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Unit 03
SUPPORT SERVICES TO THE BUSINESSES

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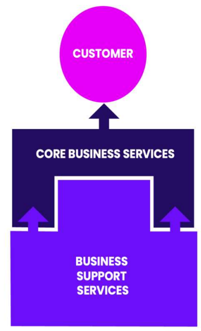
Intended Learning Outcomes

- **Identify** the role of supportive services (Money, Transportation, Communication, Insurance, and Logistics).
- **Explain** the importance of managing supportive services for the success of a business.
- **Explain** characteristics of each supportive service.

- Support services are the activities and processes required for successful execution and completion of a revenue generation of a business.

- They are used to execute a core function of a business.



Money

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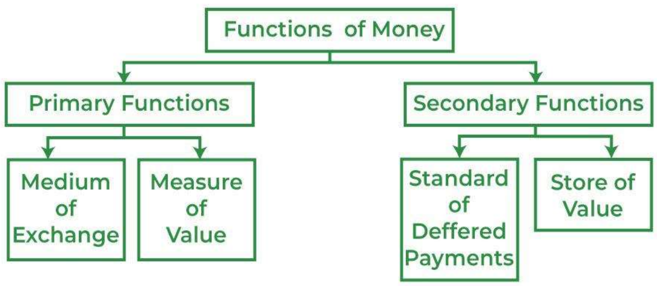
What is money?

Money is the medium of exchange.



Types of money

Type of money	Description
Fiat money	Money that is printed and issued by central finance authority.
Bank money	Current money maintained by commercial bank.
Near money	Assets that do not have 100% liquidity but can be quickly transferred to money. Ex: Savings account, F/D, Commercial bills.
Commodity money	Form of currency in which the value of currency comes from the material of which it is made. Ex: Gold, Silver, Salt
Perfect money	This money has a materialistic value though not accepted for transactions Ex: Gold Pound of Great Britain
E- money	It is a digital money product that provides a way to pay for products and services without resorting to the use of paper or coin currency.

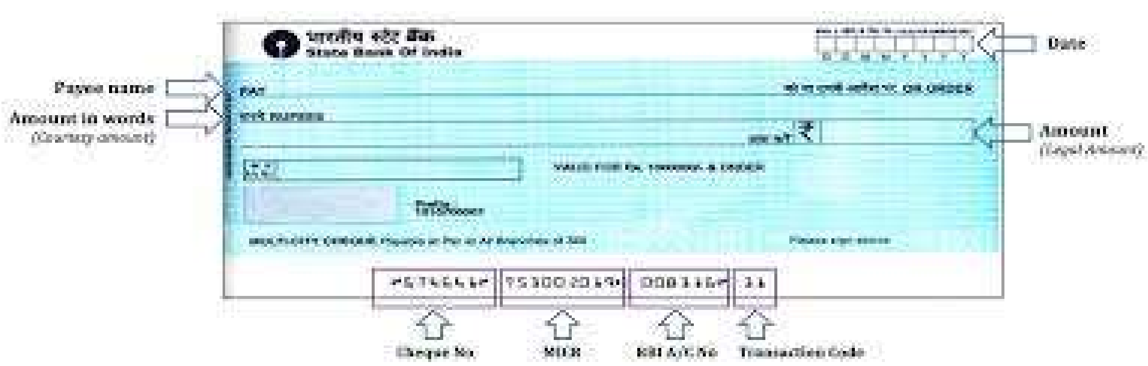
Bank money

What is a current account?- A current account is a bank account designed to manage your income and day-to-day spending.

Benefits of a current account

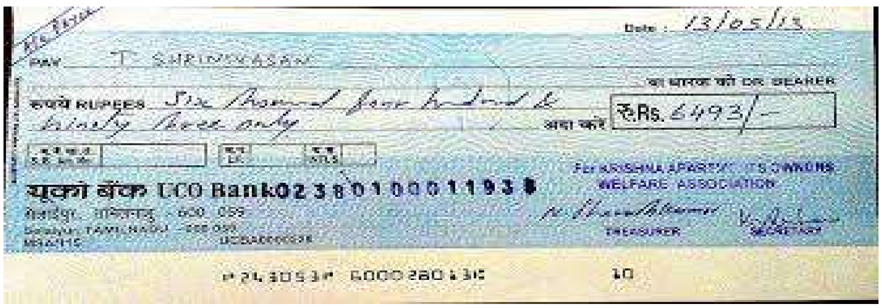
- Easily manage your finance.
- Access to online and mobile banking.
- Ability to get overdraft facility for the working capital requirements.
- Customized current account variants.

