvantages to the customer
- Having to pay a penalty for late payments for the credit card.
- Not being able to carry out transactions from all the sales outlets.
Advantages to the business
- Certainly that money will be received for a credit sale.
- Increase in profit because of a higher turnover
- Receiving free publicity

Disadvantages to the business
- A commission is payables to the bank
- A special machine has to be installed

• Debit Cards
An account holder can use this card to settle his shopping bill and also withdraw money from a Teller machine up to the balance remaining in his account. This card is issued by the commercial bank where the account is maintained.
Examples: SET    Sampath Bank
           PET   People’s Bank
           Catsupper    Commercial Bank
• Advantages to the customer by using the debit card for transactions
  - Interest is not payable because the money in his account is used.
  - The transaction is completed at the same time.
  - Cash withdrawals can be done through ATM machines as well.

• Disadvantages to the customer through the use of debit cards.
  - It is necessary to have an account.
  - The value of transactions is limited up to the balance available in the account

• Pre-paid cards
This is a type of card obtainable by making payments in advance. This is a convenient, protective electronic payment system that can be used instead of paying in cash or by cheque. Even a person who does not maintain an account can use this card to make payments electronically.
Examples: Telephone cards
           Travel passes

• Smart cards
This is an integrated circuit card. A chip with a specified money value is embedded in the card. Once a transaction is completed using this card the value of the transaction is debited to the card and the balance is reduced. The card can be reloaded by making regular payments to the organization that issued the card. While this card has the same facilities as a Credit card, Debit card, ATM card, it can also be used as an E-purse.
  - The following characteristics can be seen in electronic money cards
The face of an electronic card:

![HSBC Card](image)

The reverse of the card:

![Reverse Card](image)

- The name and the logo of the issuing organization.
- Type of card
  - E.g.: Debit card, Credit card, ATM card
- Card No.
- Brand logo
  - E.g.: Visa, Master
- Date of expiry
- Card holder’s name
- Magnetic strip
- Signature stripe
- Card security code
- Hologram
- Issuing organization’s name, address and conditions
- Customer service hotline
The following parties are involved in the settlement of electronic transactions:

- Card holder
- The card issuing organization
- The trader or seller
- Credit Association
  Example: Visa, Master, American Express (AMEX)

Advantages and disadvantages in making transactions with electronic cards are as follows.

**Advantages:**

- Cost of transactions being minimised.
- Assuring the safety of cash.
- Ability to make transactions for 24 hours in the day.
- Convenience of payment activities.
- Various benefits being entitled.
- Ability to use for overseas transactions as well.

**Disadvantages:**

- Having to bear the costs of interest, penalty for delayed payments etc.
- Possibility of committing fraudulent deeds.
- Addiction to an unnecessary consuming pattern.
- Intermittence to transactions due to technical defects.
- Inability and lack of knowledge for all customers to carry out transactions.

**Assessment and Evaluation**

- “The customer and the trader will be always benefitted using electronic money for transactions”. Divide the class into two groups and get them to debate on the above theme,
Competency 8.0: Confirms the necessity of insurance for the existence of businesses.

Competency level 8.1: Examines the importance of insurance which supports the existence of businesses,

No. of periods -: 04

Learning outcomes:
- Explains what a risk is.
- Prepares a list of risks a business may face.
- Explains ‘insurance’
- Classifies the risks as insurable risks and non-insurable risks.
- Explains what insurable risk is and provides examples.
- Explains what non-insurable risk is and provides examples.
- Confirms the necessity of insurance for the existence of businesses.
- Explains ‘insurance agreement’
- Explains the parties involved in an insurance agreement.
- Lists the factors included in an insurance agreement.

Instructions for lesson planning
- Inquire from the students about the risks that can happen to lives and properties.
- Explain that there are insurance methods and insurance institutions related with them to cover these risks.
- Form a definition for insurance, explaining that to cover a risk, the party subject to insurance comes to an agreement with the insurance institutions.

- Present the following risks to the students. Instruct them to divide the followings as insurable and non-insurable risks.
  - Thieves having got into the house and taking the jewellery.
  - Failing of a student in the GCE A/L exam.
  - A motor vehicle belongs to you facing an accident.
  - Not receiving the money from a debtor.
  - No winning a chance for the tickets bought.
  - Not receiving the love of the teacher.
  - Demolition of your house by an attack of wild elephants.
  - Gaining less from the business in the coming year.
  - Expiring the computer of the business in technological terms.

- Explain that all the risks, that happen cannot be covered from insurance.

- Explain how insurance contributes to the existence and development of the businesses.
- Explain to the parties involved in insurance, the agreements they had come to

**Guideline to explain subject matters**
- The space of occurring damage which can be estimated financially is known as risk in insurance.
- There can be various risks when performing business activities,

Examples:
- Catching fire
- Risk of theft
- Loss from business.
- Damages that can happen to business properties.

- Insurance is an agreement between an insurer and the insured whereby the insured agrees to pay the premium and the insurer agrees to pay compensation that the insured face from insured risks.

- Risks can be categorized as insurable risks and non-insurable risks,
- Given below are some characteristics that should be in insurable risks.
  - Risks can be forecast.
  - Risks that may happen in the future can be calculated in terms of money.
  - Risks should not be certain. In other words, the loss should happen in a random way.
  - It should be of no connection. It means, the loss that has happened should not be related to any other insured loss.
  - It should be verifiable. The cause for the loss, the place where it occurred, time and amount can be analysed.

  - To be an insurable risk, the above facts need to be fulfilled.
  - If the above facts are not fulfilled then those kinds of risks are non-insurable risks.
  - Given below are some examples for the insurable risks.
    - The risk that may be caused by the buildings catching fire.
    - The risks of motor vehicle accidents.
    - Damages that happen to money in transit.
    - The risk of not receiving the money from a debtor.

  - Given below are some examples for non-insurable risks.
    - Businesses experiencing loss.
    - The risks from natural reasons. (Depreciation, expiration, vaporisation)
    - The risks decided by one’s ability and strength (Failure in exam, loss of love)
    - The risks caused by the change in design.

- Insurance is important for the survival of the businesses.
  - Investors are motivated to start businesses since the risks of the businesses are covered by the insurance.
• Receiving protection in terms of money when disabled or at death. (for employees)
• Capital for the development of the country is provided since the insurance companies reinvest their funds.
• The international trade has been developed since marine insurance.

• Insurance agreement is a written agreement that takes place when an insurance proposal form, presented by the person who intends to obtain an insurance coverage, is accepted by an insurance institution.

• Insurance policy is a written certificate given by an insurance institute to the insured after an insurance agreement for a life or a property has taken place.

• There are two parties related to insurance agreement
  • First party (Insured)
    The person who presents an insurance proposal or the person who obtains insurance coverage.
  • Second party (Insurer)
    The party who accepts the insurance proposal or the insurance company.
    Apart from the above there can also be a third party. The third party is the relationship about external party that comes into the activation of the agreement.

• To validate an insurance agreement, there should be the following:
  • Idea of legal obligation
  • Insurance offer or proposal
  • Acceptance
  • Legal validity
  • Ability to have legal obligation by parties.
Competency 8.0: Confirms the necessity of insurance for the existence of businesses.

Competency level 8.2: Investigates the principles of insurance which helps the practical use of insurance

No. of periods: 06

Learning outcomes:
- Lists the principles of insurance.
- Explains insurable interest through examples.
- Confirms the necessity of behaving with utmost good faith in an insurance agreement.
- Explains the influence of principle of indemnity when paying compensation for the damage caused for an insured asset.
- Explains the principle of subrogation and gives examples.
- Explains the principle of contribution and gives examples.
- Explains the impact of proximate cause when giving compensation.
- Evaluates the importance of principles of insurance for the insurance.
- Explains the principles of insurance using given incidents.
- Explains “underwriting” and “re-insurance”.

Instructions for lesson planning
- Present a picture of a large tree to the class.
- Inquire from students’ their ideas about it.
- Lead a discussion highlighting the following facts.
  - The existence and the strength of the tree depend on the roots of the tree.
  - There will be no existence for the tree if the roots are damaged.
  - The principles of insurance assist for the existence of insurance businesses.
  - Accordingly, the principles of insurance assist when obtaining an insurance policy, when maintaining it, when paying benefits and when cancelling the policy.

- Make students engage in the following activity by grouping them in a suitable manner.

  Given below are some statements stated by insurance institutes. Focus on the pair of statements that your group has received.

  The pair of statements - 1
  - Though Shahan’s only relative is his elder brother, Shahan cannot insure his elder brother’s life.
  - Since Ranjani has concealed her sickness when obtaining the insurance policy, compensation cannot be paid.
The pair of statements - 2

- Since Devaka’s motor vehicle that had been insured for 15 lakhs has now been damaged for 2 lakhs, the compensation that can be paid according to damage is only 2 lakhs.
- Even though Bandula has insured his factory for 10 lakhs, each in 4 companies, the compensation he can get for the damage of 5 lakhs from all 4 companies is 5 lakhs only.

The pair of statements - 3

- Before the payment of compensation, the debris of Dinesh’s lorry, which was damaged by an accident, should be handed over to the insurance company.
- Suresh’s business, which has been insured with the only risk of fire under fire insurance, has been destroyed by terrorist acts. Since the damage was caused by a riot the compensation cannot be paid.

- Lead a group discussion to identify the incidents that your group has received
- Explain your group’s idea about the facts that are in the incidents.
- If you are the insurer of those statements, present ideas about these decisions.
- Are you satisfied with the decisions that the insurer, in the statements, has taken? Explain reasons.
- Present students’ findings creatively to the class.

Lead a discussion highlighting the following facts.

- Explain that, Shahan cannot insure his elder brother, the reason for this is that one cannot obtain an insurable interest on blood relationships and the principle of insurable interest is related to this,
- Explain that since Ranjani has concealed her sickness faith has been broken down, because of that the agreement becomes dismantled and the principle of utmost good faith is related to this.
- Explain that, even though Devaka’s motor vehicle has been insured for Rs. 1 500 000, the value of the damage is only Rs. 200 000. The compensation he receives is only Rs. 200 000 and the principle of indemnity is related to this.
- Explain that the compensation for the damage of Bandula’s factory is only 5 lakhs, which is contributed proportionately by all four insurance companies and the principle of contribution is related to this.
- Explain that before the payment of compensation Dinesh’s lorry with debris should be handed over to the insurance company which paid for the compensation and the principle of subrogation is related to this.
- Explain that, since Suresh has obtained a fire insurance policy he cannot get the compensation for the loss caused by terrorist’s acts, and the principle of proximate cause is related to this. Accordingly explain that one can extend a fire insurance policy by including other hazards as terrorism and by paying an extra premium.
A guideline to explain subject matters

• To maintain the insurance business in an orderly manner, the principles of insurance should be followed.

• Principles of insurance can be listed as follows.
  o Insurable interest
  o Utmost good faith
  o Indemnity
  o Subrogation
  o Contribution
  o Proximate cause

• The interest over anything, whereby the existence of it causes economic advantages and the loss of it causes economic disadvantages is known as insurable interest.
  Examples:
  o There are insurable interests over husband’s life to wife as well as over wife’s life to husband.
  o The legal owner of any property has insurable interest over the property. (Own motor vehicle, land etc.)
  o A creditor has insurable interest over the debtor’s life which limits the amount of money he has lent.

