COMMERCE

Scope of commerce

Introduction

What is commerce?

Commerce is defined as:

i. Commerce refers to the study of how man organizes the exchange and distribution of goods and services to satisfy human wants.

ii. Commerce refers to a study of trade and aids to trade.

Trade

Trade is the exchange of goods and services with the intension of making profits.

OR, it is the buying and selling of goods and services with the intension of making profits.

Trade involves the transfer of ownership after the agreement between the concerned parties either with a medium of exchange (money) or through barter trade.

Trade is divided into two categories:

i).Home trade.

ii).Foreign/international trade

Home trade, is the buying and selling of goods and services within the boundaries of one country. Home trade is divided into two namely:

i). Wholesale trade.

ii). Retail trade.

Wholesale trade is the buying and selling of goods and services in bulk to other traders.

Retail trade is the buying and selling of goods and services in affordable quantities to the final consumers

Foreign trade, this is the buying and selling of goods and services between two or more countries. Foreign trade is divided into three namely:

i). Import trade.

ii). Export trade.

iii). Entrepot trade

Import trade refers to the buying of goods and services from another country e.g. vehicles from Japan to Uganda.

Export trade refers to the selling of goods and services to other countries or abroad e.g. coffee from Uganda sold to America, Canada, etc.

Entrepot trade refers to trade that involves importing goods from other countries and re-exporting it to other countries e.g. Uganda importing vehicles from Japan and re-exporting to Sudan.

Aids to trade, these are auxiliary services that facilitate the smooth running of trade. They include; market research, banking, advertising, transport, warehousing, insurance and communication (MR.BATWIC).

Market research, this is an aid to trade concerned with finding out people's opinion about particular goods and services. It helps producers or manufacturers to produce products that consumers want as regards quality, price etc.

Banking, this is an act of keeping people's money in a financial institution (bank). Banking assists the public in monetary problems through granting loans.

Advertising, thisrefers to the means through which producers and sellers spread information to consumers about the availability of goods and services in an attempt to increase sales. Advertising bridges the gap between the producers and consumers by informing consumers of the goods and services on the market.

Transport, this is the movement of people, animals, goods and services from one place to another e.g. by road, railway, water or air. Transport facilitates the movement of goods and services from where they are produced to where they are needed, thereby bridging the gap between the producers and consumers.

Warehousing, this refers to the storage of goods(raw materials and finished goods) awaiting demand, sales, clearance or processing and protecting them against atmospheric conditions. Ware housing acts as reservoir enabling trade to continue uninterrupted throughout the year.

Insurance: This is an aid to trade which undertakes to safeguard and compensate the businesses which suffer losses from the risks insured. It is the cover or protection against risk that may occur to goods or property and result into financial loss. It safeguards traders from various risks by guaranteeing compensation in case of loss. The compensation restores businessmen back to business.

Communication: This is the act of conveying information from one place to another or from one person to another. Communication helps producers to inform consumers of the goods and services available on the market. It also helps consumers to convey their complaints and opinions to producers.

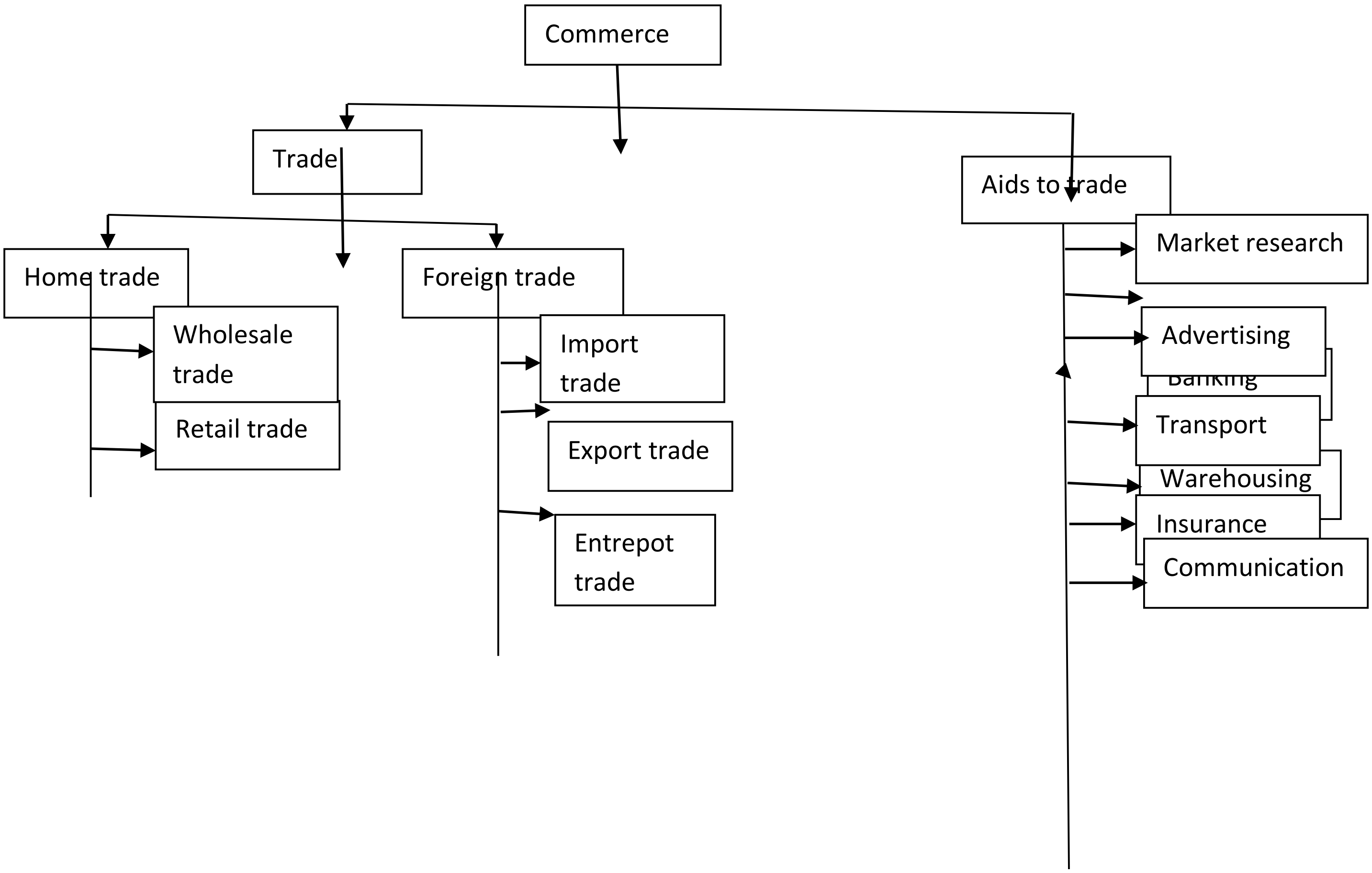
Note: Commerce aims at bridging the gap between the producer and the consumer.

Other forms of trade include:

i). Barter trade; this is the exchange of goods for goods, services or services for goods.

ii). Monetary trade; this is the type of trade where money is used as a medium of exchange. Money is not needed for the sake but what it can be exchanged for.

Branches of commerce/ commerce tree



Questions

What are aids to trade?

Describe the aids to trade.

Growth of commerce:

These days, commerce plays an important role in the satisfaction of human wants. In the past the process of living entailed only two principle activities i.e. production and consumption. There was no exchange and distribution, hence no commerce. This meant that an individual was "a jack of all trade and a master of home" e.g. he had to grow his own food crop, build his own house, makes clothes, hunts for meat etc.

Factors that influenced the growth of commerce

The following factors have played important roles in the growth of commerce:

i). Differences in human works.

ii). Diversification of natural resources.

iii). Specialization/ division of labour.

iv). Improvement in the transport and communication system.

v). Development of money and the banking system.

Commerce and business

Business refers to any activity carried out with the intention of making profits.Commerce is concerned with activities related to trade and aids to trade. It

involves all the activities aimed at bridging the gap between producers and consumers by getting goods within the reach of the consumer i.e. commercial activities.

Note; all those engaged in commerce are business people but not all those engaged in business are commercial people.

Commerce and production

Production is the process of making (creation) of goods and services to satisfy human wants. Goods are distributed only after they have been produced. Thus, commerce comes after production.

Commerce and Economics

Commerce is a branch of economics. Commerce is mainly concerned with the process of exchange and distribution of goods conducted by businessmen who aim at making profits out of their activities while economics is concerned with how man can satisfy his unlimited wants with his limited resources.

The fundamental economic problems Scarcity, this refers to a situation where the resources available to produce goods and services are limited in supply compared to human wants. Due to scarcity, consumers and producers have to make choice.

Choice, this refers to making of the right decision out of various alternatives. It is the selection of desires to be satisfied according to priority. In making a choice among various alternatives, consumers and producers forego the next best alternative hence opportunity cost.

Opportunity cost, this refers to the next best alternative foregone when choice is made e.g. a decision to buy a commerce text book might mean giving up the purchase of a calculator.

Why we study commerce

i). Commerce provides knowledge that enables us to understand the business environment.

ii). To enable us appreciate the impact of commercial activities in the society where we live e.g. pricing, inflation etc.

iii). To be equipped with the basic knowledge of commercial language commonly used in business.

iv). To acquire commercial knowledge for the purpose of employment.

v). to acquire commercial knowledge and skills in order to carry out commercial activities.

vi). To introduce students to a wider field of study at a higher level i.e. entrepreneurship, economics, business administration etc.

vii). To encourage students to develop neatness and orderliness in their work, paying attention to details in every day work.

viii). To know sources of government revenue such as taxes, license etc.

ix). To know the roles played by government in protecting consumers.

x). to know why prices rise and fall.

xi). To know how goods are made available for satisfaction of human wants.

Importance of commerce in business

i). commerce creates utility in goods and services by enabling goods and services to reach final consumers. Utility is the ability of a commodity to satisfy human wants/needs.

ii). Through commerce, goods and services are made available to consumers in the right place and at the right time/ it makes goods more desirable.

iii). Commerce enables producers to inform customers about the presence of goods and services available for sale through advertising.

iv).It enables the movement of goods and services as well as passengers through transport.

v). It helps producers to find out customer's opinion regarding their goods and services through market research.

vi). It enables individuals and countries to carry out exchange among themselves hence encouraging specialization.

vii). It enables businessmen and the public to get compensation for losses suffered through insurance.

viii). Through commerce, the public can get variety of goods and services from other countries.

ix). Commerce improves the standards of living of the people or countries.

x). it bridges the gap between producers *and* consumers.

xi). Businessmen and the public are able to have safe custody of their money as well as securing loans through banking.

xii). It enables the delivery of messages, parcels and money through communication and transport.

xiii). It ensures steady supply of goods on the market throughout the year through safe storage of surplus and releasing it for sales during scarcity on the market.

xiv). It helps the public to understand the modern commercial methods e.g. payment using cheque and bank draft.

Types of goods:

i). Freegoods: These are goods that exist in abundance such that our need for them can be satisfied at zero prices, e.g. air, sunshine, rainfall etc.

ii). Commercial/economic goods: These are scarce goods which are paid for or have money value (price) e.g. clothes, cars, food etc. Most goods are economic goods.

iii).Consumer goods: these are goods which satisfy human needs directly. They are in a form in which they are wanted by the people who actually wish to make use of them. They are meant for immediate consumption. They are divided into two:

a).Non-durable /perishable consumer goods: these are goods which last for a short period of time when in use. They are either destroyed or used up in the very act of being used e.g. food, drinks e.tc.

b).Durable consumer goods: these are goods that are used for a long time e.g. books, furniture, buildings etc.

iv).Producer goods/capital goods: These are goods required by producers in the production of other goods, e.g. machinery, vehicles, raw materials, factory buildings etc. they do not satisfy human wants directly.

v).Complimentary goods: these are goods that must be combined in order to satisfy a single want e.g. petrol and motor cars, sugar, tea leaves, coffee and water, books and pens/pencils etc.

vi).Substitute goods: these are goods that can be used in place of the other. They are competitive and can substitute or replace each other e.g. coffee and tea leaves, cassava and potatoes etc.

vii). Necessity goods, these are essential commodities that one cannot do without e.g. clothes food, water, salt, soap, sugar etc.

viii). Intermediate goods, these are goods which have not reached their final stage of production like raw materials or semi finished goods e.g baking flour for bread etc

ix). Final goods, these are goods which have reached their final stage of production e.g. bread, shoes, cloth etc.

x). private goods, these are goods which are enjoyed exclusively by individuals e.g. private cars, clothes etc.

xi). Merit goods, these are goods or services whose consumption are believe essentially desirable and are meant to improve the quality of human life e.g. health care, safe water, education etc.

xii).demerit goods, these are goods or services which are viewed as being socially harmful e.g. cigarettes, addictive drugs like cocaine etc.

xiii). Public goods, these are goods provided by government for individuals to use at no extra cost and consumption by one person does not reduce the amount available to other users e.g. security, roads etc.

Satisfaction of human wants

Human wants are desires of man. They are of two types: material $ immaterial wants

Material wants are those which are satisfied by consumption of goods.

Immaterial wants are those which are satisfied by services e.g. entertainment, education etc.

The fundamental economic problems are scarcity, choice and opportunity cost.

Scarcity, this refers to a situation where the resources available to produce goods and services are limited in supply compared to human wants. Due to scarcity, consumers and producers have to make choice.

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Opportunity cost, this refers to the next best alternative foregone when choice is made e.g. a decision to buy a commerce text book might mean giving up the purchase of a calculator.

Nature or characteristics of human wants

i).Human wants are unlimited or endless. Human wants are so numerous that it's impossible to satisfy all of them. They range from necessities or basic needs of life e.g. food, clothing and shelter to luxuries and more so for status.

ii). They are dynamic i.e. keep on changing depending on the level income, education, age, religion etc.

iii). They are complementary or go hand in hand e.g. car and petrol.

iv). they are competitive/quantitative i.e. the satisfaction of one may involve giving up consumption of others e.g. coffee and tea leaves.

v). they are recurrent. Human want cannot be satisfied once and for all. They can only be satisfied from time to time with a constant supply of goods e.g. need for food, drinks, entertainment, clothes etc.

vi). They need constant replacement from time to time.

vii).Human wants have different intensities:

The degree of urgency to satisfy human wants varies from wants to wants. Primary wants must be satisfied first because failure to satisfy them is a matter of life and death.

Types of wants

i).private wants; these are desires of individuals that are satisfied exclusively e.g. clothes.

ii). Public wants; these are collective desires of society that are satisfied by public goods e.g. security. Roads etc.

iii). Material wants; these are human desires which are satisfied by consuming goods e.g. food, clothes etc.

iv). immaterial wants; these are human desires which are satisfied by using services such as education, entertainment etc.

Needs/wants are necessities or things which man cannot do without e.g. cloth, water, etc.

Goods are tangible items that satisfy human material wants.

Services refer to intangible things that satisfy human wants e.g. education etc.

Wealth: thisrefers to the stock of goods existing at a particular time.

Characteristics of wealth;

-it should be relatively scarce.

-it should possess utility.

-it should have money value.

-ownership should be transferrable.

Types of wealth;

i).personal wealth, this refers to wealth which is owned exclusively by an individual

it consists of personal items like clothes etc.

ii).business wealth; this refers to wealth possess for the sake of producing further wealth. It consists of business assets like machinery, office equipment etc.

iii). Social wealth, this refers to wealth which is owned and used collectively or publicly e.g. roads, public hospitals etc.

Types of goods:

i).**Free goods:**These are goods that exist in abundance such that our need for them can be satisfied at zero prices, e.g. air, sunshine, rainfall etc.

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PRODUCTION

Production refers to any activity aimed at bringing about a physical change in a good so as to make it useful to man in order to satisfy his needs. It is therefore the transformation in any good.

It can also be defined as a process aimed at creating utility in a good.

Utility is the usefulness in a good/service to satisfy man's needs.

The utility of a commodity declines the more a person consumes/acquires that commodity e.g. a thirsty person derives great satisfaction from the first glass of cold water, less and less satisfaction is derived from the subsequent glasses he takes.

Forms of utility

i).Form utility: this is utility which is created when raw materials are transferred into finished goods.

ii).Place utility; this is utility which is created when the goods are transported from where they are produced to where they are needed for consumption.

iii).Time utility; this is utility created when the commodity is produced at the right time when it is needed.

iv).Possession utility; this is utility created when a consumer has bought a commodity and he is the owner.

Ways of increasing utility

- Through changing the presence of a raw material to any finished good (form utility).

-By changing the situation/place of a good e.g. from the production unit to the market/place of consumption (place utility).

-By enabling goods reach the consumer in the right time (time utility).

- Through providing commercial activities e.g. retailing, wholesaling etc.

Production unit/firm

This refers to a place where goods and services are produced. This place may be an agricultural farm, manufacturing firm, school, hospital, shops etc.

Factors of production and their rewards

Factors of production refers to, items/things necessary for production to take place. These include:

1).Land; this refers to all natural resources available on, above, and beneath the surface of the earth. It plays an important role in production. Natural resources include; soil, minerals, crude oil, water, air, sunshine etc. the reward for use of land is **rent.**

Characteristics of land

i) **It is free gift of nature**
ii) **It is fixed in supply or limited**
iii) **It geographically immobile but occupationally mobile**
iv) **It is not homogeneous I.eits fertility, value orquality differs from one place to another.**
v) **It is rewarded with rent as its price.**
vi) **It is subjected to the law of diminishing returns.**
vii) **It is relatively much in supply compared to other factors of production.**
viii) **It is productivity can be improved.**

Importance of land

i) **It is source of all raw materials used in production process e.g mineral, forests etc.**
ii) **It is used for agriculture i.e growing of crops and rearing animals.**
iii) **It is source of fuel or energy e.g.coal,hep,charcoal etc.**
iv) **It facilitates construction of social and economic infrastructure e.g. transport and communication network, power dams.**
v) **It is source of water for domestic and industrial use.**
vi) **It is used as a dumping ground for industrial waste during production process.**
vii) **It source of food e.g fish, meat.**

2).Labour; this refers to the mental and physical human efforts directed towards work. Labour can be classified as skilled, semi-skilled and non or unskilled. Services of teachers, doctors, lawyers etc are under mental or skilled labour, while the wheel barrow pushers and head porters are under physical or manual labour. The reward of labour is **salaries** or **wages.**

It should be noted that all human effort is labour. For human effort to be called labour, it must be aimed at production and paid for. Mental involves the use of the brain well as physical labour involves the use of body energy.

Characteristics of labour

i) it is human i.e only provided by human beings.
ii) It may be mental or physical
iii) It is geographically and occupationally mobile.
iv) It earns a wage or salary as its reward in factor market.
v) It must create value or be productive
vi) It involves a cost when undergoing education and training.

Types of labour

i)Mental labour; this is that involves more use of brain work and less physical effort

3).**Capital;** this refers to money or ready production goods necessary to assist labour to produce other goods and services. Capital is of two types:

-money capital

-real/physical capital

Money capital refers to the money invested by the owner in the business to buy machines, equipment, raw materials etc.

Real/physical capital refers to things used for further production of other goods e.g. machines, equipment, factory building etc. The reward for capital is **interest.**

4).Organization; this refers to people who are charged with the responsibilities for production policies without themselves taking part in the actual production. They are charged with the administration of the other three factors so that they produce according to the desired proportions. These people include managers, secretaries, accountants etc. The reward of organization is **salaries.**

5).Entrepreneurship; this refers to undertaking a business (risks). It involves coordinating all the other factors as well as decision making.

.It is the act of undertaking the project, providing finance and bearing of risks. This is usually done by a person called an entrepreneur. The reward for this is **profits.**

Who is an entrepreneur?

An entrepreneur refers to a person or a group of people who coordinates or combines all the other factors of production in the production process. His duty involves:

-initiating and financing the business or production line

-supplying the necessary money or capital and paying other factors of production

-buying land and necessary raw materials.