Cheque



What is a cheque?

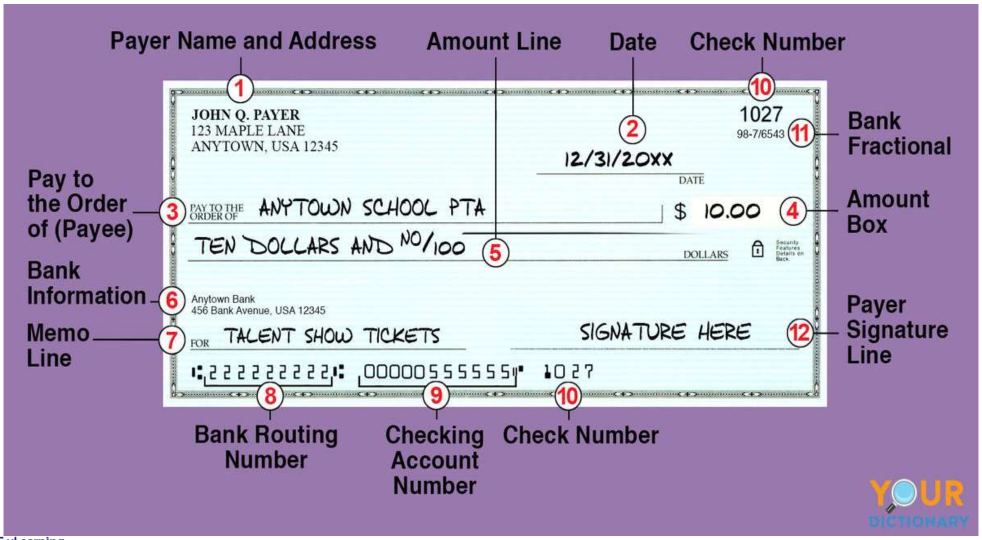
A cheque is an instrument used for drawing money from the bank. By a cheque, the customer of the bank orders his bank to pay on demand, some of the money written on the cheque or to his order or the holder of the instrument.



Essential features of a cheque

- In writing
- Unconditional order
- Acceptance in one's own bank- Branch of the bank in which drawer has his account
- Drawers signature
- Cash payment
- Payment to certain person- To bearer or certain person
- Account holder
- Date
- Fixed amount
- Payment on demand
- Parties to the cheque- Drawer, Drawee, Payee
- Nature of the cheque- Bearer, Order, Crossed

Parts of a cheque



Three types of cheques

Bearer cheque

- It is very common and most usable kind of cheque. If the word "Bearer" is written with the name of the payee, the cheque becomes a bearer cheque.
- Any person who presents this cheque for payment can get the payment of the cheque on the counter.

Order cheque

- If the drawer of the cheque writes the word order with the name of the cheque becomes an order cheque. The banker can make payment only to the payee whose name has been written on the cheque after his identification. It can be endorsed by the person whose name is written as payee.

Crossed Cheque

- If the drawer of the cheque draws two parallel lines on the face of the cheque, the cheque becomes a crossed cheque.
- These lines can be drawn with words or without words. The payment of such cheque cannot be made in cash.
- It can only be deposited in payees account and after that payment can be received by issuing an open cheque.

Post dated and open cheque

- **Post dated cheque**

-It is a regular cheque with a future date written on it instead of the date on which the cheque is written.

-The cheque can only be honoured by the bank on or after the date specified, which can be at any point in the future.

- **Open cheque**

-An open cheque is basically an uncrossed cheque.

-This cheque can be encashed at any bank, and the payment can be made to the person bearing the cheque.

-This cheque is transferable from the original payee (the original recipient of the payment) to another payee too.

Endorsement

Signing a check on the back is referred to as an endorsement. You'll typically have to endorse a check to deposit it in your bank account or to cash it. To endorse a check, you will sign the back in the endorsement box.

Types of cheque endorsements

In different scenarios, you may have to endorse a check in different ways, such as if you're passing the funds on to someone else.