• Revealing all the information related to the insurance agreement by the insurer and the insured morally regarding the object, subjected to insurance, is known as utmost good faith.

• When an insured property has been damaged, payment of an adequate amount of the compensation to restore the property is known as indemnity.
  Examples:
  If a motor vehicle worth 40 lakhs has been insured for the same amount and if a damage of 2.5 lakhs takes place, only 2.5 lakhs will be received as compensation.

• When a property has been insured in several insurance companies and if a damage has occurred to it, payment of compensation by all the insurance companies for it by contributing proportionately is known as contribution.
  Examples:
  If a property worth 10 lakhs has been insured in three insurance companies named A, B and C for 5, 3, and 2 lakhs respectively, and if a damage of Rs. 100,000 has occurred to it, According to the ratio 5 : 3 : 2, A contributes 50,000, B contributes 30,000 and C contributes 20,000 as compensation.

• When the insurance company has settled the loss for the damage caused to the insured property, transfer of other advantages and rights from external parties that the insured can obtain, to the insurer is known as subrogation.
Examples:
If a motor vehicle, insured for 50 lakhs is destroyed totally in an accident, then the insurance company pays all 50 lakhs as compensation and takes over the debris of the vehicle.

- When several reasons cause the damage of an insured property or a life, the payment of compensation is made only if the proximate reason is covered by the policy is known as proximate reason.
  Examples:
  A person owning a theft insurance policy cannot obtain compensation if his home is damaged by a fire. The reason is, the risk of catching fire hasn’t been covered by the insurance policy.

- Insurance interest, utmost good faith and proximate reason are the only principles that are relevant to life insurance. Indemnity and the principles relevant to it such as contribution and subrogation are not relevant to life insurance. The reason for that is, the loss is immeasurable when a loss or an accident happens to lives and that it cannot be recovered. In life insurance a certain value mentioned in the policy will be granted as compensation.

- Insuring back a risk that is undertaken by an insurance company by itself under another insurance company or many is known a reinsurance. Since an insurance company can transfer the liabilities through reinsurance, the premium charged from the insured is rather low.

- Dividing the risk of a property, which is of higher value, into several insurance companies and handing over the risks to several insurance companies and in case of an accident to the property the loss will be compensated by the companies to the amount they have undertaken is known as underwriting.
**Competency 8.0:** Confirms the necessity of insurance for the existence of businesses.

**Competency level 8.3:** Examines the types of insurance policies which covers various risks in business.

**No. of periods:** 05

**Learning outcome:**
- Lists the types of insurance policies which can be obtained by a business.
- Explains the risks covered by each insurance policy.
- States the differences between life insurance and other insurance.
- Separates the risks included and excluded in the fire insurance.
- Explains the types of insurance policies in motor insurance.
- Explains the types of insurance policies in marine insurance.
- Shows the insurance policies that can be obtained using a given incident.

**Instructions for lesson planning**
- Present the pictures with the following scenes to the class.
  - A scene where a building is on fire.
  - A scene where two motor vehicles have been met with an accident.
  - A scene where a ship is submerged.
  - A scene where thieves enter into a business premises.
- Inquire students ideas about the incidents in the pictures.
- Inquire from the students about the steps that can be taken for such incidents.
- Lead a discussion highlighting the following facts
  - That there are various kinds of risks
  - That coverage for these risks can be obtained through insurance policies.
- Make students engage in the following activity by grouping them in suitable manner.
  - Given below are some information about three socially accepted characteristics. Focus on the character your group has received among them.

<table>
<thead>
<tr>
<th>Character</th>
<th>Information</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mahila</td>
<td>Is a clerk. Has three children under the age 10. Husband is passed away. Has a home and poperty inherited from her husband.</td>
</tr>
<tr>
<td>Danapala</td>
<td>Maintains a furniture factory and few selling shops. The factory is situated very close to the river Kelani. Distributes his production to sellers all over the country by his own two lorries.</td>
</tr>
<tr>
<td>Danawardana</td>
<td>Is an owner of few tea estates. Owns two tea factories. Has a habit of going to estates and factories to pay salaries to employees. He himself exports his productions.</td>
</tr>
</tbody>
</table>

- Bring out the following facts by studying the activities and life style of the character that your group has received.
• Write the risks separately that may be faced by the person that your group has received.
• Show the insurance policies that can be obtained from insurance market to cover those risks.
• Present the students findings creatively to the class.
• Show the risks that the persons have to face according to each incident and the kinds of insurance policies that can be obtained to cover those risks.
• Explain that Mahila can obtain a life insurance for the risk of her life and that he can name her three children as beneficiaries, that she can obtain a fire insurance for her house and property insurance for her properties.
• Explain that Danapala can obtain a life insurance for the risk of his life, an employer liability insurance for employees, a product liability insurance for furniture he produces, property insurances such as a fire insurance for the factory and a motor vehicle insurance for motor vehicles. Explain since the factory is situated much closer to the river Kelani, the flood hazards can also be included under the fire insurance.
• Show that Danawardana can obtain a life insurance for the risk of his life and insurances such as fire, theft insurance for his factory. Apart from this explain that he can also obtain insurances such as money in transit insurance and goods in transit insurance.

A guideline to explain subject matters
• Insurance is categorised under two categories.
  o Life insurance / long term insurance
  o General insurance.

• Life insurance / long term insurance
  o When faced with risks due to the demise or physical hazards of the insured, providing monetary benefits to the insured or his beneficiaries is done in life insurance.
  o The aim of the life insurance is to protect a certain person against the losses caused as a result of demise disability or turning to old age.
  o Life insurance is obtained for a certain period of time, if the insured dies during that period, the agreed total value is given to beneficiaries or a named person and if he lives until the period is over, he can obtain the value of the insurance policy and benefits at the end of the period.
  o The way that the life insurance differ from other insurances can be shown as follows,
    Examples
      The risk of life insurance is certain whereas the risk of other insurances is uncertain.
  o Indemnity principle is not relevant to life insurance where as this principle is relevant to other insurances.
  o Life insurance is equal to a saving but the compensation for other insurances can only be obtained when a loss is occurred,
  o Life insurance policy cannot be transferred whereas other insurance policies can be transferred.
• **General insurance**
  General insurance can be categorised as follows:

  - Fire insurance
  - Theft and burglary insurance
  - Natural disaster insurance
  - Marine insurance
  - Motor vehicle insurance
  - Liability insurance
  - Goods in transit insurance
  - Money in transit insurance

• **Fire insurance**
Insurance that can be obtained to cover the losses caused to a person, building or any other property due to fire is the fire insurance.
Apart from the losses caused due to fire, the following risks can also be covered in the policy by extending the policy by paying extra premium.

  - Losses by riots / strikes
  - Losses by explosions
  - Losses by electricity
  - Earth quakes / tsunami
  - Flood /whirl winds /storms
  - Aircraft crashes
  - Losses from crashes.
  - Consequential losses

• **Theft and burglary insurance**
Theft insurance policies can be obtained to cover the risks that can happen to business premises or to homes from thievery.

• **Natural disaster insurance**
Natural disaster insurance can be obtained to cover the losses occurred to properties such as by storms.

• **Marine insurance**
The losses caused to ships and goods in them while transporting by the sea can be covered by marine insurance.
Marine insurance is of two parts.
- Hull insurance
- Cargo insurance

- Different kinds of insurance policies can be obtained under the hull insurance.
  - Full option policy (Comprehensive policy)
  - Total loss policy
  - Port risk policy
  - Maintenance policy
  - Construction all risk insurance policy

- Different kinds of insurance policies can be obtained under the cargo insurance.
  - Valued policy
  - Open cover/ floating policy
  - Future time policy

- Motor traffic insurance
  An agreement made between an owner of a motor vehicle and an insurance company to obtain compensation for the loss occurred to motor vehicles, people traveling in motor vehicle and other external parties due to motor vehicle accidents.

There are some kinds of insurance policies that can be obtained under motor traffic insurance.
- Full insurance
- Third party fire and theft insurance
- Third party insurance

- By a full insurance policy losses to the relevant vehicle, people and properties that travel in the vehicle are covered.
- By third party fire and theft insurance, apart from losses to relevant vehicle by fire and theft, losses to external people and properties are also covered.
- By a minimum third party insurance losses only to third party and properties are covered. To run a motor vehicle on the road at least a minimum third party insurance must be obtained.

- The liability insurance
  Insuring the liability for the losses caused to other parties is known as liability insurance. Because of this insurance, businessmen can get protection against liabilities for other parties for the losses caused by themselves.
  Given below are some liability insurance policies under liability insurance.
  - General liability insurance
    An insurance coverage obtained by relevant businessmen or owners of the properties for the loss that may unexpectedly occur from properties or from business activities.
○ Product liability insurance
   An insurance coverage obtained by businessmen for the losses that may occur to consumers by consuming the products that the relevant business sells.

○ Employer liability insurance
   It is the responsibility of the employer to pay compensation for the accidents to employees while being engaged in service. In that kind of situation the liability to pay compensation can be transferred to an insurance institute.

The insurance that the employers obtain for employees, who work under them, to pay compensation for wounds and ailments which happen due to work is known as employer liability insurance.

○ Goods in transit insurance
   Insurance that is obtained to cover the losses that can occur to goods from the moment they are loaded to transport till they are unloaded intending to transport on land is known as goods in transit insurance.

○ Money in transit insurance
   The insurance that is obtained to cover the loss that can happen while taking money from one place to another is known as money in transit insurance.
Competency 9.0: Confirms the necessity of using communication effectively for the success of business activities.

Competency level 9.1: Inquires about the factors that enhance the success of the communication process.

No. of periods -: 05

Learning outcomes:
- Explains what communication is.
- Shows the importance of communication in business activities.
- Shows the importance of communication in social activities.
- Presents the communication process using a diagram.
- Explains the elements of the communication process.
- Prepares a list of characteristics of an effective communication.
- Prepares a suitable message, taking the factors to be considered in preparing a message.

Instructions for lesson planning:
- Call a student who is in the front row and tell him a message secretly.
- Instruct him to convey it to the student next to him.
- After conveying the message to all the students in the same manner, ask the last student, who received the message last, to write it on the board.
- Inquire if the last student has received the same message as was given to the first student.
- If the message has been changed, lead the discussion to reveal the reasons that can be caused for the change.
  - The person conveyed the message hasn’t conveyed it clearly.
  - The person received the message hasn’t listened to it clearly.
  - The message has not been clear.
  - The words in the message cannot be understood.
- Explain that, for an effective communication, the information must be exchanged accurately.
- Introduce “communication” and show the importance of communication for business activities and social activities.

- Make students engage in the following activity to explain the elements of the communication process.
- Arrange for students to receive the following incident.
  While the chief executive officer has informed with a notifying letter to all the managers to make all the employees participate in the employee training programme held by the
organization on 02nd December 20xx, in response, all the managers have sent e-mails to CEO informing that they have informed all the employees in their departments and have made necessary arrangements for it.

Study this incident well.

As stated in this incident,
- The person sent the message.
- The message that has been sent.
- The communication mode used to send the message.
- The persons who received the message.
- The way they acted regarding the message.
- The way they informed the actions, they took, to the sender.

Present the above to the class.

Based on the students’ responses, explain each of the communication elements.