-deciding on what to produce, when to produce, quantity and quality to be produced.

- bearing all the risks associated with production.

-looking for the market of goods and services.

-being responsible for the entire well being of the business

-controlling all other factors of production.

NB. An entrepreneur is a risk taker, initiator and innovator and the reward to him is profit though there are risks of losses.

Forms/types of production

There are two types of production: direct production and indirect production.

i).Direct production/subsistence production, this refers where a person works directly to produce a good or service for his own consumption e.g. a person making a chair for his own use.

ii).Indirect production; this refers to producing goods or services for exchange or for sale or for the market.

Levels/stages of production

There are three different stages of production and can be classified as follows:

1.Primary production/extractive industry; this is the first stage of production which involves the extraction of the gift of nature by man to produce raw materials. This can be from soil, air or water and the activities include hunting, farming, fishing, mining etc. The output of this stage is raw materials and is used as inputs for the production of finished goods. In the primary production one uses the gift of nature for production of finished goods e.g. fish got from water, animals got from the bush, crops got from the garden etc.

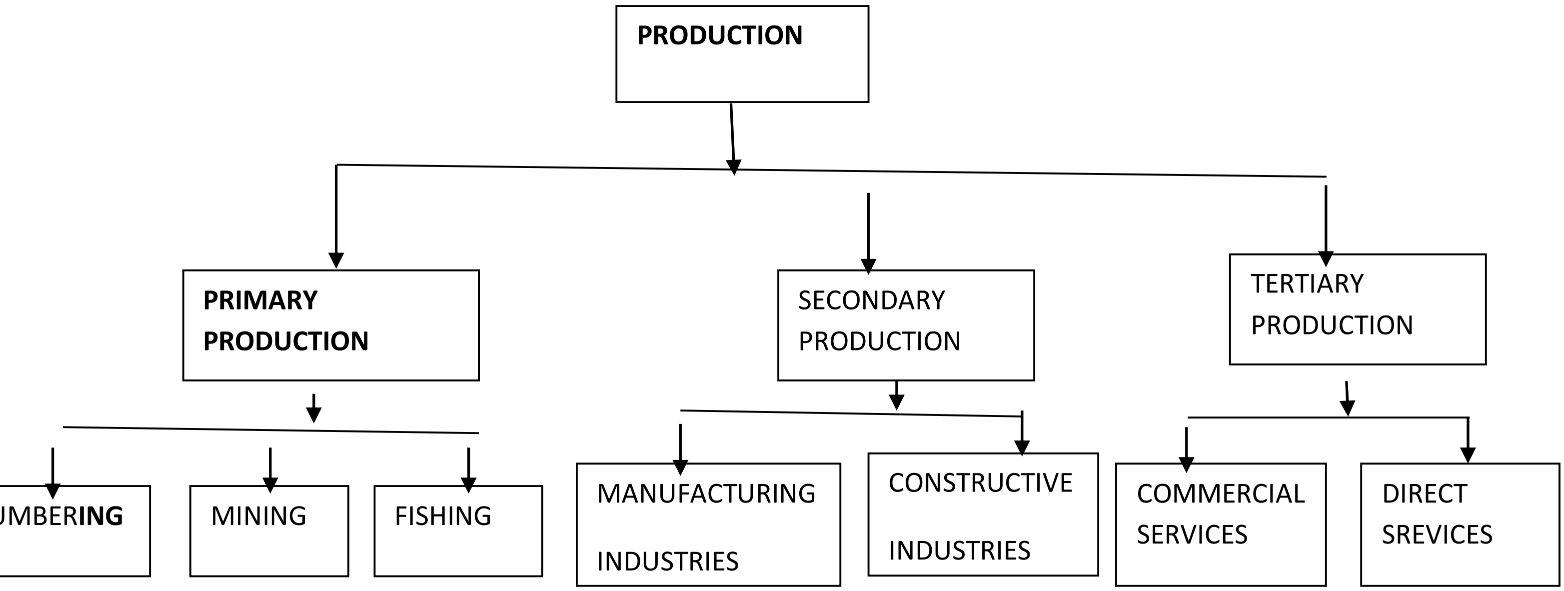
2.Secondary production, this refers to turning raw materials extracted in primary production into a more useful form or into finished goods. It is divided into constructive industry e.g. construction of houses, bridges, roads etcand manufacturing industry e.g. oil refining, sugar and cloth making etc.

3. Tertiary production, this refers to the production of services. It includes commercial and direct services.

-commercial services refer to carrying out business such as; wholesaling, retailing, banking, transport etc.

-direct services refer to; services of doctors, actors, hair dressers, teachers etc.

Levels/stages of production



Characteristics of direct production

i).Production is mainly for personal consumption but not for sale or exchange.

ii). Production is mainly on small scale.

iii). There is use of cheap family labour in production.

iv). there is use of simple or rudimentary tools in production e.g. hand hoe.

v). there is lack of specialization in production since the producer tries to produce a variety of commodities on his own to satisfy his needs.

vi). There is production of mainly low quality goods because of use of simple tools in production.

vii). Exchange is mainly by barter trade.

viii). There is lack of innovation and inventions in production due the producer being conservative.

ix). There is low productivity i.e. output per unit is low.

x). limited capital is invested in production.

xi). Traditional beliefs are predominant in production.

xii). Surplus output is usually put on the market in order to enable the producer acquire basic necessities like shelter, clothes

Advantages of direct production

i).It is a source of employment especially to rural people.

ii). It is flexible i.e. the producer can easily change from one activity to another since production is on small scale.

iii). It produces food for home consumption hence reducing expenditure on food.

iv). it is cheap to undertake since it uses family members and simple tools.

v). there is limited wastage of resources since the producer himself is the consumer and whatever good is produced is consumed.

vi). It is simple to manage since production is on small scale.

vii). There are no transport and distribution expenses since the producer and his family are the consumers.

viii). There is diversification against possible risks in production such as price fluctuation and fall in demand due to production of a wide range of products.

Disadvantages of direct production

i).There is production of poor/low quality products due to lack of competition.

ii). The producer realizes little or no income because production is for personal use.

iii). Production on small scale and for personal use limits government tax revenue.

iv). there is limited innovations and creativity in production due to lack of profit motive and competition in production.

v).production is on small scale hence the producer does not enjoy economies of scale.

vi). It leads to low output hence low income of the producer leading to low standards of living.

vii). It results into limited specialization and exchange.

viii). It leads to under utilization of resources due to use of simple technologyin production.

ix). Production on small scale reduces employment opportunities.

Characteristics of indirect production

i). production is basically for sale.

ii). Production is mainly on large scale.

iii). There is use of hired labour in production which is paid wages/salary.

iv). there is use of better/advanced tools in production e.g. tractors.

v). there is specialization in production since production is mainly for exchange.

vi). There is production of high quality goods and services due to innovations and competition in production.

vii). Exchange is mainly by use of money.

viii). There is high level of research, inventions and innovations in production.

ix). Production is profit motivated i.e. aimed at maximizing profits.

Advantages of indirect production

i).It promotes specialization and exchange.

ii). It promotes optimum utilization of resources due to use of advanced technology in production.

iii). There is production of high quality goods and services due to specialization and competition in production.

iv). it earns foreign exchange since there is large output for export.

v). Economies of scale are enjoyed due to large scale production.

vi). More employment opportunities are created due to large scale production.

vii). It increases government revenue through taxation of output in the market.

viii). Research and innovations in production are possible due to profit motive.

ix). It facilitates development of infrastructure in form of power, transport network etc, for processing the output and distributing it to the market.

x). it increases the producer's income since production is for exchange.

Disadvantages of indirect production

i).It requires skilled labour in production which is limited.

ii). It emphasizes production for the market at the expense of home consumption.

iii). It is expensive to undertake as it involves hired labour and modern inputs like tractors.

iv). it leads to total loss of income in the event of price fluctuations or fall in demand for the products.

v). it leads to over production leading to wastage.

vi). It may lead to quick exhaustion of resources due to over exploitation as there is use of machines in production.

vii). It leads to unemployment due to use of machines in production which are labour saving.

Characteristics of land

i).It is a free gift of nature.

ii). It is fixed in supply or limited.

iii). It is geographically immobile but occupationally mobile.

iv). it is not homogeneous i.e. its fertility, value or quality differs from one place to another.

v). it is rewarded with rent as its price.

vi). It is subjected to the law of diminishing returns.

vii). It is relatively much in supply compared to other factors of production.

viii). Its productivity can be improved e.g. through the use of fertilizer, irrigation.

Importance of land

i).It is a source of all raw materials used in the production process e.g. minerals, forest.

ii). It is used for agriculture i.e. growing of crops and rearing of animals.

iii). It provides a site where all production activities take place.

iv). it is a source of fuel or energy e.g. coal, HEP etc.

v). it facilitates construction of social and economic infrastructure e.g. transport and telecommunication network, power dams.

vi). It is a source of tourist attraction e.g. wild life, waterfalls, beautiful scenery etc.

vii). It is used as a dumping ground for industrial waste during the production process.

viii). It is a source of water for domestic and industrial use.

ix). It is a source of food (fish) for sale on the local and export market.

x). it is used for recreation e.g. entertainment centers.

Characteristics of labour

i).It is only provided by human beings.

ii). It may be mental or physical.

iii). It is geographically and occupationally mobile i.e. labour can move or change from one area to another or from one occupation to another.

iv). it earns a wage or salary as its reward in the factor market.

v). it must create value or be productive.

vi). It involves a cost when undergoing education and training.

Types of labour

i.Mental labour, this is the one that involves more use of the brain work and less physical effort e.g. doctors, teachers, accountants etc.

ii. Physical (manual labour), this is the one that involves more physical effort and less brain or mental effort e.g. wheel barrow pushers, head porter etc.

iii. Skilled labour, this refers to labour that has acquired specific skills or expertise usually through education or professional training e.g. teachers, engineers, doctors etc.

iv. Semi-skilled labour, this refers to labour that has acquired some skills usually through elementary education or on job training.

v. Unskilled labour, this refers to labour that does not possess any specific skills through education and training or elementary education e.g. house girls, cooks etc.

vi. Productive labour, this refers to labour that is engaged in the production of goods or services and is rewarded with a wage or salary.

vii. Unproductive labour, this refers to labour that is not engaged in any production of goods and services and therefore does not earn a wage or salary.

viii. Hired labour, this is labour employed in the production of goods or services on behalf of another person or firm in return for a wage or salary.

ix. Self employed labour, this is labour engaged in the production of goods and services for his own survival and does not earn a wage or salary e.g. hawkers, car washers etc.

Characteristics of capital

i.It is a manmade resource.

ii. It has money value.

iii. It can be geographically and occupationally mobile.

iv. It accumulates overtime. Capital accumulation is the process of increasing the stock of capital.

v. it is rewarded with interest as its price in the factor market.

vi. It depreciates overtime. Capital depreciation is the loss of value of capital assets or the wear and tear of capital assets as they are used in the production process.

Importance of capital

i.It increases output of goods and services because it simplifies and quickens the production process e.g. the use of tractors and combine harvesters in agriculture.

ii. it facilitates full utilization of resources hence more employment opportunities.

iii. it facilitates trade and exchange and thus commercial production.

iv. it can be used as collateral security for investment loans from financial institutions.

v. it facilitates the development of social and economic infrastructure such as transport and communication network, etc.

vi. it promotes specialization in the production process hence trade and exchange.

vii. it facilitates research hence leading to better methods of production.

viii. it increases productivity and efficiency of labour and other factors of production.

ix. it is used as a reward for other factors of production.

x. it is a means of technical development and technological transformation e.g. advanced capital equipment.

Forms of capital

i.Real capital (physical capital), this refers to physical assets that facilitate the production process e.g. machinery etc.

ii. Nominal (money) capital, this is the one which is reflected in monetary terms e.g. liquid capital, working capital etc.

iii. Human capital, this is capital in form of accumulated skills and knowledge of people in a country usually acquired through education and training.

iv. Social capital, this refers to publicly owned capital e.g. roads, bridges, schools.

v. private capital, this is capital which is owned by private individuals e.g. private buildings etc.

vi. Fixed capital, this is the total fixed assets like machinery, equipment etc.

vii. Liquid capital, this is capital inform of cash or assets that can easily be convertible into cash e.g. cash at bank, debtors etc.

viii. Working capital, this is capital needed for the daily running of the business such as purchasing stock, paying staff etc.

Specialization and division of labour

Division of labour refers to the distribution of work among different people who are 0involved in different stages in the production of a commodity each performing a small task.

Orit refers to breaking down of activities into separate tasks within an organization and each task is performed by a specialist.

Specialization; this refers to where a person, region or a country concentrates on the production of a particular commodity or service he can produce better and leave the rest of the activities to be done by others.

It is aimed at increasing production and reducing the cost of production so that the commodity prices can be low.

Specialization necessitates exchange in order to obtain other goods and services not produced.

Exchange

Exchange is the transfer of goods and services from one person to another in return for money or other goods and services.

Relationship between specialization and exchange

i).Specialization is only possible if there is exchange i.e. an individual or a country specializes because it is possible to obtain other goods and services they cannot produce through exchange.

ii). Specialization leads to surplus production which is exchanged. This surplus would be useless without exchange.

iii). The inability by an individual or a country to produce all the requirements calls for specialization and exchange to secure goods and services not produced by them.

iv). Exchange and specialization lead to economic growth and well-being through trade.

Forms of specialization

They include the following:

1).**Specialization by process;**This is where an activity is broken down into many stages, each stage being performed by different persons who concentrate on one part of the production process and does only that part, e.g. in bread making one may concentrate in mixing the flour etc.

2). **Specialization by commodity**; this is where a person or a country or a firm concentrates on the production of only one commodity which can be exchanged for another from a different firm or country.

3). **Specialization by region/area**; this is where a given region or area concentrates on the production of a given commodity it can produce best and then exchange it with what others produce.

4). **Specialization by craft/profession;** this is where a person selects and concentrates on activities they can do best depending on their skills, profession/training and talents, e.g. teaching, engineering etc.

5). **International specialization;** this is where a country concentrates on the field of production or product in which it has a comparative advantage over other countries and gets the rest through exchange in international trade.

Advantages of specialization

i). It improves labour skills in a particular field where labour concentrates and does the work over and over again.

ii). It saves time which would be wasted on moving from one task/place to another.

iii). It provides employment to the specialist e.g. the professional labour.

iv). It promotes the use of machines in production which leads to standardized output.

v). Better quality goods are produced; it improves the quality of output since skilled workers/experts are employed and use machines in the production process.

vi). It reduces the cost of production per unit since output increases per time/no wastage of resources.

vii). It encourages trade through exchange both local and international.

viii). It encourages mass production, i.e. specialization encourages increased output since every worker becomes an expert in his work and produces greater output in a short time.

ix).It reduces fatigue; workers become less tired because work is shared and one does not move from one task to another.

x). it encourages innovations as well as improving on the methods of production.

Disadvantages of specialization

i). it encourages monotony and boredom i.e. handling the same task continuously lead to monotony and boredom while one is working.

ii). In case one worker is absent, then the whole system of production may come to a standstill because continuity requires a worker at every production stage to be available.

iii).It leads lack of responsibility or accountability, there is lack of responsibility because one job is completed by different workers, each performing only a small task.

iv). It leads to loss of craftsmanship, as a result of over reliance on machines; there is a decline in hand skills especially in craftsmanship.

v). It creates unemployment; unemployment arises because of territorial specialization that leads to overdependence on one product without market. Also the use to machines in the production displaces workers causing technological unemployment.

vi). Exhaustion of resources, specialization leads to quick exhaustion of natural resources due to over exploitation.

vii). It leads to total loss in case of price fluctuation or bad weather in the agricultural sector.

viii). It leads to occupational immobility of labour since he has no skills for other kinds of occupations.

ix). It leads to occupational diseases, some kinds of specialization lead to health hazards e.g. specializing in the production of chemicals.

x). It leads to over production, specialization may lead to mass production which may result into surplus which can be put to waste due to lack of market

xi).Break down of machinery at one stage stops the entire production process because continuity requires all production stages to be operational.

Question1. Give advantages that a farmer who has been producing maize and beans will have by producing maize only.

Efficiency of labour

This refers to a situation when labour is made more productive without reducing the quality of the output. Efficiency of labour can be improved through the following ways:

a). By providing labour with appropriate education in a given field.

b). By providing recreational activities to the workers so that they can have a good time of relaxation.

c). Through improving the working conditions at the work place.

d). By providing on the job training to the workers through seminars, courses etc.

e). By encouraging co-operation among workers.

f). By encouraging specialization among workers.

g). By providing good wages and salaries which must be paid on time.

h). Through provision of meals at the work place.

i). By Improving the working relationship between the management and the workers.

j). By ensuring job security to the workers.

Price determination in the market

Market, this is an arrangement in which buyers and sellers negotiate the exchange of a well-defined commodity. It may be a commodity market where goods and services are sold and bought or a factor market where factors of production are sold and bought.

Price, this refers to the exchange value of a commodity in terms of money. It is the amount of money that has to be given up in order to get a good, service or factor input.

Methods of price determination

i).**Haggling/bargaining,** this is the bargaining process between the seller and

the buyer until an agreed price is arrived at.

ii). **Sales by auction (auctioning),** this is where many buyers compete for the commodity through the bidding process by offering different alternative prices to the seller. The commodity is taken by the highest bidder, i.e. the buyer who offers the highest price.

iii). **Forces of demand and supply**, this is where the price is determined by the interaction of market forces of demand and supply. The equilibrium price is determined where supply and dem and are equal.

iv). **Resale price maintenance**, this is a system where the manufacturer fixes the price at which the retailer has to sell his product to the final consumer, e.g. prices of airtime cards, newspaper, magazines etc.

v). **Government policy of price legislation or price control**, this is where government fixes prices of some commodities either maximum prices to protect consumers or minimum prices to protect producers.

vi). **Cost oriented pricing-** this is where the price of a product is set basing on the cost incurred on producing it. If the cost isshs.5000 he or she may sell at shs.8000 after adding on his profit margin.

vii). **Collusion-** this refers to where entrepreneurs agree to sell a particular product at uniform price.

viii). **Competitive oriented pricing-** this is a method of pricing where the price is set after considering the pricing of similar products by competitor. The entrepreneur may at times lower prices compared to his/her competitors in order to out compete them or may set a higher price to impress the buyers that he or she may sell in better quality goods.

Types of prices

i).**Equilibrium price**, this is the price determined by where supply and demand is equal.

ii). **Reserve price**, this is the price below which a seller is not willing to sell his commodity. It is the least acceptable price for the seller.

iii). **Factor price**, this is the reward for the use of a factor of production e.g. rent for land, wage for labour etc.

iv). **commodity price**, this is the price for a commodity e.g. food stuffs.

Consumption

Consumption refers to the process of using final goods and services to satisfy human wants.

Demand and supply

Demand refers to the quantity of goods or services that a consumer is willing and able to purchase at a given price, in a given period of time. Or demand is the desire for a commodity backed up by the ability to pay for it at a given price in a given period of time. The consumer always demands more of a commodity when its price is low and less when its price is high.

The law of demand

The law of demand states that: "the higher the price, the lower the quantity demanded and the lower the price, the higher the quantity demanded. This can be illustrated using the demand schedule and demand curve below.