1. A blank endorsement is the least secure way of endorsing a check but it's also the most common. Sign your name on the back of the check and tell the bank teller whether you want to deposit it to a particular account or cash it.
2. A special endorsement is when you use a check that's made out to you to pay someone else. You can send the money associated with the check directly from the payee to someone else. This is known as a third-party endorsement.

Write the following in the endorsement area:

"Pay to the order of" followed by the name of the individual who you wish to have the money.

Sign your name beneath that line.

3. Restrictive endorsement information limits the deposit use.

Ex: Funds should only be sent to account your have specified, Funds cannot be given out as caps

Types of crossing

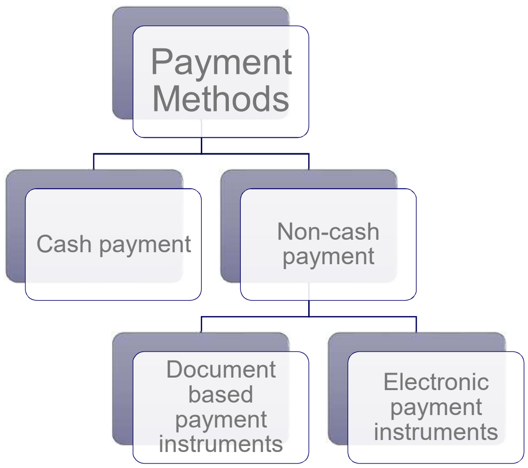
1.GENERAL CROSSING

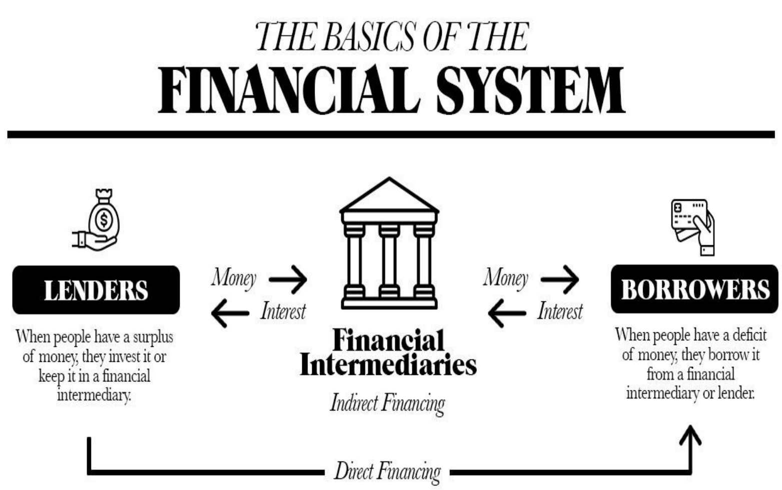
- When the drawer of a cheque draws two parallel lines on the face of a cheque without any special message, this crossing is known as general crossing it can be deposited in the account of any person.

2.SPECIAL CROSSING

- When the drawer of a cheque draws two parallel lines on the face of the cheque and also writes some special message in between these two lines such like name of the payee bank, etc this crossing is known as special crossing.

Payment methods





The banking and financial system of Sri Lanka

- Central bank of Sri Lanka
- Licensed commercial banks
- Licensed specialized banks
- Registered finance banks
- Merchant bank and investments bank
- Savings and loan associations
- Leasing establishments
- Primary dealers
- Deposit taking institutions

Services of banks and financial services

- Accept deposits
- Provide loans
- Overdraft facility
- Issue letter of credit
- Issue travelers cheques
- Purchase and sale of foreign exchange
- Maintain deposits of foreign currency(NRFC/RFC)
- Safe security facility

Central bank of Sri Lanka

CBSL was established in 1950 under the monetary Law act 1949 with the amendments in 2002.

Main objectives are:

1. Economic and price stabilization
2. Financial system stabilization

Functions of CBSL

- Act as the banker of the government
- Issue coins and notes
- Set financial policies
- Act the banker of all banks
- Lend loans to the government
- Act as the financial and economic advisor of the governmer
- Control exchange rates
- Conduct economic researches

SLIPS and SWIFT

- Sri Lankan Interbank Payments System(SLIPS)
  - ✓ It is an online interbank electronic fund transfer system mainly for low value payments (up to Rs. 5 Million).
  - ✓ It is a movement of funds from one account to another without the corresponding piece of paper to authorize.
  - ✓ SLIPS owned by Lankan clear, an organization owned by the central bank and all commercial banks operating in Sri Lanka.
- Society for Worldwide Interbank Financial Telecommunication (SWIFT)
  - ✓ It provides a network that enables financial institutions worldwide to send and receive information about financial transactions in a secure, standardized and reliable environment.