Explain that
- The sender of the message – Chief executive officer.
- Message – Make all the employees participate in the employee training programme held by the organization on 02nd December 20xx.
- Medium – Written
- Recipients – All the managers
- Response – After receiving the message, all the managers informed the respective employees and made necessary arrangements for it.
- Feedback – Informing the chief executive officer through an e-mail that all the necessary arrangements are made.

Show the communication process in a diagram and explain each of the communication element.

Make students engage in the following activity to explain the attributes that should be in an effective communication and the facts that should be considered when preparing a message.

Given below are some instances where a communication took place. Among them, concentrate on the instance that your group has received.

- Informing the relevant sectional heads, that the principal will be conducting a meeting for all the sectional heads after school hours.
- Informing the organization about the inability of an employee to report to work due to a sudden illness.
- Informing all the branches island-wide about a special holiday that the organization has decided to grant.
Through a group discussion, identify the sender and the receiver of the message, which your group has received.

Through a group discussion, prepare the message that the sender should send.

Suggest the ways that the message can be sent.

Show, in a diagram, the process of sending the message you prepared from the sender to the receiver.

List out the facts that were focused on when your group was preparing the above message.

Show the importance of the communication for the following activities.

- For business activities
- For social activities.

- Present the findings of the student’s creatively to the whole class.

**A guideline to explain subject matters.**

- Communication can be defined as sending and receiving information, understanding and sharing information from one party to another or many parties.

- Communication is important for business activities as well as social activities.

  - The importance of communication for business activities.
    - To exchange ideas between parties at businesses.
    - To maintain employer employee relationship.
    - To manage human and physical resources well.
    - For marketing promotional activities.

  - The importance of communication for social activities.
    - To exchange ideas and messages socially.
    - To know instantly about the incidents that happen internationally.
    - To get information needed for educational activities.
    - To know about new inventions that come with the technological improvement.
    - To build up social relationships nationally and internationally.

- Communication process can be shown in a diagram as follows.
• The elements of the communication process.
  o Sender
    This is the party sending the message. If it is verbal the sender is a speaker or a
    lecturer, if it is written form then it is the person who signs it or the institution.
  o Message - The information that the sender provides to the receiver.
  o Media
    How can the information be provided? This is the communication mode used to provide
    information.
    Examples -: Verbal medium, written medium.
  o Receiver
    This is the person who grasps the message. He can be a reader, listener or viewer.
  o Response - The way the receiver acts on what he heard or read.
  o Feedback
    This is the response from the receiver to the sender of the message ensuring that he
    received and understood the message.

• Characteristics that should be in an effective communication.
  o Correctness
  o Brevity
  o Completeness
  o Clarity
  o Politeness
  o Certainty
  o Consideration
  o Cost
  o Speed

• The following points must be taken into consideration when preparing a message.
  o The nature of the message
  o Completeness
  o Correctness
  o Politeness
  o The ability of being understood by the receiver
  o Brevity
  o Certainty
Competency 9.0: Confirms the necessity of using communication effectively for the success of business activities.

Competency level 9.2: Engages in effective communication inquiring various communication method.

No. of periods: 05

Learning outcomes:
- Explains the mode of communication.
- Gives communication methods for each mode of communication.
- Explains the new methods of electronic communication.
- Explains the methods of non-electronic communication.
- Lists the internal and external communication methods used in businesses.
- Shows the barriers to effective communication.
- Proposes the strategies to avoid barriers to communication.
- Discusses the advantages and disadvantages of various modes of communication.

Instructions for lesson planning
- Inquire from the students about the communication methods that are used by the principal to address the morning assembly, to inform the changes of periods, to inform the progress of the students to their parents.
- Lead a discussion highlighting the following points.
  - The principal addresses the morning assembly orally.
  - Uses a signal to indicate the changes of periods.
  - Uses written media to inform the progress of the students to parents.
- Explain, in a similar way, businesses also use different medias for communication and under those communication media they use different communication methods.
- Make student engage in the following activity by grouping them in a suitable manner.
  - From the following topics, focus on the topic that your group has received.
    - Oral communication media.
    - Written communication media.
    - Signs and symbols communication media.
  - Write as many communication methods as possible related to the topic your group has received.
  - Separate those methods as internal and external communication methods.
  - Show the advantages and disadvantages of using the communication methods that are related to the topic you have received.
  - Show the barriers that come when using those communication methods practically.
  - Present your suggestions to minimize those barriers.
• Present the findings of the students creatively to the class.

**A guideline to explain subject matters.**

• Communication medias are categorized as follows.
  o Oral media
  o Written media
  o Signs and symbols media

• It can also be categorised as follows in the way communication takes place in an organization.
  o Internal communication
  o External communication

• Internal communication is the exchange of information among the different parties within a business organization.

• In internal communication, exchange of various information.
  o Among managers – owners
  o Among employees – employees
  o Among departments – departments

• External communication means the exchange of information by the business organization with external organizations and external parties.

• In external communication, exchange of information.
  o Among business organizations – customers
  o Among business organizations – other business organisations and suppliers.

• Given below are some examples of ways that the communication is done through various communication media..

<table>
<thead>
<tr>
<th>Verbal</th>
<th>Internal</th>
<th>Electronic</th>
<th>Intercom</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Non-electronic</td>
<td>Face to face interviews, conferences, internal meetings</td>
<td></td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>Electronic</td>
<td>Telephone, mobile phones, loud speakers, voice mail</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-electronic</td>
<td>Drum, public meetings</td>
<td></td>
</tr>
<tr>
<td>Written</td>
<td>Internal</td>
<td>Electronic</td>
<td>E-mail</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Memos, notices, notice boards, reports</td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>Electronic</td>
<td>Fax, E-mail, electronic notice boards, SMS</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-electronic</td>
<td>Letters, newspapers, magazines, banners, posters, gazettes</td>
<td></td>
</tr>
<tr>
<td>Signs and symbols</td>
<td>Internal</td>
<td>Electronic</td>
<td>Electronic bell, internal warning signals</td>
</tr>
<tr>
<td></td>
<td>Non-electronic</td>
<td>Bell, road signs, map depicting the location of the organisation, directional foot prints</td>
<td></td>
</tr>
<tr>
<td>External</td>
<td>Electronic</td>
<td>Warning sirens, colour lights, ambulance siren</td>
<td></td>
</tr>
<tr>
<td></td>
<td>Non-electronic</td>
<td>Packing symbols, railway and road signals, signs used for deaf, decisions of sports umpires, body movements of traffic officers</td>
<td></td>
</tr>
</tbody>
</table>
• Electronic communication
  o Communication that has been generated with the development of information and communication technology is known as electronic communication.
  o Few modern electronic communication methods can be explained as follows.

Internet
A computer network that covers a wide range or a computer network that is available internationally. It can be described as the network of networks. Here, the information that is entered from various places can be obtained through a personal computer.

E-mail
Exchange of messages through internet from a computer to another computer is known as email. To send a message that is prepared electronically, the sender and the receiver both should have internet facilities and email addresses.

Intranet
An institutional network based on internet, which has been facilitated to reach the data within the institute. This is a network that is under the control of a person or an institute and the service provided by this is available only for authorized persons.

Voice mail
This is a system where the message given by the sender verbally over the phone is reflected through a network and is stored or recorded in a disk to retrieve later.

Fax
An electronic machine, that enables to transmit letters and documents with pictures instantly through an ordinary telephone system, is known as a fax machine. In a fax method, the fax machine that sends the message gets the print of the relevant documents through digital technology and transmits it to the fax machine which receives it.

Mobile phones
As a result of the development of the communication technology at present, mobile phones are used to do various business activities through satellite technology.

Intercom
A telephone network installed privately to exchange information within the organisation through the telephone network.
Given below are some barriers for an effective communication.
- Poor knowledge about the use of modern technical methods.
- External barriers occur in the use of communication equipment.
- Use of out dated communication systems.
- Barriers that occur in the process of the communication means.
- Weaknesses that exist in the communication plans.
- Language problems, knowledge and attitudes.
- Barriers that occur in the external environment.

Given below are some strategies to overcome the barriers of communication.
- Use of modern communication equipment.
- Imposing rules and regulations regarding communication.
- Setting up communication towers.
- Use of digital technology.
- Compilation of new rules and regulations on the misuse of communication methods.

Given below are some advantages and disadvantages of different communication methods.

Advantages of verbal communication media.
- The ability to present a problem in greater detail and present it by discussion.
- The provider and the receiver of the information become much closer.
- The ability to present the information fast and confidentially.

Disadvantages of verbal communication media
- The possibility of language problems.
- Problems of exchanging information with parties who are verbally weak.
- Non-existence of proof that the information is communicated.

Advantages of written communication media
- It is possible to provide information in greater detail.
- Can be used as a proof for the transmission and receipt of the information.
- It is possible to transmit data, notes, tables, graphs etc. easily.

Disadvantages of written communication media
- There can be difficulties in understanding the information.
- If the recipient has reading difficulties the transmission of information becomes difficult.
- The information may get distorted in the transmission process.

Advantages of signs and symbols communication media
- The ability to present information briefly and clearly.
- The accuracy of the information being at a higher level.
The ability to understand the information easily

Disadvantages of signs and symbols communication media
- There will be problems in exchanging information where the recipient suffers from a sight impairment.
- If signs and symbols get distorted over time, miscommunication can occur.
- It can be difficult to understand some signs and symbols.
- The need of knowledge on signs and symbols before they are understood.
Competency 10: Investigates the contribution of logistics for the success of businesses

Competency level 10.1: Inquires how to get the contribution of transportation effectively for the success of the businesses.

No of periods: 04

Learning Outcomes:

- Introduces that the transport service is an essential service to the success of business activities.
- Explains the elements of transport.
- Provides example for each of the element of transport.
- Explains the alternative methods of transportation.
- Tabulates examples for the elements of transport according to each of the transportation method.
- Compares the relative advantages and disadvantages of each of the transportation methods.
- Explains the importance of transport services.
- Provides suggestions to ensure the efficiency of the transport services.

Instructions for lesson planning:

- Inquire from the students the methods that can be used to travel from Colombo to Jaffna.
- Conduct a discussion to highlight the following points.
  - Show that travelling from Colombo to Jaffna could be done by car, bus, van, train, aeroplane, ship or boat etc.
- Accordingly, clarify the following methods used for transportation:
  - Highway transport
  - Railway transport
  - Airway transport
  - Waterway transport
- Divide the students into suitable groups in order to identify the transportation elements.
- Given below are four transport methods. Pay attention to the transportation method that your group has received.
  - Highway transport
  - Railway transport
  - Airway transport
  - Waterway transport
- Briefly explain the topic.
- Identify through discussion, the transportation ways that are relevant to the topic.
- Prepare a list of vehicles that can be utilized in different ways.
- Indicate the type of fuel that each of these different vehicles use separately.
- Reveal the terminals for these vehicles through a group discussion.
• Clarify how the transport system becomes important to each of the following parties:
  • Individuals
  • Businessmen

• Explain in what instances the transportation method that your group received becomes most appropriate for transportation.

• Reveal, the advantages and disadvantages of the relevant transportation method through a group discussion.

• Give your proposals to make this transport method more efficient.

• Make the students to present these findings to the whole class creatively.

• Explain the elements of transport with examples through the students findings.

  ✔️

• By showing the advantages and disadvantages of each method of transportation comparatively, conduct a discussion for the efficiency of each of the transportation methods while considering the students’ findings.