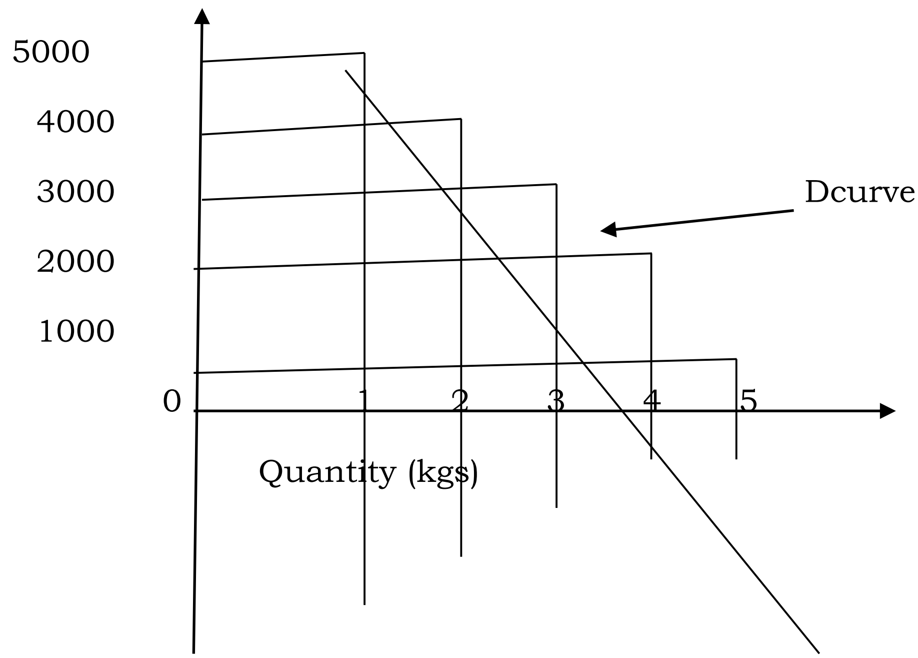
Demand schedule is a table which shows` the quantity of a commodity demanded at different price levels.

Price of a commodity	Quantity demanded
5000	1
4000	2
3000	3
2000	4
1000	5

Demand curve, this is a curve which shows the quantity demanded at different price levels. A normal demand curve slopes downwards from left to right illustrating the law of demand

The demand curve

Price (shs)



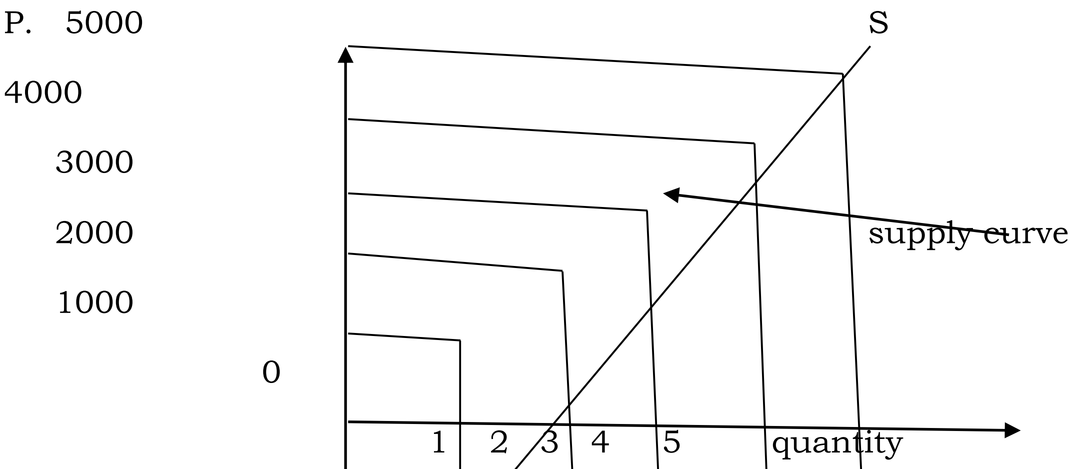
The demand curve shows that more of a commodity is demanded at a low price and less of a commodity is demanded at a high price.

Supply refers to the quantity of goods or services a producer is willing and able to offer for sale at given price at a given period of time. The producer supplies more goods and services as the price increases and supplies less when the price decreases. This can be illustrated by the supply schedule and the supply curve below;

Supply schedule is a table which shows the quantity of a commodity supplied at different price levels.

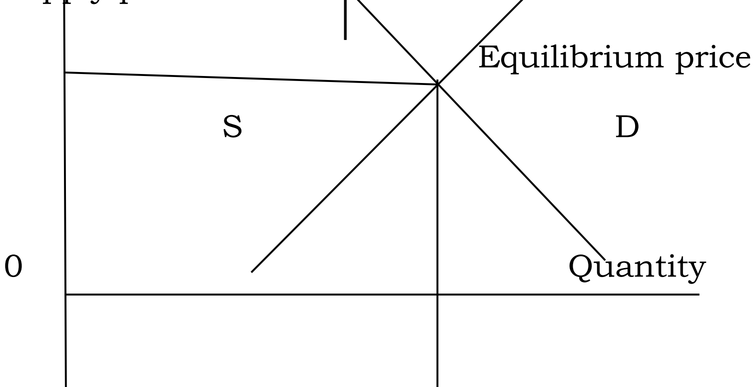
Price of a commodity	Quantity supplied
5000	5
4000	4
3000	3
2000	2
1000	1

Supply curve, is a table showing the quantity of a commodity a producer is willing and able to offer for sale at different prices at a given period of time.



The law of supply states that; "the higher the price, the higher the quantity supplied but the lower the price the lower the quantity supplied".

Equilibrium price; this is a price /point where demand interacts with or equals to supply.price S



Factors influencing/affecting a consumer to buy/demand a given good or service

i). The price of the commodity.If the price of the commodity is high, the consumer buys less but if the price is low the consumer buys more.

ii). The income of the consumer, If the income of the consumer is high, he buys more of a given good, but if the income is less he buys less.

iii). Taste and preference, If the taste and preference of a given good or service favours the consumer, the quantity bought is high, but if the taste and preference do not favour the consumer, less is bought.

iv). Future price expectation, If the prices of goods and services are expected to rise in future, a consumer buys more now, but if the prices are expected to fall in future, he buys less of it in order to buy at a low price in future.

v). The season of the good,some goods have seasonal demand, when the season is favourable, the demand is high and when the season is over the demand reduces, e.g. demand for success cards is high during periods of examinations and reduces after exams.

vi). The price of related goods e,g. substitutes/complementarygoods, Substitute goods, these are goods which are similar in that they serve the same purpose or satisfy the same demand e.g. cow peas and beans, rice and posho etc. if the price of one substitute e.g. beans is high, consumers abandon it and buy the other substitute cow peas.

Complementary goods or joint demand goods, these are goods which are used together e.g. cars and petrol, shoes and shoe polish. An increase in the price of one reduces the demand for the other e.g. an increase in the price of cars reduces the demand for petrol since few cars are demanded.

vii). The habit of the consumer, the demand of some commodities is influenced by habit or addiction, e.g. if the habit of the consumer is drinking alcohol, demand of alcohol is high but if is not, then the demand is low.

viii). Population size, the higher the size of population in a particular area, the higher the demand and the smaller the size of population, the lower the demand.

ix). Level of advertising and salesmanship, highly advertised goods are demanded more than those not advertised.

x). Government policy of taxation and subsidization, favourable government policies such as subsidies to consumers lead to increase in demand while unfavorable government policies such as high taxes lead to a fall in demand.

Factors that affect the supply of a given good/service

i). The price of the commodity; the higher the price the higher the supply and the lower the price the lower the supply of a commodity.

ii). Cost of factors of production; a rise in the cost of factors of production discourages production thereby reducing the amount to be supplied while a fall in the cost of factors of production increases production and supply.

iii). Gestation period; this refers to the time it takes to produce a commodity. when the commodity has got a short gestation period, its supply tends to be high since production can be increased in a short time but when a commodity has a long gestation period, its supply is low.

iv). Government policies; favourable government policies to producers such as subsidies reduce production costs thus increasing supply but unfavorable government policies to producers such as high taxes increases production costs leading to a decrease in supply.

v). Prices of other related goods; the supply of a commodity is influenced by the prices

++of other related commodities such as substitutes and jointly supplied commodities. In case of a substitute goods, an increase in the price of one reduces the supply of the other and vice versa e.g. an increase in the price of coffee will increase the supply of coffee but reduce the supply of tea leaves.

vi.).In case of jointly supplied commodities, an increase in the price of one leads to an increase in the supply of the other, e.g. an increase in the price of meat will lead to an increase in supply of hides as well as hides/skin since the two goods are derived from the same production source.

vii). Natural factors/climate; the supply of agricultural products is influenced by climatic or natural factors like rainfall, sun shine, pests and diseases. Favorable natural factors/climate encourages production hence increased supply and unfavorable factors lead to reduced supply.

viii). Number of producers; the higher the number of producers, the higher the supply of a commodity and the smaller the number of producers the less the supply of a commodity.

ix). The aims/goals of the producers, when producers aim at sales maximization, supply increases as they supply more even at low prices, but when producers aim at profit maximization, supply reduces as the output is restricted in order to charge high prices.

x). Political climate; a peaceful and stable atmosphere in the country encourages production thus leading to increase in supply but political instabilities reduce production leading to a decrease in supply.

xi). Level of demand for a commodity; an increase in demand for a certain commodity increases its supply while a decrease in demand reduces the supply of a commodity.

xii). Availability of production inputs; when inputs such as labour, capital and raw materials are available, production is high and hence more supply than when the inputs are not available.

xiii). Level of technology used in production; adoption of better technology increases production/outputs and supply while the use of poor technology hinders production and reduce supply.

xiv). Future price expectation, if the price of a commodity is expected to increase in future, supply reduces as producers hold up stocks to be sold at a higher price in future, however, when producers expect prices to fall in future, supply increases in the current period as producers supply more to avoid making losses in future.

xv). Degree of freedom of entry of new firms into production, freedom of entry of new firms into the industry increases production and supply while restriction of entry of new firms in production reduces supply.

xvi). Working conditions, favorable working conditions increase production leading to increase in supply while poor working conditions reduce production leading to decrease in supply.

Types of supply

i).Joint supply, this is where the increase in supply of one commodity leads to an increase in the supply of another because the two commodities are derived from the same production source e.g. mutton and wool etc.

ii). Competitive supply, this is where the increase in supply of one commodity reduces the supply of another e.g. an increase in cultivation reduces the land for grazing.

Types of demand

i.Competitive demand, this is the demand for substitutes or commodities which serve the same purpose such that an increase demand for one reduces the demand for the other e.g. beans and peas, Omo and Nomi.

ii. Complementary or joint demand, this is the demand for commodities which are used together e.g. cars and petrol etc. an increase in demand for one leads to an increase in demand for the other and vice-versa.

iii. composite demand, this is the demand for commodities which have many uses e.g. water, cotton etc.

iv. independent demand, this is demand for commodities which do not have any relationship at all i.e. the demand for one commodity does not affect the demand for the other e.g. books and bread.

Factors that would attract customers to buy a particular commodity

1). The low price of the commodity may induce a person to buy that commodity.

2). The appearance of the commodity such as colour, wrapping or shape may influence a person to buy.

3). The appearance of the seller; smartly dressed and clean sellers normally attract the customers.

4). The season during which the commodity is sold; x-mass cards sold in July will not attract customers to buy them because it is off season.

5). The taste of the commodity; positive taste will attract the customer while negative taste will not.

6). The level of advertising for the commodity attract more customers to buy the commodity.

7). The salesmanship language used by the seller e.g. tone, kind of words, facial expressions etc attract customers.

8). The terms of payment offered by the seller e.g. credit facilities or hire purchase facilities may attract the customers to buy a commodity.

9). Durability of the commodity; durable commodities are most preferred by the customers than the perishable ones.

10). Number of uses a commodity has; a customer will be attracted to buy a commodity even if it is expensive, if it has a number of uses.

11). The availability of spare parts for the commodity in case it has broken down; commodities without enough spare parts do not attract customers to buy them.

12). Peer influence; some customers buy certain commodities because of the influence of their friends, even when the commodity may not be useful to them.

Location of an industry

Location refers to the setting up of an industry in a given area.

Factors that affect the location of an industry

1). Availability of raw materials; an entrepreneur should locate an industry in an area near the source of raw materials, especially if they are bulky. This minimizes transport cost of raw materials.

2). Availability of labour; an industry should be located in an area with high labour supply to reduce the cost involved in transporting labour from distant places.

3). Availability of good transport network; an industry should be located in an area with good transport e.g. roads for transporting materials from sources and finished goods to market areas.

4). Availability of power; an industry should be located near the source of power e.g. hydro or thermal. Power is used to run machines and for lighting system.

5). Availability of water; an industry should be located in an area with constant water supply. Some industry use water as raw material during production, washing machines and cooling them.

6). Land for expansion; an industry should be located in an area with enough land to facilitate future expansion without displacing people.

7). Availability of auxiliary services; an industry should be located in an area with services such as banking, insurance, hospitals, schools etc.

8). Availability of security; an industry should be located in an area with high security to protect the assets of the industry and the lives of workers.

9). Favourable government policy, an industry should be located in an area because of the policy of the government of creating employment and bringing balanced development.

10). Availability of market; an industry should be located near the market for the sale of goods and to minimize transport cost.

Question:

a). define location of industry.

b). give the factors an entrepreneur should consider when locating an industry.

Localization of an industry

Localization refers to the concentration of industries in an area where other industries already exist in order to enjoy common benefits. Such benefits include; constant power supply, security, well developed transport network etc.

Advantages of localization

1). Localization of industries creates employment opportunities for the people within and outside the area.

2). Localization leads to the development of an area into an urban centre.

3). Localization leads to an improvement in the social services like roads, schools, hospitals etc.

4). It leads to an increase in the size of the market for the products of people in rural areas.

5). Localization earns a government a lot of revenue from taxes imposed on industries and workers.

6). It leads to the development of other subsidiary industries in the area e.g. a sweet industry is set up to use sugar as a raw material and sugar cane plantation is set up to supply sugar cane to sugar industry.

7). Localization of industries leads to amalgamation (to combine) of industries producing similar goods which increases the levels of production.

Disadvantages of localization

1). Localization increases unemployment because the number of people looking for jobs normally exceeds the jobs available.

2). It leads to shortages of housing facilities which results into development of slums.

3). Localization leads to air, water and soil pollution which affects the health of people in the area.

4). It leads to shortages of water and food in the localized areas which leads to high prices hence high cost of living.

5). Localization leads to the development of immoral activities in the area e.g. prostitution, robbery etc.

HOME (INTERNAL) TRADE

Trade is the exchange of goods and services with the aim of making profits.

Trade is divided into;

a). home trade

b). foreign trade

Home trade

Home trade refers to the exchange of goods and services within the country. It involves the buying and selling of goods and services within the boundaries of a Country.

Characteristics/ features of home trade

i.it involves the exchange of goods and services within the same country.

ii. it consists of wholesale trade and retail trade i.e. it is carried out by wholesalers and retailers.

iii. it involves the use of local currency eg the Uganda shillings.

iv. goods are advertised through the local media e.g. new vision, monitor etc.

v. it involves relatively small amount of capital compared to international trade.

vi. road and railway transport are the common form of transport used.

vii. goods are mainly stored in private and public warehouses.

viii. it involves use of local languages.

ix. it involves few formalities and documents.

It is divided into two:

i). Retail trade.

ii). Wholesale trade.

Retail trade

Retail trade refers to the buying of goods in large quantities from the wholesalers or manufacturers and selling them to consumers in relatively small/ affordable quantities.

Characteristics of retail trade

i.it involves purchase of goods from the wholesaler or producer and selling them to the consumer in relatively small quantities.

ii. the sources of goods is the producer or wholesaler.

iii. it involves relatively small amount of capital compared to wholesale trade.

iv. it is a link between producers, wholesalers and consumers.

v. it involves breaking of bulk by buying in large quantities from the producer or wholesalers and selling to consumers in relatively small quantities.

Who is a retailer?

A retailer is a person who buys goods from the wholesaler or producer in large quantities and sells them to the consumers in affordable quantities demanded.

Functions of a retailer

i.He breaks the bulk, a retailer breaks bulk by buying in large quantities from the producer or wholesalers and selling them in small quantities which a consumer can afford to buy.

ii. Stores goods safely until demanded, a retailer stores goods safely until they are needed by consumers.

iii. Brings goods within the reach of consumers, a retailer transports goods and deliver them near consumers thus saving them from transport costs.

iv. Offers advice to consumers, a retailer advises consumers on how to use the products e.g. computers, Television etc.

v. Provides consumers with a wide variety of goods and choice, a retailer stocks and displays a wide range of goods from different producers which enables consumers to make choice.

vi. Provides a link between producers, wholesalers and consumers, a retailer is the last link in the chain of distribution and therefore connects producers and wholesalers with consumers.

vii. Looks for markets for the goods, a retailer looks for the market for the goods by brining the goods within the reach of consumers throughout the country.

viii. Saves wholesalers and producers the trouble of having to deal with small orders, a retailer saves wholesalers and producers the trouble of having to deal with many small orders by buying in large quantities from wholesalers or producers and selling in quantities in which consumers can afford to buy.

ix. Offers after sale services, a retailer may offer after sale services in form of free repairs or servicing, installation of product etc.

Services/functions offered by a retailer to the consumer

1. **Breaks bulk:** a retailer breaks the bulk by buying goods in large quantities from the producer or wholesaler and sellingthem in small quantities which a consumer can afford to buy.

2.**Stores goods safely until demanded:** a retailer stores goods safely until they are needed by consumers thus saving them from storage problems.

3. **Offer advice to consumers:** a retailer advises consumers on quality, how to use or handle the products e.g. computers and assist them in making correct choice.

4. **Provides consumers with a variety of goods and choice:** a retailer stocks and displays a wide range of goods from different producers which enables customers to make choice.

5. **Provides a link between producers, wholesalers and consumers:** a retailer is the last link in the chain of distribution and therefore connects producers and wholesalers with consumers.

6. **Helps in market research:** a retailer assists the manufacturer in market research thus enabling manufacturer to produce the type of goods consumers want.

7. **Prepares goods for sale:** a retailer prepares goods for sale by sorting, branding and assembling thus enabling consumers to make choice easily.

8. **Offers after sale services:** a retailer may

offer after sale services to consumers in form of free repairs or servicing, loading or installation of the new products.

9. **Offers credit:** a retailer offers credit facilities to his trust worthy consumers who may not be having cash and pay later.

10. **Transports goods:**a retailer sometimes transports goods and delivers them within the reach of consumers, thus saving them from transport costs.

11. **Advertises goods:** a retailer advertises goods thus enabling consumers to be aware of the variety of goods and services on the market.

12. **Source of information to consumers:** a retailer is a source of information to consumers about the new product on the market, new fashions and prices.

Services /functions offered by a retailer to the wholesaler

1. **Finances the wholesaler:** a retailer finances the wholesaler by buying goods in bulk and paying promptly, thus availing him with working capital.

2. He provides an outlet/market for the goods brought from the wholesalers.

3. **Transports goods:** a retailer transports goods from the wholesaler thereby reducingtransport expenses.

4. **Helps in market research:** a retailer gives the wholesaler all the necessary information regarding the prevailing market conditions such as consumers' tastes and preferences thereby enabling the wholesaler make accurate forecast of future requirements and supply goods needed by consumers.

5. **Provides a link between a wholesaler and consumer:** a retailer bridges the gap between the consumers and the wholesalers.

6. **Stores goods:** a retailer buys goods in large quantities and stores them safely until demanded thus relieving the wholesaler the burden of storage as well as warehousing costs.

7. **Advertises goods:** a retailer advertises goods bought from the wholesaler thereby saving him advertising costs.

8. **Save the wholesaler from small orders:** a retailer saves the wholesaler the trouble of dealing with

small orders from consumers.

Services/functions offered by a retailer to the producer/manufacturer

1. **Links the manufacturer to consumers:** a retailer provides a link between manufacturers wholesalers and consumers, thus helping in completing the production process which finally creates utility.

2. **Undertakes market research:** a retailer helps the producer in carrying out market research, thus enabling the manufacturer assess the demand for his products. A retailer informs the manufacturer about the consumers' opinions and complaints regarding his goods since he directly contacts consumers.

3. **Stores goods:** a retailer stores goods safely till they are demanded thus relieving manufacturers from warehousing costs.

