



**Third
Edition**

Textbook of Commerce

**Henry G. Hughes
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Butterworths

Textbook of Commerce

Third Edition

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TEXTBOOK OF COMMERCE

Preface to the third edition

The text has been fully revised for the third edition to take account of changes in commercial practice and in legislation which have occurred since 1973, including changes in emphasis as well as the more obvious developments. It has also been expanded to include additional aspects of the subject, many of which have been assimilated into the syllabi of examining boards or which are likely to be included in the 1980s, for example factoring, exchange rates, franchising and international corporations. The text meets the 'O' Level Commerce syllabi requirements of G.C.E. examining boards including the Associated Examining Board and the London University School Examinations Council, and those of other boards such as the Royal Society of Arts and the London Chamber of Commerce. It will also act as a useful reader for aspects of the Business Education Council syllabi, in particular for the World of Work (General Level) and the Organization in Its Environment (National Level).

The origins of the book are outlined in the preface to the first edition and anyone who glances at this will readily acknowledge the immense changes, not only in the commercial world, but also in the field of education, which have occurred since 1968. It may well be that historians a hundred years hence will point to the core of the technological, social and economic changes as lying not so much in the developments themselves, remarkable though these have been, but in the *rapidity* with which they have occurred. Those living in the years between 1950 and 1980 have experienced changes as fundamental as those which took place in the U.K. in the celebrated

period of 1760–1830 but, of course, in less than half the average life-span.

Education was inevitably affected by these events and further education, particularly, needed to respond as rapidly as the development of the business world itself. The pattern could be seen clearly in the restructuring of the syllabi and examinations of the various examining bodies concerned with business subjects. Not only have subject titles and their content changed to embrace new developments, but also attempts have been made to integrate material from related disciplines and to provide a more practical approach to the study of business and its problems. Hence, the teaching and preparation of students for examination work has had to undergo a fairly radical change.

These trends have been reflected in the formation of the Business Education Council and the gradual replacement of the Certificate in Office Studies and ONC and HNC in Business Studies by the BEC equivalents with their integrated schemes and new assessment criteria. The various GCE Boards have also developed some inter-disciplinary syllabi, for example an 'A' Level in Business Studies, and have placed greater emphasis on the testing of application and analysis rather than concentrating on purely factual recall.

With all this we have been closely involved and we are largely in harmony with the general principle of seeking to train young people in practical business skills and to give them an understanding of the realities of the business world. However, there are dangers in using the fully integrated approach, especially with younger students and at the lower course levels. Students tend to receive a wide smattering of information which is at best only imperfectly understood, and they are failing to grasp the basic concepts of the various disciplines before being expected to analyse real problems. Consequently general standards of competence decline.

Commerce is, however, a self-contained subject with clearly defined boundaries. It is both cohesive and integrative, covering aspects of Economics, Accounting and Law. The Business Education Council, in spite of its inter-disciplinary philosophy, has ignored the subject as such, though the content has been largely subsumed under other headings. The third edition of *Textbook of Commerce* reaffirms our belief in the value of disciplined work in a subject as varied and diffuse as commerce and, though substantially revised, the book remains in essence what it was originally: a text of sufficient depth to satisfy the more inquisitive student while hopefully being readable and understandable for the steady workers who so often form the backbone of business studies classes. We have, as previously, laboured in an attempt to produce

an up-to-date, reliable and comprehensive guide for both teacher and student. Since 1969, we have often been encouraged by the general acceptance of the *Textbook* and by the many generous comments made, and trust that this third edition will be equally well received.

As before, we would like to make a number of acknowledgements for assistance given in preparing the manuscript. Consequent upon our geographical separation, communication has become a problem, and thanks must be expressed to Lanchester Polytechnic, Coventry, for acting as a 'half-way house' on several occasions. Appreciation is also extended to the many individuals and organizations who so willingly provided source material, and to Mr J. M. Brown, a colleague at Wigan College of Technology, who happily gave of his time and experience at an early stage in the life of the new edition. Mrs Joan Tarrant, who was often under pressure to meet various deadlines, deciphered the frequently untidy revisions and provided a legible typed manuscript for the printer. The publishers, Butterworths, were an unfailing source of patience, encouragement and help, and without their regular interest the manuscript would probably still be unfinished. Our wives and families also suffered as a result of the extra demands on our time and must deserve a special mention.

We must of course take final responsibility for the outcome, and as we put down our pens, we can only hope that our efforts will be of benefit to students of the subject.

H.G.H. and J.W.L.
September 1980

Preface to the first edition

This book began as an attempt to provide students at the level of Ordinary National Certificate and Ordinary National Diploma in Business Studies, and at Ordinary Level General Certificate of Education, with a text sufficiently detailed to meet examination requirements in commerce and to supply a background for further studies in economics without being too formidable either in length or content. Although having written primarily an ONC/OND/'O' Level text, we have borne in mind that commerce properly forms part of descriptive economics, and our experience in teaching economics to different levels and varying types of student leaves us in no doubt that a great weakness in economics students, even at university, is the lack of background in the commercial sphere. It seems educationally sound to have, in the fifth or sixth forms of grammar schools, a course in commerce as an introduction to the study of economics. Students benefit greatly from this approach, and we have accordingly endeavoured to preserve the links with economics throughout the book. Additionally, we feel that the book can be exceptionally useful for courses in general studies of the kind now being introduced in both grammar schools and technical colleges, in an attempt to provide arts or natural science students with background information on the world of business, which will benefit them both in their future career and in life in general.