  ✔️

A guideline to explain subject matters:

• The process of moving people or goods from one place to another utilizing different media is transportation.

• Transport is an essential support service for the success of business activities.

• Transportation is not merely a medium but it is a system developed through several balanced elements.

• For balanced development in transportation, it is necessary to have growth in transport elements or an availability of them.

• The transportation elements can be described as follows
  - Way – The various ways used in transportations.
    Example: Highways, railways, water ways, air ways
  - Mode – Various types of vehicles used on various roads.
    Examples: Motor vehicles, trains, ships, aero planes
  - Power – The types of fuel energy that is used to operate each mode of transport.
    Example: Coal, petroleum, electricity, gas
  - Terminal – This is where each of the modes of transport are parked.
    Examples: Bus station, railway station, three Wheel Park.

• Transport elements and examples can also be stated as follows:
<table>
<thead>
<tr>
<th>Way</th>
<th>Mode</th>
<th>Power</th>
<th>Terminal</th>
</tr>
</thead>
<tbody>
<tr>
<td>Highways</td>
<td>Cart, Motor vehicles, Bicycle, Lorry, Bus</td>
<td>Man labour, Animal labour, Diesel, Petrol, Gas, Electricity</td>
<td>Bus stand</td>
</tr>
<tr>
<td>Railways</td>
<td>Train</td>
<td>Coal, Diesel, Electricity</td>
<td>Railway station</td>
</tr>
<tr>
<td>Airways</td>
<td>Aeroplane, Helicopter</td>
<td>Aviation fuel</td>
<td>Airport</td>
</tr>
<tr>
<td>Waterways</td>
<td>Ship, Boat, Canoe</td>
<td>Wind, Diesel, Man labour</td>
<td>Harbour, Port</td>
</tr>
</tbody>
</table>

- The advantages and disadvantages of each method of transportation can be stated as below:

- Advantages of highways transportation
  - The ability to select the most suitable mode of transport
  - This mode being spread all over the country
  - The ability to use highways at any time desired
  - The ability to use the same mode of transport to cover the entire journey

- Disadvantages of highway transportation
  - The inability to transport large volumes of stock at the same time
  - The high cost of maintaining high ways
  - The high amount of delays and accidents
  - Obstacles that arise because of weather conditions

- Advantages of railway transportation
  - The ability to transport many passengers and a large volume of stock at the same time
  - Being safer than highway transportation
  - Carriages can be organised as per the nature of the goods
  - Being cheaper when compared with other modes of transportation
  - It is possible to obtain extra facilities such as restaurants, sleeperettes, observation cars etc.

- Disadvantage of rail transportation
  - Railways are not available all over the country
  - Rail services are not available at preferred times
  - As it may not be possible to utilize railway services up to the final destination itself it may be necessary to use other modes of transport as well.
  - Delays can result from malfunctioning of signal lights, dilapidated railway lines etc.

- Advantages of water ways transportation
  - Being helpful for international trade
- Ability to transport a large volume of goods at the same time
- Ability to choose a type of vessel suited to the nature of the goods

- Disadvantages of water ways transportation
  - Shipping services not being freely available.
  - Transportation taking an extremely long time

- Advantages of air transportation
  - Very high in speed.
  - Suitable for perishable goods
  - No cost of maintenance of air routes

- Disadvantages of air transportation
  - Not suitable for the transport of bulky and very heavy goods
  - Cost of transport being high
  - Higher probability of accidents
  - Not being able to obtain services at the time required

- Transport is the most important device in globalisation, economic and social development. The manufacturing and consumption happens in different places because of transportation. Transport is largely responsible for the expansion of trade and also the dispersion of populations.

  Accordingly, the importance of transport to various parties can be stated as below:

  - The importance of transport for the businessman
    - To obtain raw materials at the required time
    - To make finished goods available at the time it is required
    - To get the staff to attend to work on time
    - To maintain business connections
    - For the expansion of the market

  - The importance of transport for individuals
    - To create and maintain social connections
    - For employment and tourism
    - For recreational purposes
    - For research, exploration, and educational activities

  - The importance of transport for the economy
    - For the growth of employment
    - For the growth of international relationship.
    - For the growth of foreign trade
Competency 10: Investigates the contribution of logistics for the success of businesses.

Competency Level 10.2: Selects a suitable mode and method of transportation

No. of periods -: 04

Learning Outcomes -:
- List out the factors that need to be considered in selecting a medium of transportation.
- Selects a suitable transportation mode through a study of the details that need to be considered in selecting a suitable medium of transportation.
- Explains the qualities that must exist in an effective transport system
- Shows the trends in transportation.
- Forecasts the future of the transportation field.

Instructions for lesson planning:
- Inquire from the students how they receive petroleum in the area they live.
- Conduct a discussion that highlighting the following:
  - They receive petroleum through special bowsers.
  - That it is mode of transport that utilises highways and railways.
  - While these modes of transport are extremely safe, they can reach all parts of Sri Lanka.
  - The factors such as capacity, safety have been considered when selecting that mode for the transportation of petroleum.
- Explain each of the factor that should be considered with examples when selecting the mode of transport, using the information received from the discussion.

Divide the students in to suitable groups and engage them in the following activity:

- Given below are four instances that require the assistance of transport services. Concentrate on the situation that your group has been assigned.
  - Taking a patient from the Anuradhapura Hospital to the National Hospital, Colombo.
  - Bringing fresh flowers from a flower garden in Bandarawela to a Florist shop in Colombo city.
  - Transporting a stock of rice from Colombo to Kankasanthurai.
  - Transporting Curd from Hambantota to a shop in Badulla city.
- State all possible transportation methods (ways) that can be utilized for the relevant activity.
- Decide through discussion the most suitable mode of transport from the available different modes of transport that can be used under the transport method.
- List the different points that were considered by your group in selecting a particular mode and way of transportation.
- Introduce the new trends in the selected way and medium.
- Determine through group discussion the forecasts that can be made with regard to the transportation field.
• Make the students to present their findings to the class creatively.
• Using the students’ findings, show with reasons the most appropriate transport method and medium for each situation.
• Conduct a discussion with the students considering their forecasts on the transport field and also the development in technology, and strong competitiveness.

A guideline to explain subject matters:
• Given below are several points that must be considered in selecting an appropriate transport method:
  • The nature of the goods—

Here, the mode of transportation selected depends on the nature of the goods, its durability, weight, value etc.

Examples:
  • Use of bowsers to transport petroleum
  • Use of lorries for the transport of timber
  • Use of refrigerated trucks for the transport of fish

• Cost –
The total expense that must be borne for the transport is its cost. Since transport costs will result in an increase in the cost of the goods produced, this needs to be given extra consideration

• Speed –
It is necessary to transport some raw materials and goods faster. The reason for this maybe perishability, reduction in quality etc. Quick transport will reduce the time spent in transportation to a minimum. This gives an opportunity to carry out the transportation activity efficiently.

Example:
Fish, Vegetables, Fruits and curd

• Distance –
The method and mode of transport selected will also depend on the distance, the goods have to be transported. The cost will vary according to the distance.

• Capacity –
This is the number of passengers or volume of goods that the selected mode of transport can carry at a time. The mode of transport selected should depend on the quantity/volume of goods / people that need to be transported.

Example:
Large stock volumes are transported in lorries while the distribution of small quantities of stocks can be done through distribution vans.

• Safety –
It must be possible to transport the goods or passengers in safety right through to the destination.
Examples:
- Use of airlines for the import/export of fruits like apples and grapes
- Use of ambulances for the transport of patients

- While trends in the development of the transport field take place continuously, the following can be given as examples:
  - The use of tunnels.
  - Construction of fly overs
  - Construction of express ways
  - Deployment of electric motor vehicles
  - Promoting the use of environment friendly energy sources
    - Example: production of fuel from vegetables and fruits
  - The ability to get transportation modes to a place an individual resides

- Some examples to forecast the future in the transport field can be given as follows:
  - Hyper loop concepts
    This is a futuristic transport system that has been introduced by Eflon Mike in 2012. Hyper loop is a proposed mode of passengers and freight transportation that would propel a pod-like vehicles through a reduced pressure tube that would exceed airliner speed.
  - Walk car, air wheel
    This is a very small type of equipment that can be utilised as an alternative to walking.
**Competency 10**: Investigates the contribution of logistics for the success of business.

**Competency level 10.3**: Investigates how warehousing is used effectively for the success of business.

**No. of periods**: 08

**Learning outcomes**:
- Introduces “warehousing”.
- Lists out the factors that need to be considered when locating a warehouse.
- Describes separately, the factors to be considered when locating a warehouse.
- Ascertains that the decision selected to the location of a warehouse should be taken correctly.
- Explains the ways of storing goods in a warehouse.
- Shows how the goods should be stored according to the nature of goods.
- Explains how the movement of goods should be done in a warehouse.

**Instructions for lesson planning**:
- Make the students observe how the equipment and chemicals have been kept in the school laboratory.
- Reveal the following points through a discussion.
  - That there are various equipment in the laboratory.
  - That there are various chemicals under various names and they are stored in various containers in various places.
  - That there are factors like quantity, safety, easy to remove have been considered when storing them.
  - That there are various reasons to store various materials in various places, in various ways.
- Explain what “warehousing” is by using the information gathered from the discussion.
- Explain that there are many factors to be considered when locating a warehouse and the decision of the location of a warehouse is very important to a firm.
- Make students engage in the following activity by grouping them in a suitable manner.
  - Consider that you have to setup a warehouse to the goods given to your group among the following four types of goods.
    - Fertilizers
    - Fish
    - Medical drugs
    - Paddy
  - Discuss the factors that need to be considered when deciding the size of the warehouse according to the goods you received.
  - List out the factors that need to be considered about your suppliers when deciding the location of the warehouse.
Discuss with the students that the storing of goods should be done systematically after deciding the location of the warehouse and also discuss how it should be done.
  - According to the nature of the goods
  - According to the type of goods
  - According to the convenience to take them back

Mostly goods are moved in the warehouse from one place to another using special equipment.

**A guideline to explain subject matters:**
- Warehousing is a process of storing and preserving stocks from the time of buying or manufacturing until they are sold or used or distributed. This process contains the following
  - Receipt of stocks
  - Identification
  - Inspection
  - Verification
  - Ensuring quality
  - Putting away
  - Retrieving for issue

- Warehouse is the place where the goods are stored or a place used to keep the goods for a long term

- The following facts have to be considered when locating a warehouse

  - **Layout and flow of the building:**
    The optimum layout of the building used for the warehouse (location of doors, spaceous area, height of the ceiling, system of storing the material etc.) will have a great impact on the operational activity (storage of the materials, distribution, packing, labelling etc.) in the building. This will create limitations on the amount of rows available for the storing of goods, the height of the ceiling and the equipment used to store the goods in a building and to the movements of goods. It also influences the receiving of raw materials or finished goods to the warehouse or issuing of materials. So it should be deeply considered whether the space of the building selected is suitable for the movements of materials as expected by the businessman.

  - **Zoning and intensity of use in the warehouse:**
    When locating a warehouse it is necessary to consider what the speed of the operations which is done inside the warehouse, how fast the storing of goods in the warehouse and
withdrawing of the goods are done. Also the functions expected to do in the future will be considered. If the functions of the warehouse is to store and protect for a certain period or if it’s a simple assembly activity a place can be used to move the material with less speed.
If the operations happens for 24 hours, it is necessary to select a place with facilities to obtain the materials and distribute fast.
It should be considered where to locate the warehouse by taking into account the factors of out going noise, out going substances and necessity of outdoor storing.