4. **Advertises goods:** a retailer advertises goods on behalf of the manufacturer, thus marketing his products.

5. **Transports goods:** a retailer transports goods bought from the producer or manufacturer thereby relieving him of transport costs.

6. **Looks for market:** a retailer looks for market for goods bought from the manufacturer.

7. **Prepares goods for sale:** a retailer prepares goods for sale by sorting, blending, branding etc.

8. **Saves the producer from small orders:** a retailer saves the manufacturer the trouble of dealing with many small orders from consumers.

Qualities a retailer should have in order to make his business a success.

The following are the qualities of a good retailer:

i) A good retailer should be honest to his customer by not cheating them.

ii) A good retailer should be pleasant in his dealings with customers i.e. should be polite and not rude in order to attract many customers.

iii) A good retailer should be a good administrator of his business by closely controlling his stock and auditing his books of accounts regularly.

iv) A good retailer should be a good buyer who knows what commodities to buy and at what price to buy in order to operate profitably.

v) A good retailer should be cooperative with the supplier by paying them promptly.

vi)A good retailer should forecast demand of his customers as regard quality, quantity, brand, price, changes in taste and preference.

Vii) A good retailer should practice good sales man ship, i.e. attractive display , offering after sales services, discount and credit facilities to trust worthy customers.

viii) A good retailer should exhibit high standard of cleanliness.

ix) A good retailer should have a thorough knowledge and relevant experience about the product he is selling.

Factors to consider when setting up a retail business

Before a retailer locates a business, there are many factors to be put into consideration and these include:

i).**Source and availability of capital required**. a retailer should consider the source and the amount of capital required in opening up a business. The sources may include personal savings or loan from financial institutions. The amount of capital required will depend on the size of the business i.e. small scale or large scale.

ii).**cost of running and maintaining the business:** a retailer should consider the cost of running and maintaining the business e.g. rent, power, transport, wages etc. He should set up his business in the area where operational costs are relatively low in order to operate profitably.

iii).**possibility of future expansion:** A retailer should locate a business in a large area/room which allows for future expansion of the business.

iv).**Type of goods needed by most customers:**a retailer should know and stock the type of goods needed by most customers in the area where he is intending to locate business e.g. essential goods like salt, sugar and soap.

v).**Presence of competition from other retailers**: The retailer should be ready to face competition from the existing retailers dealing in similar products. Or he should set up his business where there is less competition.

vi).**Source of supply**. The retailer should consider the source of stock or supply of goods. He should locate the business near the source of supply of goods in order to reduce operational costs e.g. transport

vii).**Size of the market (demand for the products):** The retailer should consider the level of demand or size of the market in the area where the business is to be set up. He should locate the business in an area where there is a big market for his products e.g. trading centers or urban areas or areas with high population to provide market.

viii).**Availability of infrastructure**: A retailer should consider locating the business in a place where there is a well developed social and economic infrastructure such as power, transport and communication net work etc to facilitate the smooth running of the business.

ix).**Security of the area**: A retailer should set up his business in a secured and politically stable area to reduce the risks and uncertainties to his business.

x).**Terms of sale** :the retailer should consider the term of sale to his customers i.e. whether to sell on cash or on credit.

xi).**Government policy:** the retailers should consider government policy on the retail business he intends to set up i.e. whether the government favours the nature of the business or discourages its operation.

xii).**Experience and knowledge in the line of business:** the retailer should consider the knowledge and experience he has in the line of business he intends to set up, e.g. a teacher may set up a school since he has knowledge and experience in education.

xiii). **Display and shop layout:** the retailer should consider the shop display and shop layout in terms of arrangement of the counters and window displays in order to attract customers.

xiv). **Availability of storage facilities:** the retailer should consider the storage facilities available during periods of high demand such as Christmas season.

Types of retail businesses

There are two types of retail business and these are:

a).Small scale retail business

b).Large scale retail business

Small scale retail business

Small scale retail businesses are retail businesses operated on a small scale. It gives rise to small scale retailers.

Small scale retailers, these are retailers/traders who operate on small scale with little capital in the business. Examples are roadside traders, hawkers, mobile shops, tied shops etc.

Characteristics (features)of small scale retail business

i) It employs relatively small amount of capital in business.

ii) it holds small stock.

iii) It serves small market.

iv) It occupies small space.

v) It has low turnover and profits.

vi) It has limited or no specialization as it stocks variety of goods.

vii) It has poor or no record keeping.

viii) It usually offers credit facilities to customers.

ix) It is flexible i.e. it can easily change the nature of business depending on demand.

x) It tends to charge relatively high prices compared to **retail business.**

Types of small scale retailers

There are two main types of small scale retailers namely:

1).Small scale retailers without fixed premises:

2). Small scale retailers with fixed premises.

Small scale retailers without fixed premises (Itinerant traders)

These are traders who operate businesses without fixed or permanent premises. They are referred to as itinerant traders.

Itineranttraders are small scale retailers who move with their goods on bicycles, motorcycles, motor vehicles and on foot to sell from door to door. Examples are hawkers, peddlers, wheel barrow boys, news paper venders, mobile shops etc.

Characteristics of itinerant traders

i)they sell goods moving from place to place i.e. they are mobile traders.

ii).They carry their goods on wheel barrows, bicycles or motorcycles.

iii).They are small scale retailers and lack their own premises from which to operate.

iv). they offer a limited variety of goods to consumers.

v). they deal in low priced goods e.g. sweets.

vi).They have small capital or operate with small capital.

vii).They have no specific line of trade, they change stock depending on the prevailing demand or market.

viii).They do not aim at building permanent customers.

ix).they have low turnover and low profits.

x).they operate in limited areas and offer services to few customers.

Types of itinerant traders

i).**Pedlers;** these are small scale retailers who move from door to door usually on foot or bicycles carrying goods on their bodies looking for customers.

ii).**Hawkers;** these are small scale retailers who move from place to place usually on regular and scheduled intervals carrying goods on vehicles.

Characteristics (features) of Hawkers

i).they move from place to place selling goods i.e. carry goods near to consumers.

ii). They have no fixed premises.

iii). They sell a limited variety of goods i.e. have limited stocks.

iv). they sell lighter or portable goods which they easily carry.

v).they employ limited capital.

Advantages of hawkers

i).the business requires little capital to start.

ii).operational cost like rent, electricity and water bills are avoided as the business does not operate in fixed premises.

iii).the business is flexible as a hawker can easily change from a less profitable business to a more profitable venture depending on the prevailing market conditions, prices and seasons.

iv). they transport goods and deliver them within the reach of consumers even in rural areas.

v). the business is quite simple and easy to set up as there are few or no formalities to start the business.

vi).there is personal contact with customers.

vii).hawkers take advantage of many customers who buy goods after seeing them or make unplanned expenditure i.e. impulse buying.

Disadvantages of Hawkers

i).the business is very tiresome as a result of constant movement to different areas searching for customers.

ii).their sales are affected during extreme weather conditions like heavy rainfall and sunshine.

iii).they sometimes sell defective or inferior goods to customers.

iv).they sometimes take advantage of consumers' ignorance of the prevailing market prices and end up overcharging them

v).the existence of the business depends on the life and the ability of the owner. The sickness, insanity, bankruptcy or death of the owner may result in to the collapse of the business.

Reasons why the number of Hawkers is on the increase in Uganda

i).the business is quite simple and easy to set up as there are few or no formalities needed to start the business.

ii).the business requires less capital and hence very ideal for many low income earners in Uganda.

iii).the improvement in transport and communication network has facilitated the movement of hawkers to many parts of the country looking for customers leading to increase in their number.

iv). the business involves less operational costs normally involved in big businesses e.g. expenses like rent, electricity and water bills etc are avoided.

v).due to stiff competition in urban areas, traders with fixed premises have found it convenient to employ hawkers to sell goods for them on commission basis.

vi).the increased size of domestic market especially in urban areas implies a ready market for the hawkers' products like household items, clothes etc.

vii). The high level of unemployment in the country has contributed to the increase in the number of hawkers in Uganda. The business is a quick source of employment.

viii).The business is quite profitable because of low fixed costs incurred and hawkers' skills in bargaining.

ix).there are many customers who buy goods after seeing them around i.e. impulse buying and hawkers have responded to this by taking goods near to customers.

x).hawkers are used or employed by civil servants who try to supplement their low income, thus leading to increase in their number.

c).Mobile retailers/shops. These are small scale retailers who move from place to place carrying their goods on vans or Lorries following a set timetable. They have their shops on motor vans. They move from one place to another selling their goods from their vehicles.

Advantages of mobile shops

i).they avoid operational expenses like rent, electricity and water bills since they do not operate on fixed premises.

ii).they transport goods and deliver them within the reach of customers.

iii).their prices tend to be lower than those charged by single fixed shops since they do not incur operational expenses like rent.

iv).it is possible to advertise goods on trucks or vans.

v).they usually operate on a set timetable on specific days of the week enabling their customers to plan their purchases in advance

vi).they are flexible and stock goods depending on the prevailing demand and market conditions.

Disadvantages of mobile shops

i).they sell only a narrow range of goods hence limited variety and choice for consumers.

ii).poor transport network may hinder the movement and delivery of goods to some areas of high demand.

iii).their sale are highly affected during the rainy seasons.

iv).they face high risks of highway robberies especially in sparsely populated areas.

v).they sometimes sell defective or inferior goods to customers.

vi).they do not usually offer credit facilities as goods are sold for cash.

d).**Road side traders**. These are retailers who sell goods alongside busy road or street. They sell small items like sweets, drinks etc.

e).**Mobile market vendors**. These are retailers who move with their goods from one market to another on every market day.

f).**wheel barrow operators**

These are traders who sell small items like fruits and food stuffs like ice cream from their wheel barrows.

Advantages of itinerant traders

i). little capital is required to start up the business.

ii).they bring goods within the reach of their customers.

iii).they do not incur much expenses in the management of the business e.g. expenses like rent, electricity and water bills are avoided.

iv).they have personal contacts with their customers, therefore they know customers' needs and can sell their goods easily.

v).they are quite flexible i.e. the traders can shift from one line of business to another depending on demand.

vi).they are easy to set up as they require no formal or legal formalities.

Disadvantages of itinerant traders

i).their sales are highly affected during the rainy seasons.

ii).they normally sell defective or inferior goods.

iii).it is quite tiresome and inconvenient to move from one place to another.

iv).little capital and profits give no room for business expansion.

v).they usually take advantage of consumers' ignorance to overcharge them.

Disadvantages of small scale retail business

i).it is difficult to obtain loans and credit from banks and suppliers because of limited or lack of collateral security.

ii).They are always faced with a problem of stiff competition from large scale businesses with large stocks of goods.

iii).they move with limited range of goods, thus they do not stock a variety of goods for customers.

iv).there is lack of continuity as the existence of the business depends on the life of the trader. Therefore the death of the trader marks the end of the business.

v).the business is tiresome since it involves a lot of movement by the trader and cannot afford to hire labour or specialists.

vi).it is not easy to expand the business because of the small amount of capital employed.

vii).they enjoy little profits due to small scale production and little capital.

viii).they incur bad debts due to credit selling.

ix).they have low turnover (sales) because they cannot afford to undertake advertising.

x).their prices tend to be high because they buy in small quantities and hence do not enjoy discounts.

Small scale retailers with fixed premises

These are small scale retailers who operate business from fixed premises and incur expenses like rent, electricity and water bills. They include the following:

a). **Tied shops.** These are small scale retail shops that sell products of one manufacturer only e.g. petrol stations, Bata shops etc.

Advantages of tied shops

i).these shops sell the products of only one particular manufacturer and therefore consumer can easily buy these products with confidence regarding their quality and prices e.g. Bata shops etc.

ii).the manufacturer can supply goods directly to consumers through these shops.

iii).a tied shop in a particular area can advertise for others since they deal in similar goods and prices are uniform e.g. Bata shop.

iv).they require small amount of capital to start.

v).personal contact with customers is possible.

Disadvantages of Tied shops

i).there is limited variety and choice for customers as tied shops sell products of only one manufacturer.

ii).insufficient supply of goods from the manufacturer can result in closer of tied shops.

iii).they face stiff competition from other shops selling similar goods in the same locality.

iv).when the manufacturer gets financial difficulties or collapses, tied shops are also affected.

v).goods are usually sold at fixed prices and there is no bargaining.

b**).Market traders/vendors.**These are retailers with permanent stalls in the gazetted markets places selling a variety of related goods e.g. food stuffs, clothes etc.

c).**Kiosks.**These are small retail businesses normally operated from temporary or semi permanent wooden or metallic premises or in containers mainly located in urban areas or strategic areas where many people pass e.g. street, parks and other highly populated areas like institutions.

d).**Canteens**, These are small scale retail outlets commonly operated by workers in institutions and other communal places such as schools, hospitals, churches, prisons, factories etc.

e).**Single fixed shop**; These are retail businesses owned and operated by one person who is the proprietor. They incur operational expenses such as rent and electricity out of their profits and therefore charge slightly higher prices than large scale retailers.

Advantages of single fixed shops

i).they incur low operational costs.

ii).there is personal contact with customers since the business is usually small.

iii).Credit facilities can be provided to customers hence increasing sales.

iv).they are flexible as the owner can easily change from one line of business which is less profitable to a more profitable one.

Disadvantages of single fixed shops

i).the business may incur bad debts due to credit selling.

ii).they require more capital in order to stock different types of goods needed by customers.

iii).they face stiff competition from different shops in one locality selling similar goods.

iv).the existence of the business depends on the life and ability of the owner since they are run by sole proprietor.

v).their prices are higher than those of large scale retailers because they buy in small quantities usually from large scale retailers, therefore do not benefit from trade discount.

vi).they incur operational expenses like rent, electricity and water bills etc which reduce their profits.

f).**urban stores:** these small scale retail outlet normally found in towns and usually stock a narrow range of related goods e.g. hardware, textiles etc.

g).**village stores (unit shops).**these are small scale retail businesses that operate in rural areas and mainly stock essential commodities like salt, soap, sugar etc, which are demanded in their localities.

Problems faced by small scale retailers in Uganda.

i.Lack of adequate market i.e. demand is low due to low income of the people.

ii.Stiff competition from large scale retailers like super market, departmental stores etc.

iii.Lack of enough working capital due to limited collateral security to access loans from financial institutions.

iv.Poor transport network especially in rural areas hinders the movement of goods.

v.Inadequate business management skills such as poor record keeping etc.

vi.High prices of utilities such as electricity, water etc which increase production costs and reduce profits.

vii.High rates of inflation which make planning difficult.

viii.High taxes charged by government increase production costs and erode away profits.

ix.Political instability in some areas affect business operations.

Large scale retail businesses

These are retail businesses operated on a large scale.

Large scale retailers are retailers who operate their businesses on a large scale. They employ a lot of capital in business and serve a wide market. Examples are Super markets, multiple shops, Departmental stores, Mail order shops, Hyper markets etc.

Characteristics of large scale retailers:

i).They employ large sums of capital to set up the businesses.

ii).They offer a wide variety of goods.

iii).They serve a big of market.

iv).They are usually located in urban areas where there is a big market.

v).They occupy/cover a large floor space.

vi).they usually sell goods on cash and do not offer credit facilities to customers.

vii).they have high rate of turnover and profits.

viii).they undertake extensive advertising and other sales promotion campaigns.

Typesof large scale retail businesses

Large scale businesses include:

i).Super markets.

ii).multiple shops (chain stores).

iii).Departmental stores.

iv).Mail order business.

v).Hyper markets.

vi).Consumer co-operative stores.

vii).Discount stores.

1.Multiple shops/chain stores: these are large scale retail businesses with several branches dealing in similar or related goods under one centralized management.Examples are Bata Shoe Company and petrol stations like Shell, Total etc.

Characteristics of multiple shops:

i.**Scattered branches/shops are under one ownership and control;** multiple shops have many shops/branches in different parts of the country but under the same ownership

ii.Centralized purchase and decentralized selling; All purchases are done at the head office and sales are done at the branches.

iii.**Deal in related products**; They sell a related range of goods e.g. Bata shops.

iv.Uniform display and shop layout; multiple shops have similar appearance and methods of display of goods e.g. Bata shops.

v.**Centralized administration;** all administrative matters and policies are centrally formulated and implemented at the head office e.g. the types of goods to be stocked and prices to be charged.

vi.**Sale of goods on cash basis;** they sell goods strictly on cash since no credit facilities are extended to customers.

vii.**Uniform prices;** prices are fixed at the head office and are uniform in all the branches in the country.

viii.**Large scale shops;** they are large scale retrial businesses with limited liabilities.

ix.**Manufacturer's retail outlets;** multiple shops are usually the manufacturer's own retail out lets.

x.Goods are usually from sole suppliers e.g. Bata shops.

Advantages of multiple shops:

i**.High turnover;** They enjoy high turnover (sales) and profits since they sell goods in bulk through many shops or branches.

ii**.Economies of scale;** they enjoy economies of scale resulting from bulk buying and bulk selling since they operate on large scale.

iii.**Low prices**; Goods in multiple shops are relatively cheap since they buy in bulk directly from the producers and benefits from large discounts.

iv**.Low advertising expenses;** each branch advertises other branches since they have similar appearances, uniform stock and prices which minimizes the expenses of the business.

v**.No delivery expenses;** delivery expenses are avoided since they do not offer delivery services.

vi.**No loss from bad debts;** goods are sold on cash basis thus avoiding bad debtors.

vii**. Inter-branch transfer of goods;** Shortages of goods in one branch is covered up by transferring goods from other nearby branches since all branches deals in similar goods.

viii.**Decentralized sale;** sales are decentralized thus enabling customers to obtain from the nearest branch.

ix.**Standardized goods;** they normally sell standardized goods thus saving customers from low quality goods.

x.**Share of loss;** a loss made by one branch where demand is low can be offset by high profits from another branch in an area where demand is high.

xi. **Flexibility in operation;** it is easy to close down any loss making branches in the chain without affecting other branches in the chain.

Disadvantages of multiple shops:

i**.Limited power of branch manager;** There is lack of flexibility by branch manager since purchasing of stock is centralized at the head office and branch managers who are in direct contact with customers cannot easily change anything.

ii**.No credit facilities;** They do not extend credit facilities to customers without cash and this may adversely affect the turnover of the business.

iii.**Limited variety and choice;**They deal in one line of goods thus limited variety and choice for consumers.

iv**.Sharing of loss;** any error or loss made by one branch or at the headquarters affects the operation of all branches.

v.**Lack of personal contact;** there is little or no contact between the owners and customers.

vi.**Unsuitable for non graded goods;** they are not suitable for selling goods which are not standardized or whose demand is low.

vii.**Costly to establish;** they require a lot of capital to set up and maintain.

2.Departmental shops/stores

Departmental stores are large scale retail business under one roof with independent shops each dealing in different types of goods and headed by a departmental manager. Each department stocks a particular type of goods different from others e.g. hardware, furniture, electronics, textiles etc. Departmental stores are usually well furnished and provide additional services to their customers such as restaurants, salons, video halls etc.

Features of departmental shops:

i.They are many shops in the same building or under one roof but under one ownership and management.

ii.They sell a wide variety of goods.

iii. Each department or shop specializes in a particular class of goods or in a different line of business.

iv.Each department carries out its own advertising, purchasing and book keeping.

v.They are under one centralized management and control.

vi.They provide auxiliary services like restaurants, phone services, banks etc.

vii.They are normally situated in central shopping areas of big towns.

viii.They are large scale retail business.

ix.They occupy large space.

x.Selling is decentralized i.e. setting prices and distribution is done separately through the departmental managers.

xi.Each department directs customers to other departments.

xii.They involve large capital base.

xiii. Each department has a manager.