Payment and settlement systems

RTGS – It is an electronic and computer based fund transfer system. Payments will be debited from the paying participants account within seconds provided that the sending bank has sufficient balance in its account to make the payment.

SSSS- The government securities that were issued as scripts were transformed to scripless securities under the scriptless securities settlement system.

Transportation

What is transportation?

Transportation is a system for moving passengers or goods from one place to another.

Main components of a good transportation system

Way - Highway, Railway, Airways, Cables

Mode - Motor vehicles, Trains, Boats, Ships, Airplanes

Power- People power, Animal power, Wind, Fuel, Electricity

Terminals- Bus stands, railway stations, airports

Features of a good transportation system

- Speed
- Safety
- Cost effective
- Sufficient capacity
- Legal aspect

Modes and features of transportation

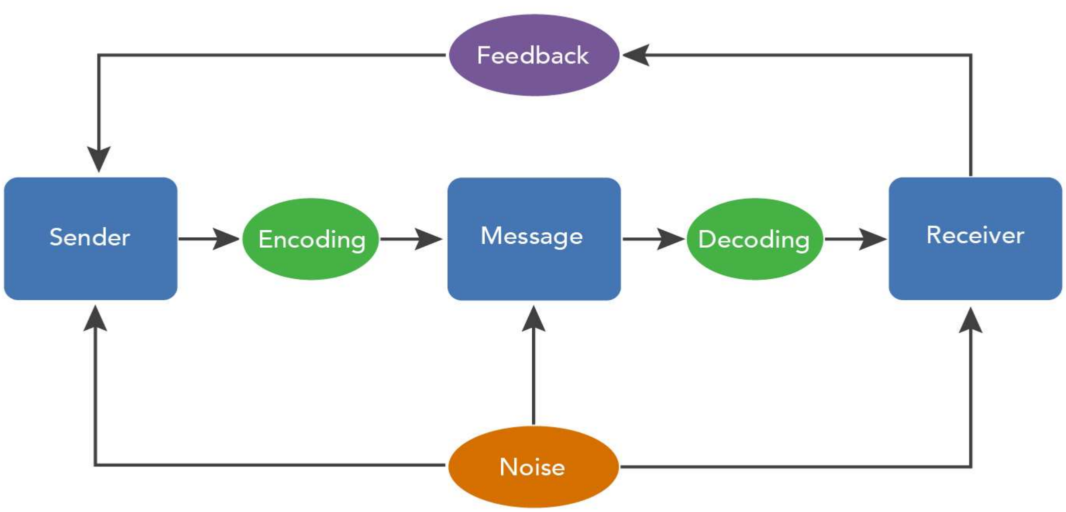
Rank	Cost effective	Speed	Safety	Capacity	Availability and easy access
Best, 1st	Maritime	Air	Air	Maritime	Road
2	Rail	Road	Road	Rail	Rail
3	Road	Rail	Rail	Air	Air
4 (Least useful)	Air	Maritime	Maritime	Road	Maritime

Communication

What is communication?

Communication is information sharing between people within and outside an organization.