- **Proximity to major linkages**
  Warehouse should be located according to the main transportation method used to transport the stored goods, such as railways, airways or waterways. It is suitable to locate the warehouse where is easy to depart from the expressway or easy to reach the airport. Apart from that another important factor is the proximity to the consumers. If the majority of the production is exported and the rest of the production is distributed to the retailers in the country, it is necessary to select the warehouse location where it can be easily accessed by the express ways and railways as well to harbour. The accessible part of the cost of a production includes the cost of transportation. Therefore, the location of the warehouse should be decided having much concern about the cost of transporting of raw materials and finished goods.

- **Material handling capabilities**
The facilitation of storing the materials and handling the equipment in movement of materials is also considered when locating a warehouse. Loading and unloading terminals are needed to operate equipment which lifts the goods and trucks which are used to move the goods. If the goods are needed to be distributed quickly the availability of such facilities are essential.

- **Nature of stocked materials.**
  Business needs to select the most suitable warehouse to store the materials according to their nature such as explosives and inflammables, food items, perishables and chemicals. Warehouse should be selected according to its nature and considering the environmental factors while ensuring the heat, moisture and not being harmed from fire and rain. E.g. If the stores item is inflammable, the availability of water supply or resources should be considered.

- **Cost**
The transport cost of carrying the raw materials to the factory, the cost of distributing the manufactured products to final consumers and loading and unloading cost should be
calculated where the transport cost can be minimised, expenses like
  o Rent for the warehouse
  o Security deposits
  o Insurance rates
  o Parking premises and expenses
    should also be considered.

- Following are several ways of storing the goods in a warehouse.
  o **Pallet racking**
    
    This is an easy and profitable method of storing. Goods are stored on several marble pallets which are kept on one another in a frame. It is easy to access any pallet at any time. Individuals can reach to any pallet of goods using a ladder or forklift truck.

  o **Block stacking/ Bulk storage**
    
    In this method the goods of the same type are stored on top of another on the floor of the warehouse. Accordingly various types of goods are stored on the various places of the floor as heap of goods. So the physical media like sacks or containers are not necessary to store the goods.
    
    E.g. Rice, Sugar, Flour, Natural stones, Bricks

  o **Pallet Flow**
    
    This method of pallet racks are composed with tracks or marble belts. These can be fixed to the drive in method in which the storing of goods and removing of goods can be done on the same side or drive through method in which the goods are stored on one side and removing of goods can be done on the other side. The quality of the goods is very high when storing under this method and space can be optimized. This method is suitable to store the goods which are high in cost and stored in refrigerated warehouses. Speed controlling equipment can be fixed to prevent the damages to the goods.

  o **Push – Back Racks**
    
    In this method small baskets are fixed to the racks which have several layers. Baskets can be stored one top of another to make several layers. After placing the products on one layer it is pushed to back and the next layer is placed in front of that.

  o **Mezzanine**
    
    An additional layers is crated in between two floors of the warehouse. Any method explained above can be used to store on this layers. Existing area of the building can be doubled by this method.
o **Automated Storage System**

A mechanical arm device controlled by computer technology is used to stock and remove the materials in the warehouse. This is very suitable to remove the stocked items of very small quantities / sizes. This method is also suitable to store and remove thousands of books and documents stored in archives.

- Several types of equipment are used in a warehouse to move the goods
  - Fork lift
  - Pallet jacks
  - Conveyor belts
  - Forklift Truck

- Following are some advantages of using the equipment in storing and moving the goods systematically in the warehouse.
  - The warehouse is well organized.
    The warehouse is well organized when storing the goods systematically using suitable methods and using equipment to move the goods. Then it is easy to the owner and employees to maintain and manage the warehouse.

  - Safety of the stocked products and employees.
    There will be no threat to the employees while they are working and there will be no confusion in the warehouse. The products are safe because they are placed in respective places due to systematically storing

  - Contributed effort and saves time
    It is time consuming when storing and removing of goods are done using manual systems. If the systematic method is used to store the goods, it will save the effort and time of storing and removing goods.

  - Save space of the warehouse
    The warehouse is organized systematically since the goods are stored systematically. When the goods are stacked over and over instead of piling all in the same place there will be more space in the warehouse

**Assessment and evaluation**

- Instruct the students to make a report observing a warehouse in the area including the following points
  - What goods are stored in the warehouse you observed.
  - The way each good is stored.
  - Places for equipment and materials used to store the goods.
  - The special factors that had been considered when storing.
  - How the goods are moved
  - The equipment used to move the goods.
  - Evaluate the suitability of the report by presenting it to the classroom.
Competency 10: Investigates the contribution of logistics for the success of the business.

Competency level 10.4: Studies about the logistics.

No of periods: 04

Learning outcomes:
- Introduces logistics
- Shows the necessity of logistics
- Lists out the benefits of logistics.

Instructions for lesson planning -:
- Tell the students to recall a factory in their area.
- Conduct a discussion revealing the following points.
  - There are a lot of activities in a factory such as manufacturing goods, obtaining the raw materials, storing them systematically, loading and unloading activities and storing of finished goods.
  - Various vehicles are used to bring the raw materials to the factory and to distribute the finished goods to the market.
    E.g.: Lorries, containers, trucks, tractors
  - Raw material and finished goods are stored systematically.
  - Finished goods are distributed to the market continuously.
  - Suitable equipment and people are used to loading, unloading and the movements of raw materials and finished goods.
    E.g.: Forklift, crane, pallet jacks, bins
- Activities such as obtaining raw materials, production, storing and distribution which are related to each other should be done with proper planning and the process relevant to that is known as logistics.
- Define “Logistics” and explain the activities related to it with examples.
- Group the students suitably and engage them in the following activity.
  - Following are four products
    - Jam
    - Drinking water bottles
    - Bricks
    - Fruit drinks
  - Pay your attention on the assigned product.
  - Collect the following points relevant to your product through a group discussion.
    - How the raw materials are purchased and transported.
    - Input – output process
    - How the raw material and finished goods are stored and the equipment needed.
    - The medium used to distribute the products to the market and how the distribution is done.
    - How waste management is done and the equipment needed.
  - Present your findings creatively to the whole class.
• Group the students suitably and engage them in the following activity,

Pay your attention to the firm assigned to you.
  o Jam manufacturing firm
  o Retail shop
  o Perfume manufacturing firm
  o Gas agency

Collect the following through a group discussion
  o List out the activities from the purchasing of raw materials/finished items to the production stage.
  o List out the activities relevant to the provision of the final products/stock to the final consumers at the end of the production process.
  o List out the benefits of systematic planning of logistics.
  o Present your findings to the whole class.

• Explain the benefits and necessity of logistics of a firm.

A guideline to explain subject matters:

• Logistics is the process of planning and implementation of the flow of goods, services and relevant information forwards and backwards from the point of origin to the point of consumption efficiently and effectively with the aim of ensuring the fulfilment of consumer needs and wants.

• A planned system of logistics is essential for the smooth flow of operational activities of a firm. There are two basic processes in such logistics systems.

• The movements of raw material or finished goods from the point of purchase to the point of production (Inbound logistics)

• The movement of supplying the products or relevant information from the end of the production process to the final consumers. (Outbound logistics)

\[
\text{Vendor} \rightarrow \text{manufacturers} \rightarrow \text{wholesalers} \rightarrow \text{retailers} \rightarrow \text{customer}
\]

\[
\text{Inbound logistics} \quad \leftrightarrow \quad \text{outbound logistics}
\]

• There may be various types of logistics systems according to the nature of the firm or nature of the products as follows

  o **Balanced logistics systems**
  The similar flows of a flow from raw material/products up to the firm and flow to the consumer after the production.
  E.g.: Firms providing consumer goods such as Nestle, Uniliver
o Heavy inbound logistics systems
  E.g.: Manufacturing firms of aeroplanes
  The manufacturing process of aeroplanes is complex because various firms and
countries are connected in obtaining the necessary material and services but the process
of selling the aeroplanes is not so complex

o Heavy outbound logistics systems
  E.g.: Chemicals Company
  Storing of chemicals, packing and transporting should be done with special attention. So
this process is complex.

o Reverse logistics systems
  E.g.: Packages like gas cylinders that will be handed over again.
  Impacts on the environment by throwing out used items.

• The necessity of logistics can be shown as follows:
  o Logistics is needed to provide the right product, in the right quantity, at the right time,
to the right place, at the right price, in the right quality to the right consumer.
  o Logistics is needed to do the activities such as stock control, product planning, purchasing
  of materials, transportation and warehousing systematically.
  o Logistics is needed to ensure that all machines and all work centres are getting the
required materials, in the required quantities at the required quality, at the required time.
  o Logistics is needed to minimise cost and to maintain the supply chain continuously by
conducting market research, planning requirements, making or buying decisions etc.

• Benefits of logistics can be stated as follows:
  o Can gain the reliability of consumers by providing the products to the market continuously.
  o Can minimise the cost through minimising waste by doing all the activities according to a plan.
  o Can face competition firmly.
  o Can minimise the unnecessary cost relevant to machines and employees.
  o Can ensure the quality of products.
  o Problems are not generated due to the proper management of waste.
  o Can be leaders of the industry.
Competency 11: Inquires the contribution of trade in distributing the products.

Competency level 11.1: Inquires the types of trade.

No of periods: 06

Learning Outcomes:
- Introduces “trade”
- Classifies trade under various types.
- Describes the various ways in which the distribution process is implemented.
- Depicts the various ways of distribution process using a diagram.
- Depicts the distribution process of a given product using a diagram.
- Introduces trade intermediaries.
- Evaluates the role of trade intermediaries.
- Categorises agents according to the services provided by them.
- States the advantages and disadvantages of employing intermediaries in trade.

Instructions for lesson planning:
- Present the given advertisement to the students.

A small house on a 10 perch land is available for sale within the municipal council boundaries of Gampaha for Rs.2.5 million. Exchange for a motor vehicle will also be considered. Inquiries 03322……

- Conduct a discussion highlighting the following facts
  - Point out that the land can be exchanged for a vehicle or can be sold for Rs.2.5 million.
  - Explain the fact that even if the ownership of the properties is transferred between two parties when exchanging a motor vehicle for a land, the buyer and seller cannot be separately identified, nevertheless, in cash sales the buyer and the seller are easily identifiable.
- Make an interpretation of “trade” using the above information.

- The trade occurs in various ways, and represent various types of trade using a flowchart.
- Explain to the students that trade occurs locally as well as internationally.
- Explain the fact that local trade takes place as retail sale and whole sale trade whereas foreign trade takes place as import trade and export trade.

- Draw a diagram illustrating that the process of passing the product to the consumer occurs in various way.
- Group the student in a suitable manner and make them engage in the following activity.
- From the institutions given below concentrate on the entity which your group has received.
  - A motor vehicle manufacturing institution
  - A bakery
  - A rice producing institution
- Identify the possible ways in which the products manufactured by the institution that you have received could be distributed to the consumer from the producer.
- Which of these different ways do you think is the most suitable? What are the reasons for your decision?
- If intermediaries are involved in the selected methods, who are they?
- What are the advantages and disadvantages in getting these intermediaries involved?
- Present your findings to the entire class.