Advantages of departmental stores:

i.**Convenient one stop shopping centre;** They are convenient one stop shopping centre since a customer can carry out all his shopping from one place as they sell a wide variety of goods and services under one roof which are attractively displayed.

ii.Low prices; They normally sell goods at a relatively low price because they buy in bulk from producers.

iii. **Sharing of loss;** a loss in one department can be offset by profits in other departments.

iv.**Additional services to customers;** They sometimes offer extra services to their customers e.g. restaurant etc**.**

v.**EjoyEconomies of scale;** they enjoy economies of scale because of large scale operation as well as bulk buying and selling.

vi.**Diversification against risks;** there is diversification of against possible risks since they deal in wide range of products.

vii.**Low advertising expenses;** one department advertises for other departmental shops, since the shops are under one roof.

Disadvantages of departmental stores

i.**Expensive to start;** they require large capital to set up.

ii.**Do not cater for rural people;** they are located in urban areas leaving out people in rural areas.

iii.**No credit facilities;** they do not offer credit facilities thus not favoring low income earners.

iv.**Lack of personal contact;** there is lack of personal contact with customers because of large size of the business.

v.**Inefficiency in management;** inefficiency in management arises due to large size of the business with many department.

vi.**No departmental transfer of goods;** a shortage of goods in one department cannot be offset by transfer of goods from other department because each department deals in different products.

vii.**Share of loss;** a loss made by one department affects other departments.

viii.**offer shopping bags;** they offer shopping bags to customers.

Differences between Multiple shops and Departmental stores

i.Multiple shops are usually the manufacturers' own retail outlets while departmental stores are usually set up by large scale retailers.

ii.Multiple shops stock a narrow or similar range of related goods while departmental stores deal in a wide range of unrelated goods.

iii.The administration of multiple shops is centralized while that of departmental stores is decentralized.

iv.Multiple shops are owned and managed by one proprietor but scattered in different areas in form of branches while departmental stores are number of shops under one roof and management.

v.Multiple shops have similar appearance, shop layout and display while departmental stores do not have the same shop layout and display.

vi.In multiple shops risks are widely spread in different branches while in departmental stores there are higher risks since goods are under one roof.

vii.For multiple shops, the branch shops are not purposely run at a loss so as to attract customers while for departmental stores, some shops may be run at a loss so as to attract customers.

viii.Multiple shop have uniform prices for similar goods while departmental stores have different prices.

ix.For multiple shops, it is possible to transfer goods from non-selling branches to others because they deal in similar goods which are not possible for departmental stores.

3. Super markets:

Super markets are large scale retail businesses that deal mainly in house hold items which are pre-priced and operate on the basis of self service.

Features of super markets:

i.**They fix Price tags on goods;** Goods are pre-packed and have got price tags.

ii. **They offer self service;** goods are sold on the basis of self service,where a customer enters into a shop, move from shelf to shelf picking the items he needs and thereafter pay to the cashier and is issued with a receipt.

iii. **They stock a variety of goods;** super markets stock a variety of goods.

iv.**Theyfix prices;** Goods are pre-priced and there is no bargaining.

v. **Theysell goods for cash;** goods are sold strictlyon cash and there is no credit service.

vi.**They display goods attractively;** Goods are attractively displayed or neatly arranged on shelves.

vii. **They occupy large space;** They cover a large floor space of about $250m^2$.

viii. **They provide shopping bags;** they provide shopping bags to shoppers for carrying goods purchased e.g. trolleys and baskets.

ix.**They charge relatively low prices;** prices are relatively lower than those in small scale retail shops.

x.**They are located in urban areas;** super markets are mainly located in urban areas.

xi.Payments are made to the cashiers at numerous exits.

Advantages of super markets:

i.**High turnover;** They have high turnover and profits since they attract many customers through attractive display of goods, low prices as well as advertising.

ii. **No loss from bad debts;** They do not experience bad debts because they do not offer credit facilities.

iii. **Offer a wide variety of goods;** They offer a variety of goods to their customers which help them to exercise choice.

iv. **Saves time;** They minimize time wastage in shopping since goods have got price tags fixed on each item and there is no bargaining.

v. **Low operating expenses;** the use of self service reducesthe cost of employing many shop attendants in terms of salaries.

vi.**Eliminates undue influence from shop attendants;** the use of self service enables customers to make independent choices free from the influence of shop attendants.

vii.**Convenient one stop shopping centre;** they are very convenient for customers since they are quite spacious and provide a large parking area for customers.

viii. **Offers shopping bags;** they usually offer shopping baskets to customers e.g. polythene bags thus saving customers additional costs.

ix.**Low prices;** their prices are relatively low compared to small scale retail business because they usually buy in bulk directly from producers and pay promptly thus benefiting from trade and cash discounts.

Disadvantages of super markets:

i.**No delivery services;** They do not offer delivery services to their customers even if they buy in large quantities.

ii.**Fixed prices,** prices are fixed thus customers are denied a chance of bargaining.

iii.**Do not cater for rural customers**. They are commonly located in urban areas thus not catering for the majority of customers in rural areas.

iv.**No credit facilities;** They do not offer credit facilities since goods are sold on cash hence not favoring low income earners who may not have ready cash and yet are able to pay later.

v.**High operational expenses;** they incur high operational costs inform of providing shopping bags, security and supervision.

vi.**Risk of loss of goods;** there is a risk of losing some small items through shop lifting (theft) by some unscrupulous customers.

vii.**Limited personal attention to customers;** there is no personal attention given to customers and hence a customer can waste a lot of time looking for what he want.

viii.**they are costly to establish;** they are expensive to set up as they require a lot of capital.

4. **Hyper markets**

Hyper markets are large scale retail business selling a variety of goods on the basis of self service with a big parking area for customers e.g. garden city. They serve customers for long hours.

5.Consumer co-operative stores:

Co-operative stores are large scale retail outlet started, owned and operated by a group of consumers who contribute capital towards the business and purchase goods directly from the producers and sell them to their members at fair prices.

Features of co-operative store:

i.Sales may be restricted to only members.

ii.They may have two prices i.e. one for members and another for other customers.

iii. Goods are brought nearer to customers.

Advantages of consumer co-operatives stores

i.they sell goods at fair prices because they buy in bulk and directly from producers thereby eliminating middlemen.

ii.They sell good quality goods and services to members.

iii.they transport goods and bring them within the reach of consumers thus saving them from transport costs.

iv.they educate their members about the quality, uses and prices of the goods.

v.they promote social understanding among the members.

vi.they enable members to learn how to run and conduct business by involving them directly in the running of business.

vii.members get fixed rates of interest from the capital contributed.

viii.they improve the members' welfare through savings and increased purchases.

Disadvantages of consumer cooperative stores

i.they stock a limited range of goods due to limited capital.

ii.Personal conflicts and disputes among members affect the smooth running of the business.

iii.corruption and embezzlement of business funds by leaders is common.

iv.Decision making is low and difficult because of the need for consultation of members on any important matter.

v.They are poorly managed as leaders lack sufficient managerial skills and experience in business.

vi.They lack adequate capital for expansion due to income of members.

6.Mail order business/shop:

Mail order shop is a large scale retail business which is conducted through the post office. Customers order for goods through the post office and goods are also supplied them through the post office. Mail order business depends on intensive advertising through various media, use of colorful and attractive catalogue and brochures.

Features of mail order business:

i.There is no personal contact between the retailer and his customers.

ii.Goods are sold through the post office.

iii.Goods are sold on cash basis i.e. cash with order or cash on delivery.

iv.Business depends on getting orders through extensive advertising in various media.

v.Little capital is required for establishment and operational c expenses.

vi.It mainly deals in small and durable items which are usually pre-packed.

vii.There is no need for a shop but a warehouse and an office since goods are purchased whenever an order is received from a customer.

Advantages of mail order business

i.**It requires less capital to operate,** it requires less capital to start because it is not necessary to have a huge stock of goods, instead a trader can stock the goods whenever he receives orders from customers.

ii. **It saves the customers from the trouble of going to retailers' shops;** the customer is saved from the transport costs of going to the retailers' shops to buy the goods since he sends his orders for goods through the post

iii.**There is no loss from bad debts;** goods are sold for cash thus avoiding bad debtors.

iv.**It has low operating expenses;** thetrader does not need to employ salesmen since buying and selling is done through the post, thus eliminating the would be wage bills on shop attendants.

v.**It does not require expensive show room;** it is not necessary to maintain expensive show rooms.

vi.**Enablesmanufacturers can maintain control over distribution;** it is possible for the manufacturer to retain complete control over the distribution of his products.

Disadvantages of mail order business

i.There is lack of personal contact with customers since business is conducted through the post.

ii.Customers may be misled by false persuasive advertisement and end up poor quality goods.

iii.Limited variety of goods are sold through mail order business like durable and small items.

iv.High advertising costs are incurred in order to operate the business leading to increase in price of goods sold.

v.There is a possibility of damage or loss of goods on the way.

vi.There is lack of credit facility since goods in mail order business are sold only on cash. This may affect the turnover of the business.

vii. Some customers may not turn up to collect and pay the goods ordered for after the goods have been delivered at the post office.

viii.Goods may delay or take time to reach customers especially where transport and communication facilities are not well developed.

ix.Customers are not given a chance to inspect goods before placing their orders.

7.**Discount stores**

Discount stores are large scale retail businesses which mainly deal in durable consumer goods at relatively low prices e.g. television sets, refrigerators, furniture etc.

Functions of large scale retailers to manufacturers (producers)

i.they finance producers and keep them supplied with working capital by buying in bulk and paying promptly.

ii.they prepare goods for sale by sorting, blending and branding the goods.

iii. they advertise/market goods on behalf of the producers.

iv.they store goods safely until demanded, thus relieving manufacturers from the burden of warehousing costs.

v.they provide a link between producers, wholesalers and consumers.

vi. they undertake market research which enables the manufacturer assess the demand for his products.

vii.they transport goods from manufacturers thereby relieving of transport costs.

viii.they buy goods in bulk thus clearing the manufacturer's goods and reducing risks like fall in demand, theft etc.

Functions of large scale retailers to consumers

i.they break bulk by selling goods in small quantities which a consumer can afford to buy.

ii.they store goods safely until needed by consumers.

iii.they provide consumers with a variety of goods and choice by stocking goods from a number of wholesalers.

iv. they advise consumers on to use some products.

v.they transport goods and deliver them within the reach of consumers thus saving them from transport costs.

vi.they may give after sale services to consumers.

vii.they link consumers to wholesalers and producers.

viii.they prepare goods for sales by branding, blending and packing the goods.

ix.they undertake advertising, enabling consumers aware of the variety of goods on the market.

x.They carry out market research thus enabling the manufacturers produce the type of goods consumers want.

Advantages of large scale retail outlets

i.they offer a wide variety of goods which widens the consumers' choice.

ii.they offer after sale services e.g. transport, installation etc.

iii.they charge relatively low prices because they buy in bulk directly from manufacturer and benefit from large discounts.

iv.they offer hire purchase facilities thus enabling low income earners to buy expensive goods.

v.they ensure constant supply of goods to consumers from their warehouses.

vi.they advertise goods to consumers making aware of goods available on market.

vii.they offer guarantee i.e. they promise compensation in case of default.

viii.they prepare goods for sale by grading, packing, branding and assembling goods.

ix.they carry a lot of stock and thus having a high volume of sale.

x.they buy stock in bulk hence enjoy trade discounts.

xi.they are able to use modern equipment like computers to ease their operations.

xii.they operate from a well established fixed premises.

xiii.they employ specialists since they have large capital.

Disadvantages of large scale retailers

i.they are normally located in urban areas, thus unable to cater for the needs of the people in the rural areas.

ii.they experience high operational costs like rent, power and water bills.

iii.there is lack of personal contact with customers due to their big size.

iv.they suffer high risk of loss due to accidents, change in fashion and taste, v.there are high chances of mismanagement due to many departments.

vi. there are chances of pilferage since it is difficult to exercise a close watch on all customers because of big size of business.

Problems facing large scale retailers in Uganda

i.poor transport and communication network especially in rural areas hinders the movement of goods.

ii.high prices of utilities like electricity, water etc. which increase production costs and reduce the profits.

iii.lack of adequate capital to finance business operations.

iv.stiff competition from other traders.

v.lack adequate market due to low income of the population.

vi.high taxes charged by government which reduce the profits.

vii.inadequate management skills due to low education.

viii.inssecurity due to civil wars, robbers etc.

ix.high rate of inflation which make planning difficult.

x. Inadequate storage space for goods due to high cost of rent.

Reasons why most traders in Uganda prefer small scale retailing to large scale retailing

i.They require less capital to set up compared to large scale retail businesses.

ii.There is personal contact between the proprietors and consumers unlike large scale retail businesses.

iii.they are easy to set up as there are few legal formalities involved compared to large scale retailing.

iv.they are easy to manage or supervise compared to large scale retail business.

v.they are very flexible since the proprietor can easily change from one line of business to another unlike large scale retail business.

vi.decision making is easy and faster compared to large scale retail business.

vii.They involve low operational costs such as rent, electricity etc.

viii.they requires less capital to set up compared to large scale retail businesses.

ix.there is top secrecy and confidentiality in business dealing and profits.

Recent/ modern trends in retail business

These are modern techniques or methods employed by retailers to attract more customers to increase the volume of their sales as a way of maximizing profits. These include:

1. Loss leader policy: This is a form of sales promotion where a firm set up fast selling goods at the entrance and sells it below the cost price in order to attract more customers to enter the shop and eventually ends up buying other goods. These items sold below the cost price are referred to as loss leaders because the seller makes a loss on them in order to increase sales and make more profits from other goods.

2. Automatic vending: This refers to the selling of goods through coin or card operated machines automatic vending machines. It is appropriate for the sale of small items which are already pre-packed e.g. sweet, cigarette, soft drinks etc.

Advantages of automatic vending

i.It saves time as it is a fast means of selling goods to customers.

ii.It serves customers 24 hours.

iii.The system is efficient and accurate.

iv.Goods are sold on cash basis thus eliminating bad debtors.

v.It reduces the cost of employing many shop attendants in terms of wage payment.

vi.There is no haggling since prices are fixed hence high profits.

Disadvantages of automatic vending

i.It is expensive to buy, install and maintain automatic vending machine.

ii. Business comes to a standstill in case the machine breaks down or if there is no power.

iii.It is only limited to urban areas leaving rural people.

iv.it is limited to selling few goods which are small and pre-packed.

v.customers may cheat through the use of fake coins and cards.

vi.it is only suitable for literate people.

vii.It leads to unemployment since machines are used instead of shop attendants.

viii.It does not allow credit facilities to consumers as goods are sold on cash basis.

ix.There is no contact between the buyer and the seller.

x.It causes a great loss if the machine develops technical problem.

3. Self service: This is a system of buying where customers enters into a shop, moves from shelf to shelf picking the items he needs by himself and takes to the cashier where he pays and is issued with a receipt. Goods sold under self service carry price tags and there is no bargaining. Bar codes are usually printed on each item for pricing and updating stocks. Computers are used to record each item and send back the price to cashier who issues a receipt to a customer after payment. A self service is the main feature of super markets.

Advantages of self service

i.It saves time since there is no bargaining and goods are well labeled and displayed with prices fixed on the price tags.

ii.It avoids undue influence from shop attendants and allow a customer to make an independent choice while shopping.

iii.It minimizes operational costs because a few shop attendants are employed.

iv.A variety of goods are stocked which enables a customer to make choice and carry out his shopping at one place.

v.Customers enjoy additional services offered like shopping bags etc.

Disadvantages of self service

i.There is a risk of losing small items through by dishonest customers.

ii.It leads to impulsive buying, that is buying without an intention to do so leading to buying what a customer may not really need.

iii. It increases operational costs such as security and offering shopping baskets to customers.

iv.There is a risk of damage of some goods due to increased handling of goods by customers in the process of selecting what they want from the shelves.

v.It does not cater for customers who are blind.

vi.There is limited attention given to customers by shop attendants.

vii.It requires a lot of capital to stock a variety of goods for customers to choice

4. After sale services:

This refers to extra free services rendered by the seller to the buyer after buying a seller's products as a way attracting customers to buy more e.g. repairs, installation and fitting or maintenance.

Forms of after sale services

i.free delivery and installation of equipment bought.

ii.providing free technical advice/training regarding the use of the equipment.

iii.free repairs of goods for a specific period

iv.Free servicing of the equipment.

v.Guaranteeing availability of spare parts.

5. Discounts; This is an allowance given to the buyer by the seller as a token of appreciation for buying goods in bulk and making prompt payments. Discounts are divided into:

a). Trade discount: This is an allowance given by the seller to the buyer for bulky purchases.

b). Cash discount: This is an allowance given by the seller to the buyer for prompt payment.

Example

A trader bought 150 boxes of biscuits at a cost of shs. 2,000 each. He was given a trade discount of 4% and a cash discount of 2%. How much did he pay?

Cost price = 150 X 2,000

= shs. 300,000

Trade discount = 4/100 X 300,000

= shs. 12,000

Cash discount =2/100 X (300,000 – 12,000)

= 2/100 X 288,000

= shs. 5,760

Total discounts = 12,000 +5,760= 17,760

Paid amount = 300,000 - 17,760

= Shs 282,240.

6. Packaging (pre-packing): This is the wrapping and sealing of goods in special containers to protect them from atmospheric conditions, avoiding contamination, damage and pouring. Products like water, sugar etc is in bottles, jerry cans, bags, packets etc.

Packaging is also aimed at creating standard and value in goods before putting on market.

Qualities of a good packaging material:

i.It should be large enough to cover the goods and writing instructions e.g. ingredients, weights etc.

ii.It should not be relatively cheap compared to the final price of the commodity.

iii.It should be durable or long lasting i.e. strong enough to protect the goods against atmospheric conditions, contamination etc.

iv.It should not be a dangerous to the environment.

v.It should be light or portable and easy to carry.

vi.It should be available in different sizes.

vii.It should be a material which does not contaminate the contents.

viii. It should be attractive to customers.

viii. It should be used for other purposes after removing the contents.

ix. It should make goods easy to handle.

Advantages of packaging

i.It protects goods against contamination or adulteration, and pouring.

ii. Packed goods can easily be sold through self service since they are easy to identify and handle.

iii. It makes it easy to sell goods through automatic vending.

iv. Packed goods can easily identified since they normally have names hence saving time that would have been wasted studying and comparing goods.

v.Packed goods are easy to handle and transport e.g. cooking oil in jerry cans.

vi.It saves a retailers'time of weighing the goods to individual customer as goods are already weighed and their weight indicated on the containers.

vii. Some packaging materials can be put to other uses after removing the contents e.g. empty bottles, boxes, jerry cans etc.

viii.Attractive packaging materials promotes sales since it creates a good product image which induces consumers to buy the product wrapped inside.

ix.It facilitates the sale of goods through mail order service since goods are pre-packed.

x.Packaging facilitates branding since the trade name or marks can easily be written on packaging materials used.

Disadvantages of packaging

i.Packaging is costly therefore it results into increased prices of goods to consumers.

ii. Some packaging materials contribute to environmental degradation e.g. plastic containers, polythene containers etc..

iii. Some packed goods tend to appear bigger than the real size of the goods packed inside.

iv. There are chances of forgery esp. where people copy exactly the labels on the packaging materials.

v. Attractive packaging materials may entice consumers to buy inferior quality which may be enclosed inside.

v.Some packaging materials may contaminate the products out of rusting e.g. tinned food and drinks.

7. Branding; is the giving a special name, symbols, labels and marks to a particular good to make it appear different from products other manufacturers. This is normally done by manufacturers and the wholesalers. Such branded goods include: Tooth paste; Colgate, Close up, Delident etc.

Detergents; Omo, Nomi, Ariel etc.

Features characteristics of branded goods

i.They have trade names or marks which are registered.

ii.They usually have uniform prices.

iii.They have distinctive appearance.

iv.They bear manufactured and expiry dates, weight, instructions and ingredients used.

v.They are easily identifiable from other similar goods.

vi.They are uniformly packed in manageable containers.

vii. They have standard quality.