As it now stands, the book is intended to form the basic text for an integrated scheme of commerce work, in which it will be linked with the *Student's Workbook and Teacher's Notes*. Questions, normally a feature of any textbook, have thus been omitted, since each

Workbook chapter includes a generous selection of questions of varying types. The Student's Workbook appears under separate cover, providing an opportunity for the material in each chapter of the Textbook to be systematically tested and expanded under the direction of the teacher, although there is no reason why students working on their own should not make use of the book. Library work is given prominence, each chapter of the Workbook containing a number of reading references.

The Teacher's Notes are intended to supplement the material and supply general guidelines to teachers, especially those of limited experience in commerce. Schemes of work are suggested, details of visual aids given, project work of different kinds introduced, and some answers to questions provided.

This approach, combining a basic text with planned and progressive work, seems to be a logical way of dealing with a practical subject like commerce which is nevertheless examined academically. Many years of teaching commerce at different levels has brought home to us the fact that methods of teaching the subject are often unimaginative, and the available textbooks, although often excellent in their way, are not really suitable. There seemed to be nothing between the massively detailed and comprehensive textbooks, presenting a formidable barrier to students of the kind we have in mind, and those texts simplified to a point where many important topics lack essential detail while other matters are omitted entirely. The book before you is an attempt to remedy this, so that while the specialist experienced teacher will still be able to deal more fully with particular topics, the non-specialist teacher, often given responsibility for commerce in the mistaken belief that 'anyone can teach it' (and with no time, in view of a full timetable and range of subjects, to keep up to date in a rapidly changing commercial world), will have a reliable text for class use.

Consequently, we have dealt fully with all important topics which we felt required explanation, have taken great pains to write clearly yet concisely on confusing subjects, and have endeavoured to present an accurate and up-to-date account. How well we have succeeded in our aims will be decided by each individual teacher; we shall be pleased to receive comments and would welcome suggestions for possible improvements. Commerce changes so frequently and rapidly that we cannot emphasise too strongly the need for students to keep abreast of new developments as they occur. In this connection it should be noted that in view of the impending change to decimal currency, we have incorporated dual £.s.d./decimal figures for numerical material wherever this was possible. In such cases, wherever shillings and pence are involved, we have placed the

corresponding decimal values in brackets, using a small 'p' for new pence in accordance with the practice laid down by the Decimal Currency Board.

We find ourselves indebted to many people as we complete the work. Our publishers, Butterworths, have extended an astonishing degree of tolerance during the course of preparation. Mr B. H. Sutton, Butterworth's Advisory Editor for the series of which this book forms part, went painstakingly through the rough draft, offering many valuable and constructive suggestions, and at an earlier stage Mr H. Yates, a former colleague at Wigan, was kind enough to read critically through much of the material. Mr P. Luck executed the main diagrams in the text, a task beyond our abilities and a contribution that has greatly enhanced the value of the book for students. We sincerely thank these three friends for the labour they gave so willingly, and other colleagues at Wigan, who gave helpful advice on matters relating to their specialised subjects.

Several firms and their representatives gave assistance in practical matters, and we were always most graciously received. We should particularly mention Mr L. Vasey and Mr B. Critchley of Barclays Bank, Wigan, both of whom placed their knowledge and experience at our disposal, and Mr H. Heaton of Park Lane Friendly Co-operative Society Ltd.

We are also indebted to the following firms: Boots Cash Chemists Ltd, the Green Shield Stamp Trading Co Ltd, Barclays Bank Ltd, the London Stock Exchange, and W. H. S. Taylor & Co Ltd, who allowed us to make a detailed study of their organisation, in addition to giving us permission to reproduce some of their documents.

Finally, we wish to acknowledge the services of Mrs H. G. Hughes who typed our manuscript for us in the midst of many domestic chores, and Miss Barbara Sutton, who checked the manuscript for accuracy as well as correcting some of our errors of style in the process. We remain permanently indebted to both.

Notwithstanding our debt of gratitude to all who assisted in the preparation of this book, we alone must remain ultimately responsible for what has been written.

H.G.H. and J.W.L.
December 1968

Both authors have wide examining experience in Commerce. Mr Loveridge has been Chief Examiner in 'O' Level Commerce for the Associated Examining Board since 1978 and is Chief Examiner Designate 1982 in AO Commercial Studies for the London University School Examinations Council. He also has experience as Chief Examiner for the Royal Society of Arts Stage I Commerce examination and has been an Assistant Examiner for London University in 'O' Level Commerce for 10 years. Mr Hughes has been Assistant Examiner in Commerce for the Union of Lancashire and Cheshire Institutes (North West Regional Advisory Council) and is currently Assistant Examiner in the Structure of Business (Intermediate) for the London Chamber of Commerce and Industry. These appointments do not, however, indicate the examining boards concerned are automatically recommending the *Textbook of Commerce* to students preparing for these examinations.

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1 The background of commerce

Branches of commerce

The word 'commerce' is made up of two Latin words, *cum* (with) and *merx* (merchandise), so that a literal translation would be 'with goods'. Now this is certainly apt, since our study is primarily concerned with the distribution of goods. There are four main aspects of commerce, all of them concerned with goods:

- | | | |
|----------------------|---|----------------|
| (1) Retail trade. | } | Home trade. |
| (2) Wholesale trade. | | |
| (3) Import trade. | } | Foreign trade. |
| (4) Export trade. | | |

However, commerce embraces more than these. Wherever there is trade, there is commerce, but certain services of an ancillary nature are necessary for the carrying on of trade. These ancillary services (or, as they are sometimes known, auxiliaries) include four important sectors:

- (5) Finance (including banking).
- (6) Communications (including transport and warehousing).
- (7) Insurance.
- (8) Advertising.

The basic commercial activity, then, is trade. From earliest times man has engaged in trading, because it was advantageous to him to acquire goods he needed in exchange for articles surplus to his requirements. Moreover, trade opened up the possibility of