- Introduce the intermediaries who are involved in the process of distribution

- Explain the advantages and disadvantages of the involvement of intermediaries in trade.

**A guideline to explain subject matters.**
- The process of exchanging the ownership of goods and services on a particular consideration between the buyer and seller can be interpreted as trade.
- The types of trade can be presented in the following flow chart

```
Trade
   /\                        /\                        /\
  Home Trade               Foreign trade             \
 /\                        /\                        /\
Retail trade              Wholesale trade           Import trade
```

- Trade within the boundaries of a particular country is known as home trade.
- The types of home trade are
  - Whole sale trade
  - Retail trade
- The trade affairs created by a particular country with one or many other countries is known as foreign trade.
- The types of foreign trade are as follows
  - Import trade
  - Export trade
• Methods of distributing consumer goods.
  1. Manufacturer → consumer
  2. Manufacturer → retailer → consumer
  3. Manufacturer → wholesaler → retailer → consumer
  4. Manufacturer → agent → wholesaler → retailer → consumer

• The above chart denotes that there are many ways of distributing the goods from producer to the consumer.
• Note the one indicates that the manufacturer distributes his products directly to the consumer (direct distribution)
• Note that in two three and four indicate that intermediaries are involved in the process of distribution.

• Intermediaries are the parties who are involved in the process of distributing products from the manufacturer to the consumer.
• The following parties can be introduced as intermediaries
  o Wholesale seller
  o Retailer
  o Agent
• Those who are involved in selling goods for re-sale are known as whole salers.
• Those who sell goods and services to the end costumer are known as retailers.
• A person who is involved in any activity on the authority of a head is known as an agent. The agent undertakes responsibilities on behalf of his head. He gains a commission for his service.
• Agents can be categorised according to the services rendered by them in the following way.

Agents

| Commission Agent | Broker | Del credere Agent | Factor | Auctioneer |

• The commission agent is the one who purchases or sell on his personal desire on behalf of his master (head) for his head’s benefit and earns a reasonable amount as commission.

• A broker is the person who facilitates a transaction between a buyer and a seller by providing necessary information to one another in order to conclude the transaction through a contract by receiving a broker fee from the buyer or seller or sometimes from both the parties for his services.
• The agent who buys or sells goods under his personal name on behalf of the head is called del credere agent.
• The agent who sells goods on credit and is responsible for the collection of debts from the relevant parties is a factor agent. In addition to the commission he is also entitled to a factor fee.
• As auctioneer is the agent who arranges the sales of the head’s goods for the public to the highest bidder. He is entitled to an auction fee for his service

• Advantages and disadvantages of getting intermediaries involved in trade are as follows

Advantages
  o Accumulating different types of goods from different manufactures or suppliers in a convenient location and making them available for consumers when necessary.
  o Introducing new goods and services being convenient.
  o Ability of obtaining market information easily through relevant parties.
  o The process of exchange will be simple

Disadvantages
  o The possibility of unnecessary shortage of an essential good in the market.
  o The possibility of the prices of goods being increased.
Competency 11: Inquires the contribution of trade in distributing the products.

Competency level 11.2: Inquires how retail trade takes place

No of periods: 04

Learning Outcomes -:
- Defines “Retail trade”
- Explains the characteristics of retail trade.
- Lists out the retail outlets available in your area.
- Lists the services rendered by the retailer separately to the producer, wholesaler and the consumer.
- Reveals the trends in retail trade.

Instructions for lesson planning:
- Define retail trade and explain its characteristics.
- Inquires the names of some retail outlets in the area and put them up on the white board.
- Hold a discussion taking the views of the students into consideration and focus on the following points:
  - Reasons for identifying those markets as retail outlets.
  - The parties who are being served by the respective retail outlets.
  - The services gained by each party.
- Explain the services rendered by the retailer for the producer, the wholesaler and the consumer.
- Explain the trends in retail sale using examples

A guideline to explain subject matters:
- Selling goods for the end consumer is known as the retail trade. The person who sells goods in that manner is known as the retailer.
- Some of the characteristics of retail trade are given below:
  - Selling goods and services for end consumption.
  - Presenting a miscellaneous set of goods for sale.
  - Facilitating the end consumer to buy the required goods, in adequate quantities, where it is necessary.
  - Most probably credit sales may take place.
  - Maintain a close relationship with the end consumer.
Services rendered by the retailers

- To the producer
  - Introducing the new products of the producer to the consumer.
  - Assisting in the promotion of the manufactured products by displaying banners, posters, distribution of samples etc.
  - Providing after – sale consumer feedback about the product to the producer.

- To the wholesaler
  - Distribution of goods stored by the wholesaler to the consumer.
  - Providing information on the market, consumer taste.
  - Contributing to the promotion of wholesale activities.

- To the consumer
  - Providing the required goods in adequate quantities when necessary.
  - Make credit sales.
  - Introducing new products and providing instructions when necessary.
  - Providing various types of goods based on customer requirements.
  - Providing various facilities to the consumer (E.g. : transport facilities, electronic payment methods )

- Trends in retail trade
  - Spreading of supermarkets throughout the country.
    Spreading of supermarkets that were limited to urban areas in the past are now in rural areas at present.

  - Functioning of retail outlets using modern technology.
    Examples: Recording of prices using barcode
    Digital flashes of prices
    Using digital scales in weighting/ measuring
    Using debit/ credit cards in making payments.
    Application of CCTV camera systems in supervision

  - Extending opening hours.
    Example: Ability to carry out transactions till late at night and at any time on holidays.

  - Combining retail outlets with the supply of services.
    Examples: Laugfs fuel stations and supermarkets.
    Commercial mini bank and cargills supermarkets.
Non store retailing
This is where the consumer is able to purchase goods without visiting a retail outlet by placing orders through the telephone, fax, and internet and with the aid of catalogues.
There are two methods:
1. Online retailing - The electronic retail trade that takes place through the internet.
2. Direct marketing - Products being supplied to the consumer without the aid of intermediaries.
   E.g.: Direct mail
   Catalogue
   Through the telephone and the TV

Automatic vending machines
For sweets, chocolate, soft drinks

Using of modern management techniques.
Competency 11 : Inquires the contribution of trade in distributing the products.

Competency Level 11.3 : Inquires about how wholesale trade takes place.

No. of periods : 04

Learning Outcomes :-:
• Defines “wholesale trade”.
• Explains the characteristics of the wholesale trade
• Lists out the wholesale trade centres in the area
• States separately, the services to the producer and to the retailer rendered by wholesalers.

Instructions for lesson planning :-:
• Define wholesale and explain its characteristics.

   • Build up a list of names of the wholesale trade centres in your area on the black/white board.
   • Hold a discussion highlighting the following facts taking the responses of the students’ into consideration.
      o Reasons for naming the identified shops as wholesale centres.
      o Parties who receive services from these shops
      o The services received by each party

A guideline to explain subject matters :-:
• Wholesale trade can be defined as the sale of goods to the purchasers who purchase with the intension of resale. The party involved in this trade is the wholesaler.

The following characteristics can be observed in wholesale trade.
• Purchasing of goods with the purpose of resale.
• Selling goods in lots/batches
• Providing trade discounts
• Storage of goods in large quantities
• Conduct of sales promotion activities
• Carrying out marker researches
• Providing transport services when distributing goods in bulk.

Service rendered by the wholesaler
To the producer
• Purchasing the products of the producer in bulk/lots/batches
• Providing information about the market
• Providing various services to the producer
  E.g.: Financial facilities, obtaining raw materials

**To the retailer**
• Supplying goods in bulk/lots/batches
• Transporting goods to the retail trade centre itself
• Providing loan facilities
• Engage in storing out, mixing up and packaging of goods
Competency 11: Inquires the contribution of trade in distributing the products.

Competency Level 11.4: Inquires the foreign trade, its benefits and obstacles

No. of periods: 06

Learning Outcomes:
- Introduces “foreign trade.
- Describes the factors on which foreign trade is based.
- Describes the types of foreign trade separately.
- Evaluates the benefits of foreign trade.
- Defines what “free trade” is.
- Categorizes the barriers to free trade as tariff and non-tariff and explain them.

Instructions for lesson planning:
- Inquire about the various goods used by the students from the time they wake up in the morning until they come to school and list them out on the black/white board.
- Give instructions to separate the items listed on the black/white board as local products and foreign products.
- Inquire about the countries from where the foreign products were imported and explain that it is impossible for any country alone to produce all their requirements and confirm that this results in the necessity of carrying out transactions with foreign countries.
- Give a definition for foreign trade based on the above information and explain the factors on which the foreign trade was initiated using examples.

- Describe the types of foreign trade separately.

- Group the students in a suitable manner and involve them in the following activity.

  - Organize a debate to argue ‘for’ and ‘against’ on the topic “Foreign trade is essential to a country”.
  - Get the students, who are not participating in the debate to make notes on the important points that support and do not support, the necessity of foreign trade for a country.
  - Hold a discussion on the points that have been noted down and point out the benefits of foreign trade.

- Define ‘free trade’ and differentiate its barriers as tariffs and non-tariffs and explain them.
A guideline to explain subject matters--:

• The trade that is carried out by one country with another country/countries is foreign trade.
• There are several factors that provide the basis for foreign trade.
  o The inequality distribution of natural resources
    Because some countries have been endowed particular natural resources
    significantly the products associated with those resources can be produced only by
    those countries themselves.
    E.g : Middle East _ Crude oil
          South Africa _ Gold
          Sri Lanka _ Tea
  o Relative cost advantage
    If a particular country is able to manufacture a product at a low cost relatively to import
    then it must be manufactured by them in order to export and where a product can be
    imported at a low cost relatively to manufacturing, such products must be imported.
    E.g : Sri Lanka – Garment industry
  o Retaining a legal monopoly in some countries with regard to some products.
    Patents and Copyrights
    The required competency and technology for some products being unavailable in
    every country or limited to some countries.
    E.g : Robotic technology
          Motor vehicle technology
  o Goods promotion
    Using various sales promotion strategies to gain a worldwide market for one’s own
    products.
  o Trade barriers being minimised
    The removal of many sanctions/embargoes, that exist as tariff and no-tariff barriers
    to trade.

• There are several types of foreign trade.
  o Import trade
  o Export trade
  o Re-exports
  o Entrepot trade
• Buying goods and services by a particular country from another country/countries is
called import trade.
  E.g : Purchasing of motor vehicles from Japan by Sri Lanka.
• Selling goods or services manufactured in a particular country to another country/countries is called export trade.
  E.g.: Shipping of tea from Sri Lanka to Iraq.

• Re-export trade is where goods imported from one country being exported to another country in its original form or having been subjected to many changes. Here, any tariffs paid at the point of import can be reimbursed.
  E.g.: Where cloth and other accessories are imported and finished garments being exported to another country.

• Where goods are imported from another country and kept in a warehouse at the point of entry without being brought into the country and re-exported to another country with or without any changes to the goods is called entrepot trade. As this transaction takes place within the port premises itself tariffs are inapplicable.
  E.g.: Sri Lanka imports tea from India and exports to Iran.