Advantages of branding

i.They are easy to handle since they are properly packed.

ii. Theyhave uniform prices hence no overcharging consumers.

iii. Goods are easy to advertise since consumers are well informed of them thus increasing the volume of sales.

iv. it is easy to introduce a new brand of goods on the market since goods have brand names and trademarks.

v. Branding facilitates self service since customers can easily the brands of the goods they are willing to buy hence saving time.

vi. Branded goods bring about brand loyalty i.e. some customers pick interest in a particular brand name.

vii. Branded goods have directions on how to use them printed on the packaging sheet.

viii. Manufacturers are protected by their registered trademarks from people who may wish to forge the same products.

ix.It saves the retailers the burden of weighing the goods to individual customers as goods are already packed and weighed.

Disadvantages of branded goods

i.the cost of branding and advertising new brands of goods is normally high leading to an increase in the prices of the final goods.

ii. Consumers may be misled by similar and attractive brand names and end up buying goods which they may not need.

iii. It requires large capital for a retailer to stock a variety of goods in order to meet the demand of the customers which is expensive.

iv. It is difficult for the retailer to give discounts in case branded goods are pre-priced.

v.Consumers may get addicted to one particular brand and ignore other brands leading to loss of market for those brands.

vi. It creates brand loyalty which leads to consumer exploitation.

How branding assists retail trade

i.branding increases the retailers' turnover (sales) has the goods are already known by customers.

ii.Goods are properly packed and therefore easy to handle even if the stock is large.

iii.Branding advertises goods thus reducing the need for further advertising by the retailers which reduces advertising expense.

iv.Branding saves a retailer the burden of weighing and packing the goods as this is already done by the manufacturer.

v.Branded goods facilitates quick services as goods are easily identified by customers thus saving time.

vi.Branded goods can be ordered directly from manufacturer by the consumers.

8.Blending; blending is the mixing of products of different grades to obtain a desired quality and flavor. For example, mixing the best grades of tea leaves and adding vanilla to get a desired quality and flavor.

Advantages of blending

i.It widens consumers' choices in the same commodity e.g. different blends of yorhgut like vanilla, straw berry etc.

ii.it increases sales as some blend names are appealing to customers.

iii.it improves the quality of the product e.g. tea leaves.

Disadvantages of blending

i.the cost of blending is high making the final price of the goods also high.

ii.it may make it difficult for consumers to make choices.

iii.it may induce consumers to buy inferior goods.

9.Franchising

Franchising refers to where a multi-national firm allows firms in other countries to use its registered brand name, trademarks or technique of production. For instance Coca-cola an American company has allowed Century Bottling Company in Uganda to use coca-cola brand name. the company whose brand name is used is called the Franchiser while the one allowed to use the brand name is the Franchisee.

10.Installment(credit) selling

Installment selling refers to a method of selling where the seller allows the buyer to make payments for the goods in bits or small amounts (installments) over a period of time on a regular basis.Installment selling is categorized into two namely:

a). Hire purchase **b)** Deferred payment

Hire purchaseis a technique of installment selling where the ownership of the goods remains to the seller until the last installment is paid by the buyer. If the buyer fails to complete full payment the seller repossesses the goods and the already paid installments(down payments) are not refunded.

Hire purchase agreement, this is a contract of sale/purchase of goods between the seller and the buyer specifying the terms and conditions under which goods have been sold and bought under installment credit.

Contents of a hire purchase Agreement

I. Name and address of the seller.

ii. Name and address of the buyer.

iii. Date of making up the hire purchase Agreement.

iv. Description of the goods.

v. total price of the item sold.

vi. The down payment made by the buyer of possessing the goods.

vii. Amount of periodical payments.

viii. Duration of payment.

ix. The provision that the buyer shall not change title to the property before clearing the last installment.

b).Deferred payment; This is a system of installment selling where the buyer immediately takes ownership (possession)of the goods after paying the first installment (down payment /deposit). But if the buyer fails to complete payments, the seller has no right to repossess the good but only takes legal actions or court actions to recover the unpaid installment from the buyer.

Advantages of installment selling to the seller

i.It increases the turn over (sales) of the seller because payment is spread over a long period thus attracting many customers to buy.

ii.It increases the profits of the business because hire purchase prices are always higher than cash sale priceshence more profits to the seller.

iii.It creates a good relationship between the seller and the buyer thus attracting more customers.

iv.Goods sold can be recovered and resold in case of default by customer.

v. under hire purchase, if a customer fails to complete full payment, the seller has a right to repossess the goods without refunding the already paid installment.

vi.it widens the sellers' market because as customers constantly visit the seller's shop to pay their installment, they may in the process pick interest in buying other goods.

vii. high interest rates are charged hence good investment.

Disadvantages of installment selling to the seller

i.The seller's working capital is always tied up in un paid installment (debts) hence requires more capital from the seller to re-stock the business.

ii.Installment selling requires a lot of book keeping as a result of regular payment which is expensive.

iii.It is difficult to resale recovered items because it is always in a poor state, second hand or badly damage that cannot be resold at the regular price.

iv.There is a risk of bad debt as some customers disappear after taking goods under deferred payment.

v.A lot of debt recovery expenses are incurred and the seller's business reputation is tarnished by suing the defaulter in courts of law.

Advantages of installment to the buyer

i.It enables low income earners to buy expensive durable goods which they could not easily buy on cash basis i.e. payments are spread over a long period of time.

ii.It encourages saving among buyers to enable them make periodical payments for the goods and inform of durable assets which cannot lose value easily.

iii.The buyer enjoys full use of the good while making payments.

iv.The goods bought under installment can be used as collateral security to get loans since they are normally expensive.

v.The items acquired can generate income that helps the buyer to complete full payment e.g. a tractor etc.

vi.It promotes good relationship between the buyer and the seller which encourages the buyer to obtain more goods on credit.

vii. The consumer is allowed to test the reliability of the item before completing payment e.g. a car.

Disadvantages of installment selling to the buyer

i. A consumer pays more money for the commodity than he would have paid on cash basis as goods sold on hire purchase are normally expensive than those sold on cash.

ii.It induces or forces consumers to go in for goods which they cannot afford to pay for.

iii.The buyer is over burdened with making regular payments as per the installment debts full payment is done.

iv.In case of default, the goods bought under hire purchase may be taken away from the buyer and the already paid installment is not refunded..

v.The incurs extra expenses as he makes regular visits to the seller's premises to clear the installments.

Warranty; refers to a kind of trade where a buyer is allowed to claim compensation from the seller if the goods bought are found to be defective. For example Shoprite gives 12 month warranty on computers bought by customers. If a computer develops a technical problem, a customer is allowed to return it for free repair or replacement.

Resale price maintenance; this is a system of trade where the manufacturer fixes the price at which his commodity should be sold to the final consumer e.g. news papers, magazines, airtime cards etc. This is aimed at protecting the consumers from being exploited by middlemen through over charging.

Bar coding; this refers to a technique in trade used for pricing and stock updating of goods by means of computer printed code numbers (bar codes) on each item sold. Bar codes are normally printed on packaging materials used e.g. containers, book covers or labels. The computer records each item sold and sends the information to the cashier who receives payment from the customer and then issues a computer printed receipt to a customer. The system is normally used in super markets where goods on sale are pre-priced and bear price tags.

Personal (direct) selling; this is a system which involves the sale of goods through face to face meeting or direct contact with customers. This can be by the owner; use of salesmen or agents for example Uganda breweries sells its products through agents who have depots in major towns.

Offer of free sample; some firms promote their new products by offering free samples. A free sample is a product being promoted but is offered to consumers free of charge as a way of inducing them to buy it especially when it is being introduced on the market for the first time.

Offering prizes to lucky winners; this is a system where firms organize raffle draws or consumer games associated with buying the products with a hope of winning prizes.

Offer of free gifts to customers; this is a system where firms offer free gifts to customers who buy in large quantity thereby inducing other customers to buy their products. Free gift is different from the product being promoted by the company e.g. shell petrol stations give free soap to customers who buy a given amount of fuel.

Middlemen in home trade

Middlemen are traders who connect buyers to sellers. They are intermediaries who connect producers and consumers.

Types of middlemen

i.wholesalers, this is a trader who buys goods in large quantities from manufacturer or producer and sells them to the retailer. A wholesaler provides a link between a producer and a retailer.

ii.**Retailer**; this is a trader who buys goods from the wholesaler and sells them in relatively small quantities to the final consumer. A retailer provides a link between the wholesaler and the consumer.

iii.**Broker;** this is a middle man who represent the buyer or the seller in negotiating the purchase or sale of goods without physically handling them. A broker sells goods he does not possess on behalf of the principal by just bringing the seller and the buyer into contact. A broker is paid a commission called **Brokerage** for his services e.g. insurance brokers, property brokers like Jomayi property masters etc.

iv.**Factors;** this is an agent who sells goods in his possession, his own name and control and receives payment on behalf of his principal.

v.**Del Credere Agent;** this is an agent who guarantees payment against the goods to the principal whether the goods are bought or not. He also guarantees collection of debts from his clients. He is paid an extra commission for the extra risks he undertakes.

vi.**Forwarding agent;** this is an agent who is employed to collect and deliver goods on behalf of importers or exporters e.g. Interfreight (U) Ltd.

vii.**Under writer;** this is an agent who guarantees the subscription of all or part of the company shares in consideration for a profit e.g. East African under writers.

viii.**Auctioneer;** this is an agent employed to sell goods or property at public auction to the highest bidder (i.e. one who offers the highest price) on behalf of his principal.

ix.**Warehouser;** this is an agent who receives goods for storage on behalf of the owners like importers, exporters etc.

Advantages of middlemen

i.They look for market for the producers' goods.

ii.They provide a link between producers and consumers.

iii.They store goods safely until they are demanded.

iv.They prepare goods for sale e.g. sorting, branding, assembling etc.

v.They deliver goods to consumers hence saving them from transport costs.

vi.They provide consumers with a variety of goods.

vii.They break bulk by selling in quantities which consumers can afford to buy.

viii.They offer technical advice to consumers on a range of goods to buy, how to handle and their uses.

ix.They extend credit facilities to consumers.

x.They save time wasted looking for goods.

Disadvantages of middlemen

i.Middle men hoard or hide goods in order to create artificial shortages and charge higher prices.

ii.They mislead consumers through persuasive advertising which induce consumers to buy inferior products.

iii.They sell defective goods like expired foodstuffs and drugs.

iv.they overcharge consumers in order to get higher profits.

v.middlemen dilute liquid goods like milk in order to increase quantities sold and enjoy high profits.

vi.they delay the process of distribution of goods.

vii. they dodge taxes by dealing in smuggled goods or deliberately.

Guiding questions

1.a).What is retail trade?

b).Give three differences between multiple shops and departmental stores.

c). Explain why some traders prefer small scale retailing to large scale retailing.

2 a). Who is a retailer?

b). Give the qualities of a good retailer.

c). Give the functions of the retailer in trade.

3 a). What factors should be considered when setting a retail business?

b). Explain why some traders prefer small scale retailing to large scale retailing.

4 a). Distinguish between hire purchase and deferred payment.

b). Give advantages and disadvantages of installment selling.

5 a). Distinguish between branding and packaging.

b). Give the qualities of a good packaging materials.

c). Give the advantages of branding.

6 a). Explain the following terms as used in retailing:

i). self service. ii). Automatic vending.

iii). Cash discount.

iv). Loss leader policy. V). trade discount.

Vi).after sale services

7 a). Give three differences between supermarkets and multiple shops.

b). Give the features of a supermarket.

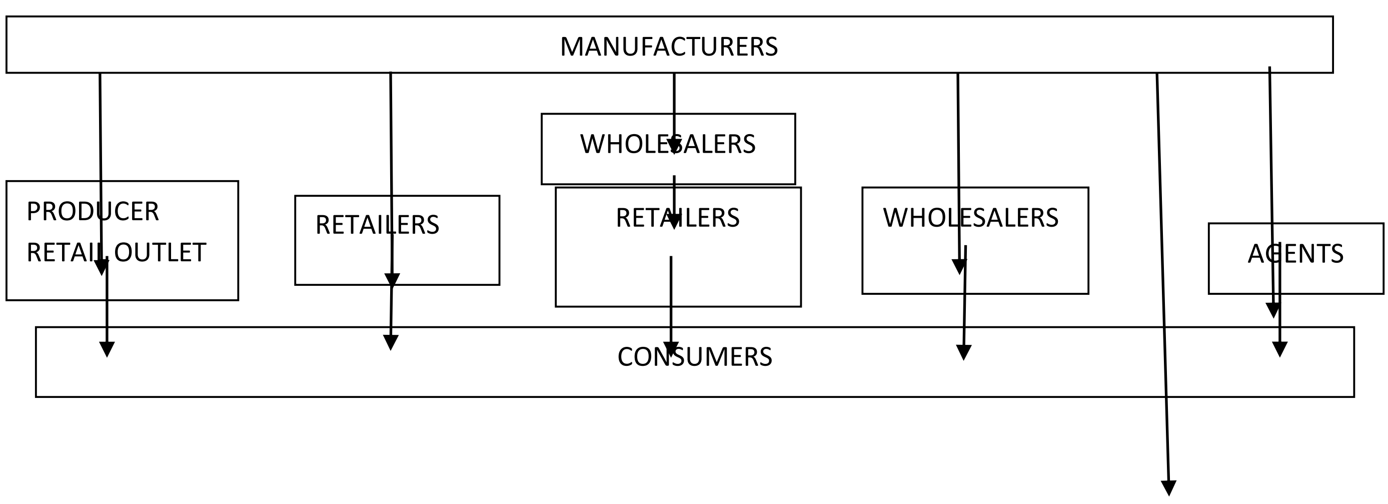
c). What are the advantages of multiple shops?

WHOLESALE TRADE

Wholesale traderefers to a kind of trade that involves the buying of goods in large quantities from the manufacturer/producers and selling them in small quantities to retailers. It is a link between producers/manufacturers and the retailers. Traders who carry out wholesale trade are called **wholesalers**. Wholesaling is the activity carried out by the wholesaler and other traders.

Channel/chain of distribution of goods

Thisrefers to the ways through which goods and services follow from the producer/manufacturer to the final consumer. The channels include:



i).**Producer- wholesaler- retailer- consumer;** this is the longest channel of distribution (traditional) where the wholesaler buys goods in large quantities from the producer and sells them to retailers in small quantities who in turn sell to final consumers.

ii).**Producer- retailers- consumers;** here the wholesalers eliminated and his services are taken over by retailers i.e. (large scale retailers and small scale retailers). Large scale retailers such as super markets, multiple shops e.t.c may buy direct from producer and then sell to final consumers. Likewise, small scale retailers may also buy from producers directly and then sell to final consumers.

iii). **Producer- wholesaler- consumer;** this is where a wholesaler buys goods from the producer and eliminate retailers then sell them directly to large scale consumers such as schools, hospitals etc.

iv. **Producer- consumer;** this involves selling goods by the producer/his agents direct to final consumers. In this case the services of all the middlemen i.e. wholesalers and retailers are eliminated

and their functions are taken over by the producers and consumers. This channel is applicable where goods are perishable or fragile and require both minimum handling and quick sales.

v).**Producer-producer's outlet-consumers** This takes place where a producers in position to setup his own retail outlets from where he sells his goods to final consumers e.g. Bata.

Factors affecting the chain of distribution of goods and services

i.Nature of goods, perishable or fragile goods which require minimum handling and quick sales and expensive goods like aero planes are sold directly to consumers while durable goods may be distributed through the middlemen.

ii.Nature of market, if the market is local and not scattered e.g. local goods like vegetables may be sold direct to consumers, but if the market is widely scattered, direct sales may not be encouraged.

iii. Government policy, government may set up marketing boards such that producers sell through the marketing boards only.

iv.Scale of production; small scale producers normally sell direct to consumers since they lack adequate capital to market their goods while, large scale producers with enough capital can set up their retail outlets e.g. Bata v.price of goods; expensive goods which sell slowly like aero planes are sold directly to consumers while low priced goods may be sold through agents.

vi.cost of transport; when transport cost is low, manufacturers may distribute goods directly to consumers, but when the transport cost is high, manufacturers sell goods to consumers through middlemen.

vii.marketing risks involved; where the marketing risks are high, manufacturers sell goods through middlemen to avoid risks such as theft, loss in value of goods etc. However, where the marketing risks are low, manufacturers sell direct to consumers.

viii.Distance between manufacturers and consumers, when the distance between the manufacturers and consumers are great, goods are sold through middlemen, but when the distance is small, manufacturers sell goods directly to consumers.

ix.Goods with small market or seasonal demand are normally distributed in few retail outlets compared to those with large market.

Characteristics of wholesaling

i.It involves large/bulk purchases.

ii.The source of supply is normally the manufacturers.

iii.It involves massive advertising of goods held.

iv.it involves storage of goods on large scale.

v.it involves the sale of goods on large scale to other traders.

vi.It involves the use of large sums of capital.

vii.it is a link between the producer and the retailer.

viii.it involves transportation of goods from the producer to the wholesalers' warehouse.

ix.it involves preparing goods for sale like sorting, branding, assembling etc.

Functions of a wholesaler

i.a wholesaler breaks bulks by buying goods in large quantities from the producer and selling them in small quantities to retailers.

ii.A wholesaler prepares goods for resale by sorting, branding, assembling etc while still in a ware house.

iii. A wholesaler transports goods from the producer to his ware house and from his ware house to retailers' premises.

iv. A wholesaler stores goods safely in his warehouse until they are demanded by retailers, thus relieving the manufacturer from warehousing costs.

v. A wholesaler advertises goods thus helping manufacturers market their goods.

vi. A wholesaler finances the manufacturer by buying his goods in bulk and paying him promptly or in advance, hence keeping him supplied with working capital.

vi. A wholesaler provides a link between producers and retailers.

vii. A wholesaler stabilizes prices and supply by storing goods in his warehouse and regulating supply in the market.

viii. A wholesaler carries out market research which enables the manufacturer assess the demand for his products.

Disadvantages of a wholesaler

i.A wholesaler creates shortages of some goods by hoarding or hiding them in order to charge higher prices.

ii. A wholesaler over charges retailers and consumers in order to maximize profits.

iii. A wholesaler sometimes provides wrong information to producers regarding market conditions.

iv. A wholesaler can sometimes refuse to buy goods from the producer or supply them to retailers for selfish reasons hence spoiling the business.

Services of a wholesaler to a producer

i.A wholesaler finances the producer or manufacturer by buying goods in bulk and paying promptly thus providing him with working capital to facilitate continuous production.

ii. A wholesaler stores goods purchased from the manufacturer safely in his warehouse until they are demanded by retailers, thus relieving the manufacturer from warehousing costs.

iii. A wholesaler clears a manufacturer's production line by buying in bulk thus reducing risks like theft and fall in demand.

iv. He transports goods from the manufacturer to his premises which minimize the distribution expenses on the side of the manufacturer.

v. The wholesaler helps the manufacturer in marketing the goods by advertising them massively.

vi. The wholesaler undertakes research which enables the manufacturer to assess the demand of his products.

vii. The wholesaler prepares goods for resale by sorting, blending and branding them under their own names which save manufacturer additional cost of preparing goods for sale.

viii. The wholesaler provides a link between the manufacturer and retailers.

ix.A wholesaler explains to the retailer how to use the product on behalf of the manufacturer.

Services of a wholesaler to a retailer

i. A wholesaler breaks the bulk by buying goods in large quantities from producers and selling them to retailers in smaller quantities which they can afford to buy.

ii. A wholesaler provides a variety of goods to the retailers by stocking goods from many manufacturers.

iii. A wholesaler transports goods from his warehouse to the retailer's premises hence reducing the transport cost of retailers.

iv. A wholesaler advertises his goods which directly benefit the retailers by widening the market and increasing sales.

v. A wholesaler advises retailers regarding the variety and range of commodities to be stocked, prices to be charged and services to be offered etc.

vi. A wholesaler keeps prices stable for the retailers by regulating a constant and steady supply of goods on the market.

vii.A wholesaler extends credit facilities to retailers thus, enabling them to operate with small capital.

viii.A wholesaler prepares goods for sale by sorting, branding and blending which reduces the retailers' expenses.

ix.A wholesaler stores goods safely until they are needed by retailers, hence relieving the retailers of storage problems.

x.A wholesaler provides a link between retailers and producers.