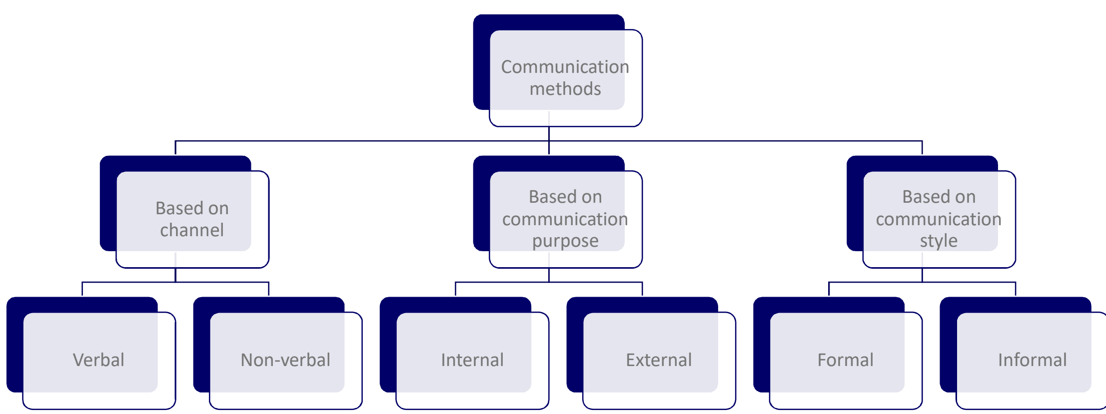
Communication process



Elements in the communication

- Sender
- Ideas
- Encoding
- Communication channel
- Receiver
- Decoding
- Feedback

Communication Methods



Communication media

Physical Media	Technical Media	Electronic Media
• Large Meeting • Department Meeting • Word of mouth • Public addressing	• Letters • E-mails • Newspapers • Billboards • Social Media	• Voice mail • Video conferencing • Email • Fax • Television

Features of an effective business communication system

- Access to information
- Easy to use
- Efficiency of user
- Interaction between people
- Interaction between institutions
- Confidentiality and security

Qualities of good communication

- Accuracy of information
- Completeness
- Clarity
- Politeness
- Cost effective
- Speed

Factors that affect effective communication

- Health matters- (Blind, Deaf, Dumb etc.)
- Language and cultural diversity
- Psychological factors
- Fault in the system
- Physical factors- Noise, disturbances

Importance of communication to business

- To provide link between traders.
- To exchange ideas between business partners and customers.
- To provide customer relationship.
- To promote sales.
- Enhanced innovation.
- To maintain relationship between government and with external parties.

Trading

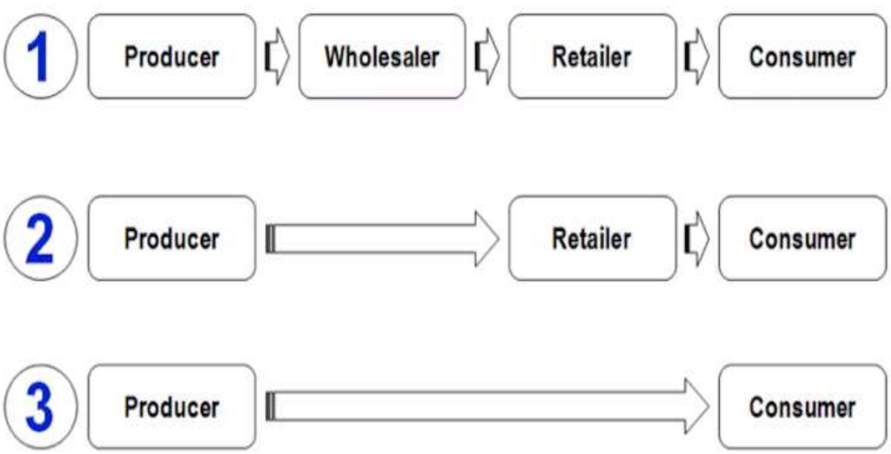
What is trading?

- Trading is the transfer of the ownership of goods from one person to another.
- Goods are exchanged for a price.

Foreign trading

- Imports
- Exports

Distribution channels



Insurance

What is insurance?

Insurance is a mean of risk management. The uncertain loss/risk is hedged beforehand.

Insurance policy- It is a document detailing the terms and conditions of a contract of insurance.

-Details of the insurance agreement.

Features of insurance

- Valid Contract- Valid contract agreed by both parties.
- Insurable interest- The legal right over the asset/subject.
- Utmost good faith- Policy holder and insurer should not disclose any false information to construct the agreement.
- Indemnity- Additional profits to the policy holder are avoided.
- Risk must attach- There should be some risk that the insurance policy covers.

- Contribution- When a damage is caused to the asset, the policy holder has no right to gain amounts from all the insurance companies that will exceed the loss of damage.
- Subrogation- When a property is damaged by a third party, the property owner has the right to claim damages from the third party.
- Proximate cause- The cause of loss must be covered under the insuring agreement of the policy.
- Term of policy- There should be an agreed period for the insurance policy.