• A country can engage in foreign trade and gain many benefits as follows.
  o Ability to export the surplus of production
  o Ability to import products that cannot be manufactured locally
  o Ability to earn foreign exchange
  o Ability to obtain economic gains

  As a result of foreign trade, products are manufactured not only for the local market but for the global market as well. When goods are manufactured to meet the demands of a wide market, it becomes a large scale production resulting in economic gains.
  o International trade relations and international co-operation being enhanced and strengthened.
  o New technological and management skills being upgraded.
  o Becoming a support for economic development

  E.g.: Employment opportunities, Upliftment of living standards of the people
  Obtaining maximum benefits of resources

• Free trade is having the necessary space for various parties to engage in the import and export of goods without any barriers.

• The barriers to free trade are categorized as tariff and non-tariff barriers.

• In the trade between countries, the imposition of tariff is a barrier to free trade.

• Barriers other than the imposition of tariff, to free trade are known as non-tariff barriers.
  E.g.: Limiting imports – quotas
  Limiting exports – quotas
  The prohibition of imports/exports
  Trade agreements
  Stringent exchange policies
Competency 11: Inquiries the contribution of trade in distributing the product.

Competency Level 11.5: Demonstrates the readiness to engage in foreign trade inquiring the import and export producers.

No. of periods -: 06

Learning Outcomes -:
- Describes the import and export procedure.
- Lists the documentation used in the import/export trade.
- Lists the institutions related to the import/export trade.
- Tabulates the institutions involved at each stage of the import/export procedure, the documents used at each stage and their necessity.
- Explains the different ways of making payment separately in foreign trade.

Instructions for lesson planning:
- Describe the import/export procedure.

- Explain the documents used in the import/export trade, the necessity of those documents and the institutions from where they are issued.

A guideline to explain subject matters
- Most probably the import and export business transactions take place through the involvement of an agent. However, there are instances that the orders are placed directly and the transactions are made. Whichever method is used, there is no difference in the documentation required in the import/export procedure.

Import procedure
- Selection of foreign suppliers
  Selecting a suitable foreign supplier through a study of information available in the Chamber of Commerce magazines and publications, embassy offices, trade exhibitions, web sites etc.

- Submitting a price inquiry
  Having selected a suitable supplier, the prices of the goods to be imported are inquired. For this purpose, the selected supplier will be requested for a price list.

- Receiving a quotation
  The supplier (exporter) will submit a quotation that includes the prices at which he is willing to supply the goods, and other terms and conditions, to the importer with response to the price inquiry.
• Obtaining import license
  When certain products are imported, it is necessary to obtain an import license. This is
  issued by the Import and Export Control Department. The products for which the import
  licenses are required is decided by the Commissioner of Import and Export.

• Issuing an Indent
  If the importer is in agreement with the quotation he has received, he should submit a
  purchase order. This purchase order is also known as an Indent.

• Making arrangements with regard to the payment to the exporter.
  Most probably Letter of Credit and Credit cards are used for making payment to
  the exporter.

• Clearing of the goods
  After the relevant payment is made, the goods can be cleared by producing the
  relevant documents.
  N.B: The necessary documentation is explained later.

Export procedure
• Getting registered as an exporter.
• Finding a foreign purchaser
• Obtaining an export license if necessary.
• Responding to the price inquiry received from the importer by submitting a quotation.
• Obtaining the indent from the importer.
• Reservation of shipping space and preparing the necessary documents.
• Packing the goods in an appropriate manner for shipping
• Insuring the batch of goods to be exported.
• Obtaining the bill of lading once the goods have been handed over to the shipping
  agent.
• Making necessary arrangements for the receipt of the consideration.

• The documentation used in the import/export trade can be briefly introduced as follows:
  • Import/Export License :
    The products for which a license is required in import/export trade are announced
    (published) by the Export and Import Controller. Some of the institutions involved for
    this as follows
    Examples :  Tea – Sri Lanka Tea Board
                Gem and Jewelry – State Gem and Jewelry Authority
                Vegetables, spice and betel – Department of import and export control
• **Indent/Order**
If the importer is in agreement with the quotation provided by the exporter and willing to purchase the goods from him, an order should be placed with the relevant supplier (exporter). This order is known as an Indent. Placing of this order can be done through the internet. This indent which is sent to the foreign supplier by the importer contains the details of the goods required, price, relevant shipping conditions etc.

• **Bill of Lading (B/L)**
This is issued to the exporter by the ship-owner or his agent on behalf of a shipping company. This confirms that the goods relevant have been received by the ship and that the shipping company is responsible to transport the said goods to the relevant port of destination and hand over appropriately. A copy of the Bill of Lading is sent to the importer by the exporter and this becomes an essential document for the importer to confirm that he is the rightful owner of the goods when the ship reaches to the port of destination. This contains details such as a description of the goods, exporter’s name, importer’s name, the name of the ship and the port of discharge etc.

• **Invoice**
This is a document which contains details of goods that are being exported. It includes details of goods, pricing details, conditions of payments, shipping route, terms for rejection of the goods etc.

• **Letter of Origin**
This is a document which is issued by a recognized board of trading, or any other state authority, certifying that the goods handed over for shipping have been manufactured in the exporting country. This document is very important for claiming tariff commission. Example: when Sri Lanka exports goods to the European Union the letter of origin is issued by the Board of Investment or the Ministry of Industries.

• **Letter of Credit (L/C)**
In the Import/Export trade, very often this method is used to settle the payment to the exporter. The letter of credit is issued by the importers bank to the exporter’s bank on behalf of the importer on his request. This is a confirmatory document issued by the importer’s bank stating that payment for the goods shipped by the exporter will be made definitely.

• **Import entry**
This is the document that must be submitted to the Customs by the importer or his agent confirming the importer’s ownership to the goods that have been received at the port of destination. This is prepared using the Bill of Lading or Invoice.
• Export entry
   This is the document submitted to the Customs of the exporter’s country by the exporter
giving full details of the goods that are anticipated to be exported.

• Insurance certificate
   This is the certificate of insurance obtained by the exporter or importer when exporting the
relevant batch of goods. This certificate will be obtained by the importer or exporter
based on the terms of the sales agreement.

• Wharfinger’s Receipt
   This is the document issued to the exporter by the Customs confirming that the goods were
received and undertaken by them.

• Letter of Indemnity
   This is the document issued to the Ship’s Captain by the exporter to obtain a pure Bill of
lading confirming that the exporter accepts full responsibility for any risk for breakages or
damages or any future risk to the consignment or any part thereof in a situation where the
ship’s captain may consider to issue an impure Bill of Lading.
   A pure Bill of Lading is issued when the goods loaded to the ship are in a good condition.
   If all the goods or any part of the goods loaded to the ship are broken or damaged, an
impure Bill of Lading will be issued.

• Sanitary Certificate/Health Certificate
   Depending on the requirements of the importing country, some agro products of the
exporting country may require a certificate from an accepted authority to confirm the
suitability of the product for consumption.
   Example: For agro products – Agriculture Department
            For fisheries product – Ministry of Fisheries and Aquatic Resources

• Warehouse Certificate
   The storage in close proximity to the port is known as Warehouse. A warehouse certificate
is issued by the warehouse authority to the importer to confirm that the goods have been
stored there. While the goods are in the warehouse they may be transferred to another
party by transferring the ownership of the Warehouse Certificate. Therefore, the Warehouse
Certificate is a transferable document.

• The methods used to settle the payments in foreign trade can be explained in the following
manner:
   o Through opening Letter of Credit
   o Through Bank Order
   This is the statement of order given to the bank of the receiver of the money or to the agent
bank of the receiver by the bank of the sender stating to pay the mentioned money to the
mentioned recipient according to the given conditions.
This can be used for foreign trade payment as well as for home payment

- Electronic payment methods
  This includes the modern techniques of settling payments using internet facilities.
  Examples: Credit cards
  This is the most frequent method used to make payments. Visa, master, American Express are some types of cards that can be obtained from the banks and are used as a payment method through the internet,

- Internet prepaid cards
  Internet pre-paid cards can be used on a temporary basis by depositing a sum of money to be used for a particular purpose.

- Internet prepaid facilities
  Payments are made through one’s own bank account and required directions are provided with internet banking. Most of the banks at present facilitate their accounts holders in this manner. Those who are in need of this service can get registered and access the relevant website using the user name and the password.

- Payment through Electronic Payment entities:
  Without making direct payments to the institute from where particular product was purchased the relevant payment is made through a recognized payment making institute in this method.
  Example: [www.paypal.com](http://www.paypal.com)

Before making payments in this manner it is necessary to register with the PayPal portal and provide with information about the bank account and credit cards. In this manner external parties do not have access to the credit card information.
Competency 11: Inquires the contribution of trade in distributing the product.

Competency Level 11.6: Inquires how the functions of international unions, trade agreements and organisations contribute to the uplift the foreign trade.

No of periods: 08

Learning Outcomes:
- Provides examples for trade unions, trade agreements and international organisations that contribute to foreign trade.
- Appreciates the contribution of trade societies (trade zones) to the upliftment of international trade.
- Analyses the impact of trade agreements and international organisations on foreign trade.
- Inquires about the trends in foreign trade.

Instructions for lesson planning:
- Display the following flash cards one by one to the students.
  - Increase in customs duties on imported vehicles.
  - GSP+ concessions once again to Sri Lanka
  - Price hikes in the world oil market.
  - Low cost loans from IMF to Sri Lanka.
- Hold a discussion highlighting the following facts.
  o That increasing customs duties is a barrier to imports.
  o That the exports will be enhanced due to GSP+ Concessions.
  o That international organisations provide finance facilities for trade.
  o That events taking place in the world market affects the Sri Lankan market as well.
- Explain that there must be agreements with international organisations in order to overcome difficulties, to uplift international trade and to enhance co-operation among the other countries.
- Discuss the examples for such organisations agreements, and trade unions.
- Point out the impact of such societies (unions), organisations and agreements on foreign trade and discuss the new trends in foreign trade.

A guideline to explain subject matters:
- A free trade zone in which few countries work together with co-operation in accordance to a treaty in connection with tariff, duties and trade is known as a trade block.
- Trade blocks are also known as free trade zones, trade associations and trade partnerships.
Trade zones:

- Some examples for trade zones are as follows:
  - European union (EU)
  - Association of South East Asian Nations (ASEAN)
  - Group of 8 (G8)

European Union (EU)

This consists of 26 European countries. The origin of this was the European Economic Community established on the treaty of Rome signed by 6 European countries in 1957. While its members maintain a common trade policy, agriculture and fisheries policy, zonal development policy, it also has introduced a common currency unit called Euro in 1999.

EU member countries

- Austria
- Czech republic
- Italy
- Malta
- Romania
- Sweden
- Belgium
- Bulgaria
- Finland
- Cyprus
- Denmark
- Estonia
- France
- Iceland
- Lithuania
- Latvia
- Germany
- Luxembourg
- Netherland
- Poland
- Greece
- Portugal
- Slovakia
- Slovenia
- Hungary
- Spain

Association of South East Asian Nations (ASEAN)

This is a society of 10 South East Asian countries which was established for Political and Economic co-operation. ASEAN was proceeded by an organisation formed in 1961 called the Association of South East Asia (ASA), a group of countries consisting of Philippines, Malaysia and Thailand. These three countries joined with Indonesia and Singapore and ASEAN was established in 1967.

The ASEAN member countries are

- Philippines
- Indonesia
- Vietnam
- Cambodia
- Malaysia
- Singapore
- Laos
- Brunei
- Myanmar
- Thailand
- Japan

Group of 8 (G8)

This is an International organisation founded by 8 main stream countries in the world. The oil crisis in 1973 and the global economic recession were the reasons for the origin of this organisation in 1974. Amalgamated with United States of America (USA), West Germany, Japan and France unofficially with three other countries was the origin of this organisation. Once Russia joined the group in 1997 this was officially named as the Group of 8 (G8).