Services offered by a wholesaler to the consumers:

i. The wholesaler enables consumers to get steady supply of goods through retailers.

ii. A wholesaler keeps prices stable by constantly supplying goods to consumers through the retailers.

iii. A wholesaler helps to transport goods within the reach of the consumers.

iv.A wholesaler advertises his goods which enables the consumers to be aware of the prices and goods on the market.

v.A wholesaler prepares goods for resale by sorting, branding and blending which enables consumers to make choice easily.

vi.A wholesaler undertakes market research which enables consumers to forward their opinions and complaints to the manufacturer regarding the products.

vii.A wholesaler links consumers to the manufacturer through retailers.

Factors that determine the number of wholesalers in a particular line of business

i.Financial position of the manufacturer; when the manufacturers in a given line of business are financially strong, they are able to set up their own retail outlets from where they sell to consumers, thus eliminating or reducing the wholesalers. But when the manufacturers in a given line of business are financially weak, the number of wholesalers tends to be high.

ii.Nature of goods; when goods are perishable or fragile and requires minimum handling and quick sales, the number of wholesalers tend to be low since goods are sold directly either to consumers or retailers.

iii.Price of goods; expensive goods which sell slowly like aeroplanes, vehicles etc are usually sold directly to final users or consumers thus reducing the number of wholesalers in a particular line of business. On the other hand, low priced goods are sold through many middlemen hence increasing the number of wholesalers in a particular line of business.

iv.Marketing costs; when the marketing costs are low, the number of wholesalers in a particular line of business is low since the producer can undertake distribution and marketing of his goods. But when marketing costs are high, the number of wholesalers tends to be high as producers leave the task of distribution and marketing to middlemen.

v.Distance between the producer and the consumer; when the distance between the producer and consumer is small, the number of wholesaler tends to be low since retailers and consumers can buy goods directly from producers. But when the distance between the consumer and producer is long, the numbers of wholesalers tend to be high.

vi.Scale of operation of retailers; when there are many large scale retailers in a particular line of business like super markets etc, the numbers of wholesalers tend to be low since they can buy goods directly from producers and sell them to consumers. But when retailers in a particular line of business are small scale retailers, the numbers of wholesalers in that trade tend to be large.

vii.Cost of transport; where the costs of transport and distribution of goods is low, producers may distribute their goods to consumers using their own vehicles thus, reducing the number of wholesalers in that particular line of business. But when the transport and communication network is and the transport costs are high, the number of wholesalers tends to be high.

viii.Size of the market (demand); when the size of the market in a given line of business is large, the number of wholesalers tends to be high. But when the size of the market or demand is small, the number of wholesalers is also low.

ix.Packaging and branding of goods; where goods are well packed and branded by the producer, the number of wholesalers tends to be low since branded goods are easy to be advertised by the manufacturer, unlike when goods are not packed and branded.

x.Scale of buying by consumers; when consumers in a particular line of business usually buy in large quantities like schools, army etc, the number of wholesalers tends to be low. But when consumers are mainly on small scale, the number of wholesalers in this particular line of business tends to be high.

Circumstances when the wholesaler may be eliminated from the chain of distribution?

The wholesaler is eliminated from the chain of distribution when:

i.when the manufacturer has his own appointed agents to distribute his goods, the wholesaler may be eliminated e.g. Uganda breweries, Niles breweries etc.

ii. When the manufacturer opens up his own retail outlets through which his goods are sold to consumers thus eliminating the wholesalers e.g. Bata shoe company.

iii. Where there are large scale consumers e.g. schools, army, prisons etc.who buy directly from the producer thus eliminating a wholesaler

iv. In case of direct services which require the consumer to be there in person e.g. hair dressing etc.

v. when there are many retailers in a given area where the producer can easily distribute goods to them.

vi. When the demand or market for a commodity is low, producers tend to produce on small scale and sell directly to local consumers e.g. local farmers in rural areas.

vii. In case there is use of mail order business where goods are distributed through the post office.

viii. In case goods are perishable and need urgent delivery to the consumers.

ix. when goods require after sale service e.g. repairs, installation etc, producers tend to sell them directly final consumers e.g. motor vehicles etc.

x.where the goods on sale are very expensive or sell slowly, the manufacturer may sell directly to the final consumers thereby eliminating the wholesaler.

xi.when goods are branded and heavily advertized , they can be sold directly to retailers or consumers.

xii.when goods are sold on special order, contract etc, a producer sells directly to consumers.

Types of wholesalers

Wholesalers can be categorized according to the types of goods they sell and areas they serve. Therefore the following are the types of wholesalers:

i.Nation wide wholesalers: These are wholesalers who operate on a very large scale and have very big ware houses in most Towns all over the country. They usually offer a variety of goods to both retailers and consumers.

ii. Specialized wholesalers: These are wholesalers who concentrate on selling one particular type of commodity from a particular producer e.g. cement dealers, soda distributors, furniture etc.

iii. Regional wholesalers: These are wholesalers who serve only a particular area/region offering a variety of goods or selected range of goods.

iv. Cash and carry wholesalers: These are wholesalers who sell goods to retailers on self service and cash basis only and at a relatively low price as compared to other wholesalers. They do not offer credit facilities and transport services even for large purchases since goods are transported by retailers himself.

v. Mobile/truck wholesalers (wagon jobbers): These are wholesalers who move with their goods in trucks and sell them to retailers or consumers in different commercial centers. They therefore combine selling, delivery and collection in one operation and bring goods as nearer as possible to the retailers and consumers.

vi.General wholesalers; these are wholesalers who offer a wide variety of goods in different fields like groceries, electronics, hard ware etc.

vii.**Mail order wholesalers**; these are wholesalers who sell goods through the post office directly to consumers.

Documents used in home trade:

A document is written information of transactions between different parties such as wholesalers, retailer and consumers evidencing the occurrence and accuracy of a business transaction on a given date.

A transaction is any dealing between two or more parties involving the exchange of goods or services with a monetary consideration.

The following are stages and documents involved in home trade:

i. The birth of an idea/Requisition note:

Before a transaction takes place, there must exist in the mind of the buyer or a company a desire for a particular commodity advertised in the media like television, radio, the press etc. This calls for the different departments of the company to submit their requests for the desired commodity to the purchase department using a requisition note. Requisition note is a document prepared by the different business departments or business branches or buyers requesting for the supply of goods named on it.

ii. Inquiry (letter of inquiry)

This is a document prepared by the buyer and sent to the prospective suppliers asking for information about the goods available for sale. Such information may involve the types of goods, prices of goods, quantity, the terms of sale (payment) and terms of delivery. An inquiry can be made orally or by writing a letter of inquiry.

Contents of a letter of inquiry

A letter of inquiry is written by a prospective buyer to a supplier seeking information on things such as;

i.the types of goods or services available for sale.

ii. Prices of goods and services.

iii. terms of sales i.e. cash or credit.

iv. Sizes, colour and design of the product

v. terms of delivery of goods.

iii. Reply to an inquiry

After receiving an inquiry from the buyer, a seller may reply it by sending any of the following documents; quotation, price list, price current, catalogue, sending sample and tender. These documents contain terms and conditions for the sale of goods i.e. prices, the period the prices stated are valid, credit period allowed, discounts offered, packaging and mode of delivery.

a).Quotation.This is an offer to supply goods or services according to the terms and conditions stated. It is a document sent in reply to the letter of inquiry prepared by prospective supplier and sent to the buyer where no standard price lists or catalogues are available. There are two types of quotations namely;

-First hand quotations, these are quotations given by producers to traders or consumers directly.

-Second hand quotations, these are quotations given by producers to other traders

b). Price list: This is a list of goods available for sale together with their respective prices. Or it is a document prepared by the seller listing down all the goods in the business with their respective prices.

c).price current, this is a price list which has been revised to show the available goods and their current market prices. It is used where the original prices quoted on the price list have changed.

d). Catalogue: This is a well designed booklet prepared by the seller which describes each good offered for sale. It shows appearance of goods as they are at the sellers place. It is designed in very attractive colours of the products.

e). sending a sample, a sample is an item that represents a collection of goods offered for sale. A seller may send a sample of goods available for sale to the buyer to observe the quality, colour, shape of the product before placing an order.

f). Tender, this is a document which is sent in reply to an inquiry made by the buyer usually in form of an advertisement in the media inviting potential suppliers to submit their respective estimates or price offers for the cost of supplying specific goods or services. The buyer will usually award the tender to the supplier with favorable quotations. It is a document which indicates the prescription of goods or services, terms of sale and prices at which the seller can supply them to prospective buyers

iv. Placing an Order

An order /local purchase order (LPO) This is a document prepared by the buyer and sent to the prospective suppliers/or sellers requesting him to supply the specified goods on the document. The order note is prepared in duplicate i.e. the original copy is sent to the supplier and the duplicate retained by the buyer.

Bishop Cipriano K .s.s.s

P.O Box 27477

Kampala

Date: 20/09/2016

The Sales Manager

Aristoc Bookshop

Please supply me with the following books: Order No: 360.

Qty	Item	Unit cost(shs)	Amount(shs)	
10	Essentials of commerce by S,A Butt	9,000	90,000	
5	Introduction to Biology	10,000	50,000	
10	Mathematics book two	15,000	150,000	
	Total		290,000	

Date of delivery, one week from the date

Yours faithfully

signature

Okello Tom

School Bursar

Contents of an order note (local purchase order)

i).Name and address of the buyer.

ii. Name and address of the seller.

iii. Date of the order.

iv. Order number.

v. Type of goods.

vi. Quantity and description of goods.

vii. Terms and conditions of delivery.

viii. Stamp and signature.

v. Deciding terms of sale; cash or credit:

At this stage, the seller determines the terms of sale i.e. whether to sell goods on cash or on credit.

a).incase the seller decides to sell goods on cash basis, the following alternative terms may be used:

-Cash with order (C.W.O).

-Cash on delivery (C.O.D).

-Spot cash.

-Prompt cash.

-cash sale slip; this is a document issued by a seller to a buyer who pays cash at the time of purchasing goods. It acts as an evidence of receipt of money in cash in cash transaction.

b). Credit terms, this is where a customer acquires goods and services and payments are made later after a specified period.

vi. **Credit status inquiry**: this is an inquiry by the seller to find out the credit worthiness of a customer (buyer) who is seeking for credit for the first time before supplying him goods on credit. This is done by sending a document called credit status inquiry.

Such information may be obtained from:

i.bankers to the buyer; if the buyer has an account in any bank, he may be required to name the banks to serve as referees through giving a confidential report about the customer's financial status.

ii. Previous suppliers to the buyer. The buyer may be asked to give the names of his previous suppliers from whom information about his credit worthiness may be obtained.

iii. Trade associations where the buyer is a member. Information about a buyer's credit worthiness may be obtained from his trade association.

iv. Customers of the seller; information about a customer's paying habits may be obtained from some customers of the seller who may happen to know the new customer.

v. Commercial Enquiry Agency; some information may obtained from this specialized institution which supplies financial information about firms and businessmen for a fee.

NB. After gathering enough information about the credit worthiness of the buyer, the seller then supplies goods and services on credit to the buyer.

vii. **Packing the goods;** after receiving the order from the buyer, a seller makes arrangements for packing the goods in cases, boxes or bottles and the content indicated on a package sheet.

Package sheet; this is a document showing the contents of the goods packed in the containers, their markings, labels, trademarks and the weight being delivered.

The sheet is prepared in four copies, the original copy is put in the container, one copy is sent to the buyer, another copy is given to the account section of the sellers place and the other copy is retained by the ware house authority.

viii. **Delivery of goods; after** receiving the order from the buyer, the seller makes arrangement to deliver the goods. The following documents are involved in the process of delivering goods;

Delivery note: This is a document prepared by the seller and sent to the buyer through the transporter as a proof of delivery of goods. When goods are delivered, the buyer signs the delivery note in duplicate as a proof that he has received the good and returns one copy to the seller after cross checking that the goods delivered correspond with those on the delivery note and the order note.

Profoma Invoice: This is a document prepared by the seller and sent to the buyer when goods are to be sent after they have been paid for before goods are delivered to the buyer. A Profoma invoice is prepared because of the following reasons:

i.If the supplier is not willing to sell goods on credit or if payment is required in advance.

ii.If the seller is supplying goods to the buyer for the first time.

iii.If the seller is not sure of the current prices of the good.

Dispatch note (Advice note): This is a document sent by the seller to the buyer informing him of the preparation of goods for delivery, mode of delivery and expected date of arrival of goods. This enables the buyer to prepare for the receipt of goods.

Consignment note; this is a document provided by the carrier of goods showing the details of goods to be dispatched. It indicates the names and addresses of the seller and the buyer and whether the freight has already been paid or will be paid by the buyer at the point of destination.

ix. Invoicing; on delivery of goods to the buyer, a seller informs the buyer of the amount due by preparing a document called an invoice.

Invoice: This is a document prepared by the seller and sent to the buyer when goods are sold on credit reminding the buyer to effect payments for the amount due on goods supplied. It is sent only when goods are sold on credit. When goods are sold on cash, a cash sale slip is issued to mark the end of the transaction.

Contents of an invoice:

An invoice contains the following information'

i. The name and address of the seller.

ii. The name and address of the buyer.

iii. The date on which it is being prepared.

iv. The invoice number

v. The quantity and description of goods sold

vi. Theunit price of goods.

vi. Total cost of goods.

vii. Any discount allowed.

vii. Net amount payable by the buyer.

viii. Length of credit period allowed

ix. Stamp and signature.

x. Errors and Omissions Excepted.

The document has an abbreviation E & OE meaning errors and omissions excepted.

Functions of an invoice

i.It serves as a notification to the buyer of the amount owed by him.

ii. it serves as an evidence of debt due to the seller.

Steps/procedures taken by the buyer when an invoice is received:

i.Cross check the invoice with the order note to ensure that the goods are correct.

ii. he should check against package sheet and delivery note whether it is the correct quantity of goods ordered for.

iii. Check whether it is the right price indicated in the price list and right calculation to ensure no overcharge.

iv. In case there are no discrepancies in an invoice, the buyer prepares a cheque to the seller. If the invoice is not correct the buyer informs the seller accordingly.

v. File it for future reference.

Procedures or steps taken by a buyer on receiving the goods:

i.Check them to ensure that they are not damaged.

ii. Verify the goods received with a copy of the order and package sheet to ensure that the goods received are those ordered for.

iii. Write in the store record books the description and quantity of goods received.

iv. If the goods are found to be correct, the buyer arranges for payment.

x. Discrepancies in an invoice:

in case the invoice if found to be incorrect, the buyer takes appropriate steps to ensure that he pays only the correct amount for the goods purchased. An incorrect invoice may lead to an overcharge or an undercharge. An overcharge in an invoice is corrected using a credit note while an undercharge on an invoice is corrected using a debit note.

a).Debit Note: This is a document sent by the seller to the buyer to correct an undercharge in the invoice. The undercharge may be due to wrong prices quoted, arithmetical error or omissions of figures in the total etc. The buyer is informed that his account has been debited with the undercharge thus increasing the amount payable.

b).Credit note: This is a document sent by the seller to the buyer to correct an overcharge in the invoice. An overcharge may happen if the buyer is charged a higher price (wrong pricing) or if some of the goods have been returned to the supplier by the buyer, error in calculation, wrong totaling etc. The buyer is informed that his account has been credited with the overcharge thus reducing the amount payable.

Goods returned note; this is a document prepared and sent by the buyer to the seller when returning some defective goods to the seller. On receipt of the goods returned by the buyer, a seller issues a credit note to the buyer thereby relieving him from paying for them.

Goods may be returned because of the following reasons:

i.if goods are highly priced.

ii.if goods are out of fashion.

iii. if goods are damaged on the way.

iv. if they are not the exact type of goods ordered for.

v. if they are expired.

NB. A credit note is a special document whereby it is the only one prepared using red ink.

xi. Statement of Account: This is a document prepared and sentby the seller to the buyer showing a summary of transactions which have taken place between the buyer and the seller for a given period of time, requiring the buyer to clear his account. Therefore it reminds the buyer to pay for the goods supplied to him in the previous period of time.

Contents of a statement of account:

i).Name and address of the seller.

ii). Name and address of the buyer.

iii). Date of issue.

iv). Amount due from the buyer at the beginning of the month.

v).The total value of goods bought on credit.

vi).Total payments so far made by the buyer during the month.

vii).The total amount of money due at the end of the month.

viii). Number of invoices issued during the month.

Procedures/steps taken by the buyer on the receipt of a statement of account

i.Checking it against the previous statement of account to ensure that the opening balance is correct.

ii. Verify any payment made during the month.

iii. Verify the statement with invoices received during the month.

iv. if there are no discrepancies, the buyer prepares to pay and when the statement of account in incorrect, the buyer informs the seller accordingly.

xii. Payment of account and issue of a receipt:

Payment of account is a situation where the buyer clears his outstanding debt with the seller either by cash or by cheque. On receiving payment by cash, a seller issues a document called a receipt which marks the end of a transaction. When payment is made by a cheque, a receipt is not issued since a cheque is an evidence of payment itself.

Receipt: This is a document issued by the seller to the buyer acknowledging thatpayment has been made. It marks the end of a credit transaction. This document is prepared after receiving money either by cash or cheque.

Contents of a receipt

i.Name and address of the seller.

ii. Name and address of the buyer.

iii. Date of issue.

iv. Receipt number.

v. Unit price of goods.

vi. Quantity and description of goods.

vii. Total cost of goods purchased.

viii. Tax and tax identification number.

ix. Stamp and signature.

x. Errors and Omission Excepted.

Differences between a cash sale slip and a receipt:

i.A cash sale only acknowledges receipt of payment in cash while a receipt acknowledges receipt of money in both cash and by cheque.

ii. A cash sale slip marks the end of a cash transaction while a receipt marks the end of both cash and credit transactions.

iii. A cash sale slip is a proof of receipt of money in cash form while a receipt is a proof of receiving money from many sources.

Importance of business documents

i.They acknowledge payment of money e.g. receipts and cash sale slips.

ii. They enable the seller to know customers who have taken goods on credit (debtors) e.g. invoices.

iii. They provide detailed information about goods and services available for sale e.g. catalogues, quotations, price lists etc.

iv. They help in proper tax assessment basing on the volume of sale.

v. they are used in correcting mistakes made (discrepancies) e.g. the credit note for correcting an overcharge and a debit note for correcting an undercharge.

vi. They provide information for writing up books of accounts.

vii. They are used for record purposes (references).

viii. They enable follow up of transactions through auditing.

TERMS OF PAYMENT:

In case a seller decides to sell goods only on cash, the following terms are used:

1.Cash: this is the common means of payment for goods or services which is prepared by many businessmen.

Cash payment is categorized into:

i) Cash on delivery (COD).

ii) Cash with order (CWO).

iii) Spot cash.

iv) Prompt cash.

i).Cash on Delivery: This is where the buyer pays for the goods as they are delivered to him. This is most applicable when goods are sent through delivery agencies like post office.

ii). Cash with order: This is a system where the buyer pays for the goods as he sendshis order. This comes as a result of the seller not willing to offer goods on credit.

iii). Spot cash: This is where the buyer pays for the goods as he gets them from the seller. Here payment is made when goods are handed to the customer.

iv. Prompt cash: this refers to cash payment within a few days after delivery of goods or as agreed in the contract.

2. Credit: This is a means of payment where the customer buys goods and makes payments at a later date i.e. payments are made after an agreed period of time.

Advantages of credit:

i.it enables sellers to increase their turnover/sales.

ii. it increases the profit margin of the business.

iii. it enables people without cash to get goods.

iv. it improves the standard of living of the buyer.