Factors decide whether a risk can be insured or not

- Predictability- Can measure probable risks.
- Causality- Loss should be as a result of unexpected situations but not purposeful situations.
- Un-connectedness- The loss should not have any other insured loss. It should be independent.
- Verifiability- should be able to ascertain the reasons for the loss, place, time and amount.

Types of insurance policies

- Marine insurance
- Fire insurance
- Motor insurance
- Theft insurance
- Life insurance
- Re-insurance
- Double insurance
- Underwriting
- Employment insurance
- Product liability insurance

Marine Insurance

- Ships and cargo can be insured.
- Importers and exporters mostly use this policy.
- Ex: Fire, Thunder, Technical blasts, bad weather, ship sinking, employee strikes, delays

Fire insurance

- Fire damages could insure homes, business premises, any item in a building, or any other property.

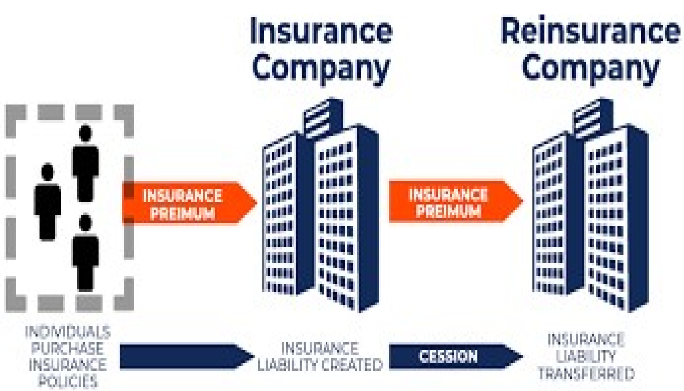
Motor insurance

Any damages that could be caused by vehicles to people and properties can be insured.

- Motor Insurance
  - Act only motor insurance policy
  - Third party insurance policy
  - Comprehensive motor insurance policy

Re-insurance

- The insurance company insures the assets via another company.



Past papers

SRI LANKA

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2024 July

- Which one of the following is **not** a characteristic of good money?

(1) Acceptability. (2) Divisibility. (3) Durability. (4) Difficulty to carry.

- Select from the following, a risk that a person **cannot** insure:

(1) Losses due to economic recession. (2) Potential risk from accidents.
(3) The risk of his own life. (4) All of the above.

- Which one of the following institutions is **not** supervised by the Central Bank of Sri Lanka?

(1) Employees' Trust Fund (ETF). (2) Employees' Provident Fund (EPF).
(3) Leasing Companies. (4) Licensed Specialized Banks.

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2024 January

- Which one of the following is a determinant of distribution channel used by a business?

(1) Nature of product. (2) Cost.

(3) Distance. (4) All of the above.

- Which one of the following is **not** a function of a commercial bank?

(1) Issuing currency notes and coins. (2) Providing leasing facilities.

(3) Providing overdraft facilities. (4) Accepting deposits.

- Which one of the following is **not** a factor of good transportation system?

(1) Speed. (2) High cost. (3) Capacity. (4) Safety.

- Explain briefly "Standard of Value" as a function of money.
- Explain briefly what is meant by "Utmost Good Faith" in insurance.

2024 January

Subhoda is the Chief Accountant of **XYZ Ltd.** which is a rubber manufacturing company in Sri Lanka. According to the instructions of the Board of Directors of the company, **Subhoda** is searching a good insurance policy for their factory employees.

You are required to:

(a) **Explain** two(02) advantages gained by **XYZ Ltd.** by having an insurance policy for its factory employees. (04 marks)

(b) **Explain** the term "Insurable Interest" with reference to the insurance policy of the factory employees. (03 marks)

(c) **Identify** three(03) criteria for accepting insurance as a risk. (03 marks)

(Total 10 marks)

2023 July

- Which one of the following is not an element of a transport system?

(1) Processing. (2) Terminal. (3) Power. (4) Mode.

- Explain briefly what is meant by "Dual Insurance".

January 2023

- Which one of the following is a feature of the whole sale trade?

(1) Involves a considerable level of credit transactions.
(2) Buyer's intention is for own consumption.
(3) Retailers and consumers are the involved parties.
(4) Transactions are completed always by cash or cash equivalents.