G8 member countries are:

- United states of America
- West Germany
- Canada
- United Kingdom
- Italy
- Russia
- France
- Japan
• Trade agreements

An agreement created between two or more countries for the trade and exchange of goods during a specific period is known as a trade agreement. An agreement between two countries is known as a Bi-lateral agreement whereas an agreement between three or more countries is called a multilateral agreement.

Some examples of trade agreements are given below

- North American Free Trade Agreement (NAFTA)
- South Asian Free Trade Agreement (SAFTA)
- Asia Pacific Trade Agreement (APTA)

**North American Free Trade Agreement (NAFTA)**

This is an agreement in which the USA, Canada and Mexico partnered and which was commenced on the 1st of January 1994.

Conditions for the abolition of trade barriers among these three countries, removal of tariffs, exchange of labour are included in this agreement.

A specific characteristics of this agreement is that it will be limited to the goods manufactured within these countries only.

When the goods manufactured outside these three countries are exchanged among them and tariffs are applicable. Goods will be free of tariff only when the terms such as Made in USA, Made in Canada, and Made in Mexico are stated.

**South Asian Free Trade Agreement (SAFTA)**

The agreement which was made with the intention of spreading trade co-operation within the SAARC zone, creating a free zone within South Asia and making economic policies of the SAARC zone countries on line with globalisation.

This agreement was signed at the 12th SAARC summit held in Islamabad in 2004.

With the different states entering into this agreement, they made a collective agreement to benefit through the removal of tariffs on all imports among the countries, ports and transport facilities, provision of services with regard to trading etc.

**Asia – Pacific Trade Agreement (APTA)**

This agreement commenced as the Bangkok agreement in 1975 and was named as the Asia – Pacific Trade Agreement (APTA) on the 2nd November 2005. The member countries of this agreement are Bangladesh, China, India, Laos, Mongolia, Sri Lanka and South Korea.

This is the oldest and preferred trade agreement in the Asia Pacific region.

The objective of this agreement is to expedite the economic development of the member countries through minimising tariff and barriers as far as possible to import goods and services rather than importing goods and services from other countries.
International organisations:
Organisations that have been established to minimize barriers of tariff, exchange control regulations, customs rules and regulations that impose restrictions on foreign trade are known as international organisations.

Some examples for such organisations are given below:
- World Trade Organisation (WTO)
- South Asian Association for Regional Co-operation (SAARC)
- Asian Development Bank (ADB)
- International Bank of Reconstruction and development (IBRD)
- International Monetary Fund (IMF)

World Trade Organisation (WTO)
This is an international organisation established to ease and monitor the international trade. Having commenced on the 1st January 1995, this organisation operates globally in connection with the trade rules and regulations among nations. The head office of the WTO is located at Geneva in Switzerland. The main purpose of the WTO is to facilitate discussions among member states for trade promotion, to look down on trade barriers, and to raise the welfare of the people in the member counties.

South Asian Association for Regional Co-operation (SAARC)
This is an economic and political association of eight South Asian countries. It was established on December 8th 1985.

The co-operative activities within SAARC is performed across five areas.
- Agriculture and rural development.
- Tele communication, Science technology and climatology.
- Health and population affairs
- Transport
- Human resource development.

SAARC member countries
- Sri Lanka
- Bangladesh
- Bhutan
- India
- Nepal
- Pakistan
- Maldives
- Afghanistan

Asian Development Bank (ADB)
The Asian development Bank commenced its operations on 19th December 1966. The Head office is situated at Manila in Philippines. Out of 67 member countries at present, 48 are from the Asian region while the rest 19 from the pacific region. Its main objective is to promote economic and social development of the member countries. This bank takes steps to provide loans and grants to its member countries for implementing poverty eliminating projects.

International Bank for Reconstruction and Development (IBRD/ World Bank)
The IBRD was commenced on the 27th of December 1945 with the Bretton Woods agreement to re-build the European economy that was destroyed in the 2nd world war.
This bank is known as the bank which provides loan facilities for the development projects implemented in developing countries with the purpose of eliminating poverty. The establishment of sustainable development and elimination of poverty are the main objectives of the World Bank.

It has been established with the objectives of improving global finance co-operation, ascertaining financial stability, facilitating for the international trade, widening employment opportunities, providing for sustainable economic development and reducing poverty.

**International Monetary Fund (IMF)**

The IMF can be introduced as the international organisation that provides financial and technical assistance as well as observes the balance of payment and exchange ratios. Its head office is situated at Washington in USA.

It has been established with the objectives of improving global finance co-operation, ascertaining financial stability, facilitating for the international trade, widening employment opportunities, sustainable economic development and reducing poverty.

- Trade associations, trade agreements and international organisations have numerous impacts on foreign trade.

Examples:

  - Removal of tariff and non-tariff barriers that affect free trade.
  - Promotion of co-operation among countries.
  - Gaining stable market for the country’s own products through trade agreements.
  - Minimise disadvantages of price changes since a stable price is gained.
  - Ensuring all member countries gaining equal rights.
  - Promotion of global financial co-operation and confirmation of financial stability.
  - Expansion of employment opportunities, sustainable development and reduction of poverty etc...

- Some of the trends in foreign trade are as follows:

  - Spread of foreign trade all over the world through E-commerce.
  - Establishment of new trade zones and trade partnerships to accelerate the economic development and to face the economic challenges/ crisis effectively.
  - To channel a country’s resources towards a diversification of production followed by an advanced technology instead of being restricted to traditional exports.
  - Leaning towards foreign trade policies to encourage higher value added products.
  - Attention being placed currently towards the Sri Lankan export packages.

**Assessment and Evaluation**

Divide the students into suitable groups and engage them in the following activity.
Given below are 3 groups consisting of international trade association, trade agreement and organisations.

A Association - EU
   ASEAN
   G8

B Agreements – NAFTA
   SAFTA
   APTA

C Organisations WTO
   IBRD
   IMF

• Concentrate on the group that you have received.
• Through discussion gather the following information about the association, agreements, organisations included in the group
  ○ The full name
  ○ Its establishment
  ○ Member countries
  ○ Objectives and functions briefly.
  ○ Impact on the upliftment of foreign trade.
• Prepare a booklet creatively with the information that you have gathered.

Lead the students to exchange their findings among the group and to study the information contained therein
Competency 11: Inquires the contribution of trade in distributing the product.

Competency Level 11.7: Points out how electronic commerce (e-commerce) contributes for the upliftment of trade.

No. of periods: 06

Learning Outcomes:
- Introduces electronic business and electronic commerce.
- Defines “electronic commerce”.
- Describes the procedure of electronic trade.
- Lists the advantages and disadvantages of electronic trade.
- Describes separately how electronic trade takes place.

Instructions for lesson planning:
- If a particular jewellery item in the latest style is required to be bought, ask from the students about optional ways through which, it can be purchased and write them on the black/white board. (Such as buying from a jewellery shop, jewellery exhibition on a foreign tour or through an internet ordering.)
- Conduct a discussion highlighting the following facts.
  o Based on students’ responses point out that there are various ways available, through which goods or services can be purchased or sold.
  o That the entire set of affairs related to purchase or sale of goods and services is known as trade and once such transaction takes place through the internet, it is known as electronic trade/(e-trade)
  o If the internet is used for supportive services such as communication, transportation, warehousing etc. as well as for trade affairs, that is known as e-commerce.
  o If all the business affairs such as marketing, delivery, financial affairs, and administration affairs etc. are committed using internet, those businesses are known as e-businesses.
- Group the students appropriately and introduce them to the following activity:

<table>
<thead>
<tr>
<th>Product</th>
<th>Country of production</th>
</tr>
</thead>
<tbody>
<tr>
<td>A laptop computer</td>
<td>Japan</td>
</tr>
<tr>
<td>A pair of Sports shoes</td>
<td>Singapore</td>
</tr>
<tr>
<td>A set of jewellery</td>
<td>Malaysia</td>
</tr>
<tr>
<td>A handbag</td>
<td>France</td>
</tr>
</tbody>
</table>

- Concentrate on the product that your group has received.
- Imagine that the product your group has received should be imported from the relevant country.
- Collect the necessary information to complete the transaction through a group discussion and record them under the following topics.
• If the transaction was made electronically, list the benefits that you would receive.
• Present your findings creatively to the entire class.

• Taking the findings of the students into consideration, describe the procedure of electronic trade.
• Discuss the advantages and disadvantages of electronic trade with the students.
• Explain to the students the various types of e-trade affairs with instances.

A guideline to explain subject matter
• Where a business uses computer networks for all the internal procedures such as production, marketing, accounting, human resource management affairs etc. besides trade affairs they are known as electronic businesses. Information technology is used in an electronic business for the activities exchanging of information and for feedback.
• Electronic commerce is only one part of the electronic businesses. E-commerce is the support services like transportation, communication, banking take place through electronic networks.
• Electronic businesses and electronic commerce can be depict diagrammatically as follows.

Conducting of buying and selling of goods and services through computerized information systems followed by internet is known as electronic trade.
• The procedure of electronic trade can be stated as follows:
  o Meeting of buyers and sellers through the internet.
  o Organizing of the trade transaction.
  o Conducting of buying and selling affairs.
  o Settling the payment relevant to the transaction.

• The advantage of electronic trade gained by the businessman, customer and the society can be stated as follows:
The advantages to the businessman
- Since more efficient and effective service can be rendered the profits and goodwill being enhanced.
- The availability of cost benefits
  Examples: Cost related to stock being minimized
  Minimizing cost of stationery and communication
  Minimizing the cost as a result of less intermediaries
- The market being expanded as there are no geographical boundaries

Advantages to the customer
- Availability of a broader range for selection of goods.
- Ability to place the order quickly and easily
- Ability to make transactions throughout the 24 hours
- The price level of the production relatively being reduced

Social benefits gained
- Upliftment of living conditions of the consumers
- Opportunity for consuming modern products
- Approach to new markets and employment opportunities

Few limitations of electronic commerce are as follows
- Internet facilities not being available everywhere
- Lack of knowledge in consumers about the use of internet
- Problems arising in payment systems
- Legal restrictions like payment of taxes
- Lack of trust electronic systems
- Malpractices through computerised networks

The methods in which electronic trade takes place can be stated as follows:
- B2B – Business to business
  These are transactions from one business to another
  Example: Receiving orders from one business to another through the internet.
- B2C – Business to Customer
  A business selling some product or service to the customer through the internet. This is also known as electronic retailing E-retailing.
- C2C – Customer to customer
  A customer selling goods or services to another customer through the internet.
  Example: Transactions that take place through e-bay.
G2C – Government to citizen
   Payment for government services and obtaining such services through internet.
   Examples: Ability of citizens in the Western Province to renew their motor vehicle
   licenses with the access of www.motortraffic.wp.gov.lk

B2G – Business to Government
   Business making various payments to government through the internet
   and providing with services.
   Example: Payment with the contribution for Employees Provident Fund.

G2B – Government to Business
   Example: SLIPS – Sri Lanka Inter-banking paying system

C2G – Citizen to Government
   Examples: Payment of bills, exam fees, and license fees etc.
   Application for University entrance