Indemnity principle is considered only for life insurance. (T/F)

2023 January

Expressway is a transport service provider with a fleet of highway buses, passenger vans, luxury cars and lorries for hire. Nevil is the owner and the manager of Expressway. He incurs a considerable amount of money every year to insure these vehicles. However, he believes that the cost is negligible compared to the risk of public transportation.

You are required to:

(a) Identify the type of insurance policy which Nevil can insure his fleet of vehicles.

(02 marks)

(b) Explain two(02) reasons why insurance is important for a business organization.

(04 marks)

(c) State four(04) difficulties that an organization will have to face due to non-availability of an effective transportation system. (04 marks)

(Total 10 marks)

2023 January

Tharindu graduated from Thailand State University recently. As an undergraduate, he visited several areas in Thailand and came across to see how the waterways are used in Thailand in transporting coconut. As an heir of a coconut estate, Tharindu wonders whether Sri Lanka can develop waterways for the transportation of coconut from estates to coconut mills and other factories which use coconut as a raw material. Now Tharindu is planning to start the new business focusing the export market as an entrepreneur.

You are required to:

(a) Identify three(03) qualities of a good waterway transportation system as a transportation system.

(03 marks)

(b) State three(03) services that a licensed commercial bank in Sri Lanka provides for an exporter. (03 marks)

(c) Explain the relationship between entrepreneurship and business. (04 marks)

(Total 10 marks)

July 2022

- Which one of the following is a quality of an Effective Communication System?

(1) Completeness. (2) Speed. (3) Politeness. (4) All of the above.

- Which one of the following is a risk that a businessman can insure?

(1) Losses in the future financial periods.

(2) Damage due to inability to understand future market.

(3) Potential risk from accidents.

(4) Losses due to decisions of managers.

A participant of Real Time Gross Settlement System is licensed commercial banks. (Y/N)

July 2022

Jayanada is having a steel fabrication workshop at Kaluthara. He buys steel required for different customer orders from Colombo. Jayanada normally makes cash payments to steel suppliers. He has a current account also in a leading commercial bank and sometimes, he issues post-dated cheques and open cheques to some steel suppliers.

You are required to:

(a) Explain two(02) reasons why money is important to a business organization. (04 marks)

(b) Identify three(03) benefits available to a current account holder. (03 marks)

(c) Explain the difference between “a post-dated cheque” and “an open cheque”. (03 marks)

(Total 10 marks)

July 2022

Cake & Bake is a cake shop engaged in manufacturing and selling cakes and other bakery items. It has 14 branches within Colombo and Gampaha districts. Cake & Bake is popular among its customers for its online ordering and delivery facilities. It has outsourced all its transportation requirements. Therefore, the selection of the transportation outsourced partner has become a critical decision for Cake & Bake, due to the nature of their raw materials and finished goods.

You are required to:

(a) State three(03) advantages gained by Cake & Bake using a good transportation system.(03 marks)

(b) Identify three(03) elements of a transport system with an example each. (03 marks)

(c) State four(04) reasons for the popularity of the electronic trade. (04 marks)

January 2022

- Which one of the following is not an element in the process of communication?

(1) Sender. (2) Risk. (3) Receiver. (4) Feedback.

- Which one of the following is not a feature of good transportation system?

(1) Speed. (2) Safety.
(3) Non availability. (4) Capacity.

- Real Time Gross Settlement System in Sri Lanka was introduced by:

(1) The Central Bank of Sri Lanka. (2) Licensed Specialized Banks.
(3) Finance Companies. (4) The Colombo Stock Exchange.

January 2022

Kohu Ltd. is a fiber factory, which uses coconut husk as its primary raw material. The fiber extracted from the husk is stored in a nearby building to the factory. Last Friday evening, this storeroom caught with fire, causing about Rs. 1 million loss to Kohu Ltd. An insurance policy was obtained by Kohu Ltd.

You are required to:

(a) State a suitable insurance policy for Kohu Ltd. (02 marks)

(b) Explain how principles of insurable interest and proximate cause affect to the insurance obtained by Kohu Ltd. (04 marks)

(c) Explain two(02) ways how the insurance contributes to economic development of a country. (04 marks)

(Total 10 marks)

THANK YOU !