Disadvantages of credit:

i.Working capital of the business is normally tied up in debts.

ii. Traders normally suffer bad debts resulting from customers refusing to pay their debts.

iii. Credit selling involves a lot of book keeping which is expensive on the side of business.

iv.credit selling requires a lot of capital which is not easy to raise.

Problems faced by traders in Uganda:

i.Inadequate capital for initial investment and expanding the size of the business.

ii. High rate of interest charged by financial institutions when traders are getting loans.

iii. Poor transport and communication network especially in rural areas which lead to a delay in the supply of goods.

iv. Problem of stiff competition from foreigners who tend to reduce prices of their goods and capture a large size of market.

v. High cost of rent in urban areas, this consumes the largest portion of the profits of the business.

vi. Complicated formalities where traders have to get trade licenses before starting a business.

vii. High taxes levied on business enterprises reduce the volume of products handled and hence reducing the profits.

viii. Most customers prefer imported goods to locally produced goods, which reduces the market for locally produced goods.

ix. Limited training for traders to enable effective running of the business.

x. Small market as a result of the fact that most people in Uganda are low income earners/poor.

xi. Traders are faced with so many risks such as fire and theft which limits the level of business operations.

xii. Political instability in some areas of the Country has greatly limited the levels of business activity.

Business OWNERSHIP

A business enterprise is a unit of any **organization which is engaged in the** production or distribution of commodity with the aim of making profits. It can also be referred as a firm. A firm is a production unit under unified control and management. A collection or a group of firms producing similar goods make up an industry.

Objectives of the firm

i.Profit maximizing.

ii. Sales maximization.

iii.Maintainig good reputation or public image.

iv).Long run survival i.e. remaining in business for as long as possible.

v. serving the national or public interest e.g. parastatal bodies.

vi. Expansion of the market share.

vii). Creation of employment opportunities.

The size of the firm

The size of a business refers to the level or scale of production or distribution of goods or services by the firm. Some businesses are owned by one person and some are collectively owned. Same are small and others are large.

Factors determining the size of a firm

A business may be called large or small **depending** on the following.

- the floor area occupied, large firms tend to occupy a very big space e.g. manufacturing businesses like NYTIL, compared to a small business operated in a kiosk.
- Amount of capital employed, large businesses employ large amount of capital in the business compared to small ones.
- The number of people employed, large firms employ many labor force than the small firms.
- Techniques used in the business, large firms usually employ modern techniques than small ones eg computerization, mechanization, etc, .

- Total number of good produced, the output of a large firm is normally larger than that of a small firm.
- Number of departments, large businesses have many departments because of specialization but small firms are normally with one department or very few.
- Size of the market served, large firms serve a large market because of large quantity produced but small firms normally serve small number of people.
- Availability of land or space for expansion, adequate land enables a firm to expand production hence becoming big in size while limited land for expansion makes the firm to remain small.
- Government policy towards the firm, favourable government policies like tax holidays and subsidies encourage large scale production and expansion of firms while unfavorable government policies like high taxes discourages production making firms to remain small.
- Objectives of the entrepreneur; the owner may be satisfied with small firm to provide self-employment and his family members and hence operate on small scale, however, an entrepreneur who is very ambitious employs other people and expand the firm.
- Entrepreneurial or managerial skills, some firms are small because the owner lacks sufficient skills to manage large scale business, while those with adequate managerial skills are able to operate large firms.
- Political climate; a politically stable atmosphere in the country encourages production and expansion of firm while political instability disrupts production and hinders expansion of firms.

Large firms

Large firms are business enterprises which operate on large scale e.g. are public enterprises such as public corporations and parastatal bodies, joint stock companies, large scales retail units like super markets and multiple shop, multinational corporations etc.

Characteristics (features) of large firms

i.They employ large amount of capital in business.

ii. they use advance techniques of production e.g. tractors, computers etc.

iii. they employ a large number of workers.

iv. they serve large markets

v. they produce large output.

vi. they occupy a large space or floor area.

vii. they employ specialists e.g. accountants, engineers etc.

Economies of scale

Economies scale are the advantages a firm realizes due to large scale / reduced average cost of production. Economies of scale may be internal or external.

Advantages of large scale firms [economies of scale]

Large firms enjoy the following advantages:

- Managerial economies, large scale production facilitates division of labour and specialization in management with each department employing specialists e.g. accountants.
- Financial economies, large firm can easily borrow money from financial institutions because they possess adequate collateral security.
- Technical economies, large capital enables large firms to purchase or hire specialized machinery e.g tractors, computers etc which increases output leading to reduced average cost.
- Marketing economies, large firms can afford to advertise their products which widen their market. They also buy in bulk and benefit from trade discounts which enable them to sell at low prices and hence widening their market.
- Welfare economies, large firms can afford to provide better welfare facilities to their workers in form of accommodation and medical care. This improves efficiency of labour and lead to a fall in average cost.
- Transport economies, large firms transport their raw materials and finished goods in bulk which enables them to incur low transport costs per unit.
- Risks bearing economies, large firms are in a better position to reduce risk of loss through diversification of their production activities as well as insurance which enables them to be compensated in case of any loss.
- Research economies, large capital enables large firms to conduct research into better methods of production which increase production and reduce average cost.

Disadvantages of large firms.[diseconomies of scale]

These disadvantages experienced by large firms as a result of over expansion in size. They include:

- Being large, management of many departments may be difficult.
- Large firms are not flexible, i.e. it is difficult to change from one line of business to another.
- In case of disasters or depression, heavy losses are incurred by a large firm.
- Employing larger number of people results into labor disputes in a large firm.

- Modern machinery used in large firms is expensive to install and maintain.
- Large firms incur high cost of advertising in order to secure and sustain the market.
- It is difficult to secure enough funds to finance large scale operations of the firm.
- Large firms incur high cost of installation, repairs, maintenance or replacement of depreciated or worn out machinery.
- There is loss of personal contact with customers.
- Decision making is slow and time consuming.

SMALL FIRMS

These are firms which operate on small scale, e.g. single shops, mobile shops and sole proprietorship.

Characteristics of small firms:

i.they employ small amount of capital in business.

ii. they use simple technology or techniques of production.

iii. they employ few workers.

iv. they produce small volume of output.

v. they serve a small market.

vi. they occupy a small space or floor area.

Reasons for the existence of small firms despite the presence of economies of scale enjoyed by large firms

i.Due to limited capital, many people who start businesses have little capital and hence operate on small scale.

ii. Due to limited market; existence of small market cannot sustain large scale production hence making firms to remain small since large scale production will be wasteful.

iii. Due to easy management; small firms are simple and easy to manage. They do not involve board meetings; hence they are ideal for people who lack sufficient skills to manage large firms.

iv. starting point of the firm (infant firm), firms which have just started and are in their early stages of development remain small in the short run.

v. limited space or land for expansion, some firms lack adequate land for expansion hence remaining small.

vi. flexibility of small firms, small firms are preferred because they are quite flexible i.e. the owners can easily change the nature of the business without incurring high cost.

vii. entrepreneur's choice, the owner may be satisfied with a small firm for self and family employment. Many owners of small businesses have no ambition to grow large.

viii. fear of diseconomies of scale, some firms fear diseconomies of scale and high risks of expansion and hence remain small.

ix. nature of the business, firms providing personal services such as watch repair and shoe shinning remain small in order to maintain direct contact with customers.

x. personal contact, firms remain small in order to maintain personal contact with their workers and customers e.g. law firms, saloons etc.

xi. inter-dependence of firms, firms which use by-products of big firms tend to remain small e.g. sweet industry alongside sugar industries.

xii. government policy, government policies may favour small firms e.g. subsidies and low taxes to small firms hence encouraging firms to remain small.

Advantages of small scale firms

i.They are easy to start as they require small initial capital and no formal or legal formalities and procedures like registration compared to large firms.

ii. they are quite flexible as the owner can easily change from one line of business which is less profitable to a more profitable venture.

iii. they are much easier to manage compared to large firm since they do not require many skills or board meetings.

iv. there is direct contact with customers and workers, and giving them personal attention, understand their needs better and cater for their interest.

v. they enjoy top secrecy and confidentiality as they are not under any obligation to publish their books of account to the public.

vi. they pay less or no taxes compared to large firms.

vii. they use simple techniques of production and thus less costly to manage.

viii. they are most suitable for high risk activities.

ix. Small market. In situations where the market is small, small firms do better and survive.

x. Monopolizing market. Small firms tend to be located far away from large firms hence monopolize market.

Disadvantages of small firms

i.They do not enjoy economies of scale i.e. advantages of large scale production like bulk buying and bulk selling, free transport to premises etc.

ii. there is limited capital for expansion as they lack collateral security for loans from banks.

iii. specialization is not possible with small business. This makes production costly and wasteful.

iv. they cannot afford to employ modern techniques of production due to limited capital and this lead to production of small and poor-quality output.

v. they are unable to face emergencies and risks as they cannot afford to undertake insurance.

vi. they cannot afford to advertise their products and carry out other forms of sales promotion hence have small market and low turnover.

vii. they incur high operational costs hence low profits.

viii. their prices tend to be relatively higher than those charged by large scale firms because they buy in small quantities and sometimes on credit hence not able to benefit from trade and cash discounts.

ix. they cannot undertake research into new and better methods of production due to limited capital.

x. they cannot provide better welfare facilities like free accommodation, transport and medical care to their employees.

Problems associated with small firms

i. High competition from large firms hence they may be forced out of business.

ii. Cannot easily get loans from financial institution because they lack security.

iii. Usually employs unskilled and semi-skilled hence lack of efficiency in production.

iv. Face market problems since their products tend to be of poor quality due to lack of research.

v. Poor technology is used due to lack of capital.

Factors considered before investing in a particular business unit.

They include the following.

- Capital involved, some business requires large capital to operate e.g. public companies compared to sole proprietorship.
- Ability to make profit, people will invest in businesses which are likely to make profit in a short period.
- Security of capital, people will invest in business which can guarantee the security of their capital.
- Accessibility to business books, many people prefer to invest money in enterprises they can easily inspect at any time to monitor progress.
- Legal business, people will invest in business with proper legal documents and status.
- Number of people involved, people prefer to invest their money in sole proprietorship where large profits are enjoyed by one person alone.

The growth of a firm

This refers to the expansion in size of the firm or its scale of production. There are two ways in which a business firm may grow or expand its size:

i.Natural growth (internal growth).

ii. External growth.

Natural (internal) growth; this is when a single firm grows as a result of the owner's policy of re-investing or ploughing back the profit made by the business. A firm may also grow as a result of expansion of its market, specialization and development of new products.

External growth, this is where a firm grows as a result of combining resources with other firms. This coming together of two or more firms to form one firm is called **amalgamation or combination/merger.**

Forms in which business firms may combine

a). Complete Amalgamation (consolidation); this involves the dissolution of the business firms intending to combine and the creation of an entirely new company in which the shareholders of the liquidated companies acquire shares.

b). Absorption (Take over), this is where one firm takes over the asset and business of another which loses its identity in favour of the one which has taken over control, e.g. the takeover of Nile bank by Barclay bank etc.

c). Holding company; this is where one company acquires majority or controlling shares in other companies e.g. 51%. The others companies with fewer shares i.e. 49% become subsidiary companies while the company with more shares i.e. 51% is the holding company.

d). Cartel; under this, various firms dealing in similar products agree to sell their products through a central selling agency with the purpose of controlling prices of their products e.g. soft drinks and petroleum products. OPEC is an example of an international cartel.

e). Consortium ; this is where two or more firms form a temporary joint venture for the purpose of accomplishing a complex task after which the arrangement is dissolved.

NB. Mergers (integration); this involves business firms pooling their resources to operate jointly as one single production unit. This may take the following lines:

Lines of combinations

There are four lines of combinations namely:

i). Horizontal merger (Horizontal integration), this is the coming together of two or more firms at the same stage of production in the same industry e.g. merger involving Hot loaf bakery and Tip Top bakery all producing bread.

ii). Vertical merger (vertical integration), this is the coming together of two or more firms at different stages of production in the same industry e.g. a merger involving Hot loaf bakery which produces bread (final product) with Uganda grain milling company which produces wheat flour (raw material). The aim of vertical merging is to link the firm with the source of raw materials or market. There are two forms of vertical integration namely; **backward vertical merger and forward vertical merger.**

Backward vertical merger, this is where a firm at a higher stage of production combines with another at a lower stage of production within the same industry i.e. merging is towards the source of raw materials e.g. sugar cane factory integrating with sugar cane out growers.

Forward vertical merger, this is where a firm at a lower stage of production combines with another at a higher stage of production within the same industry i.e. merging is towards the market for the products e.g. oil refinery merging with petrol station.

c). Lateral merger (lateral integration), this is the coming together of firms producing related products which are not competing with each other e.g. the merging of foot wear firm with a shoe polish firm.

d). Conglomerate (Diversifying) merger, this is the coming together of firms producing a wide variety of different products which are not related e.g. merger involving a bank, a hotel and airline company. This is aimed at diversification of the firm's production activities against un anticipated risks.

Delocalization of industries

Delocalization refers to the deliberate government policy of spreading or distributing industries evenly throughout the country to avoid concentration of industries in one particular area.

Advantages of delocalization

i.It creates even employment opportunities in the country.

ii. it reduces rural-urban migration and its effects like congestion, unemployment and social evils.

iii. it leads to even development of all regions/reduces regional imbalances.

iv. it leads to even dev2elopment of social and economic infrastructure in all regions e.g roads, telecommunications networks etc.

v. it reduces the risks of total destruction of all the industries in the event of disasters like earthquake or war.

vi. it reduces traffic congestion and overcrowding.

vii. it reduces social evils like prostitution and theft.

viii. it reduces air and water pollution as the industries are spread throughout the country.

ix. it increases government revenue by widening the tax base.

x. it reduces the cost of goods and factors of production by minimizing competition.

xi. it reduces pressure on existing social and economic infrastructure.

xii. it reduces quick depletion of natural resources due to over exploitation.

xiii. it leads to full utilization of the would be idle resources in other areas.

Disadvantages of delocalization

i.It is difficult for industries to cooperate in areas of research and training since they are geographically far apart.

ii. low quality products are produced due to lack of competition among industries since they are scattered.

iii. government assistance may not easily be provided.

iv. merging of firms may be difficult since the industries are far apart.

v. it leads to high cost of transporting raw materials and finished goods.

vi. industries do not enjoy external economies of scale as they are geographically far apart.

vii. it hinders the development of subsidiary industries that utilizes the by-products of major industries.

Benefits gained from industrial development in Uganda

i.It has increased employment opportunities in industrial sector

ii. it has increased government revenue by widening the tax base.

iii. it has led to the development of social and economic infrastructure inform of transport, power supply etc.

iv. it has increased the volume of goods and services in the country.

v. it has increased foreign exchange earnings in the country through export of industrial products.

vi. it has promoted the agricultural sector by providing market for agricultural raw materials like cotton and supplying inputs like fertilizers and pesticides.

vii. it has improved the country's balance of payments position through increased export earnings and reduced foreign exchange expenditure on imported industrial products.

viii. it has widened customers choice through a wide range of consumer goods on the market.

ix. it has reduced dependency on other countries for industrial products.

x. it has led to the diversification of the economy through a variety of manufactured goods.

Problems from the current industrial development in Uganda

i.Pollution of air and water due to poor disposal of industrial waste.

ii. it has led to environment degradation e.g. clearing of namanve forest to create an industrial area.

iii. profit repatriation due to ownership of major industries by foreign investors.

iv. it has contributed to unemployment due to use of capital intensive technology (machines) in industries.

v. it has led to rural-urban migration and its related consequences due to concentration of most industries in urban areas.

vi. it has increased external dependence due to importation of basic raw materials, machinery and spare parts.

vii. it has led to regional imbalance due to localization of industries in Kampala and Jinja.

BUSINESS UNITS AND THEIR ORGANIZATIONS

A business enterprise or organization, or a firm refers to a unit of any business organization which is engaged in the production and distribution of goods or services with the aim of making profits.

Forms of business units

Business ownership can be classified into two categories or groups:

i. The private sector.
ii. The public sector.

The private sectors

Private sectors are business units owned by private individuals with the aim of making profits.

Business units within the private sector include;

i.Sole proprietorship.

ii. Partnership.

iii.Joint stock companies.

iv.Cooperative societies.

The public sectors

Public sectors are business establishments that are owned by the government and are engaged in commercial activities.

They include the following;

i.Local government Authorities.

ii.Parastatal bodies.

iii.Public corporation.

iv.Marketing boards.

v. Nationalized industries.

Whether small or large a business should have a name. The name any business unit depends on the number of people involved and the line of operation. Common businesses include.

Sole trade or Sole proprietorship

Sole proprietorship is a business which is owned by only one person, who contributes capital, manages, supervises it and enjoys all the profits alone.

It is a one man's business in terms of ownership, management, making decision, bearing risks and losses and enjoying profits alone. It is the most common form of business ownership in Uganda.

Characteristics (features) of sole proprietorship

i).it is a one man business i.e. the business is owned by one person.

ii). Capital is contributed by the owner alone and no appeal is made to the public to subscribe.

iii). The owner is the organizer and manager of the business and sometimes assisted by family members or hired labour.

iv). it is not recognized as a separate legal entity i.e. the law does not recognize the business as a separate entity from the owner.

v). the owner takes all the profits and bears all the risks and losses alone.

vi). The liability of the sole proprietor is unlimited i.e. he is personally liable for all the debts of the business to the extent of selling off his personal property.

vii). The business has limited life, i.e. it can collapse any time with the bankruptcy, insanity or death of the owner.

viii). It does not require complicated documentation or legal formalities during formation.

ix). It is normally small in size involving small amount of capital.

x). it is common in retail trade, transport and farming.

Advantages of a sole trade

They include the following,

- Easy to start up, since small capital is required, it is easy to set up e.g. hawking business etc.
- It is flexible, one can easily change from one business to another because small business does not have complicated machinery and technology.
- Convenient locations, being small, sole trade business are usually located within the residential area of customers.
- Close contact with customers, a sole trader has personal contact with his customers thus he knows their opinions.
- Easy decision making, a sole trader does not need to consult any person, hence avoiding delays in reaching a decision.
- Enjoying profits alone, a sole trader enjoys all the profits alone and his family.
- Advices customers, a sole trader gives his customers advice regarding handling of goods especially ne w ones.
- Source of employment, a sole trader provide employment to himself and his family.
- Efficiency in business, since the benefits of the business belongs to the sole trader; he puts strict supervision which results into efficiency.
- Top secrecy and confidentiality are enjoyed, a sole trader is the only one who knows his business affairs and secret and preserves them as confidential unlike any form of business ownership such as partnership and joint stock companies.
- Self accountability, the sole trader is financially accountable to himself and nobody else i.e. he does not need to explain to anyone his business earnings and expenditures.
- Greater personal interest in the business, greater personal interest is developed in the business since the success of the business implies his personal success. Therefore a sole trader has more commitment to make his business successful.

Disadvantages of sole trade

- Limited of capital for expansion; little capital gives no room for business expansion.
- Suffering losses alone, a sole trader bears all the risks of his business alone e.g. bad debt etc.
- Lack of continuity, the existence of the business depends on the owners life, once he dies the business is likely to die too.
- Lack of proper accounting system, there is no proper accounting system; they tend to depend on the money seen in the business.
- Over working and fatigue, a sole trader works for a long time since he carries out a wide range of activities alone.
- Lack of specialization, they tend to do everything themselves from purchasing, stocking, transporting etc but one cannot have these skills.
- Modernization is limited; a sole trader cannot easily afford modern techniques of operation since they have little capital.
- May lack a variety provision, because of little capital, a sole trader may not afford supplying a wide range of goods or services.
- Inefficiency, a sole trader may realize inefficiency if he takes a wrong decision
- Unlimited liability, the owner is personally liable for all debts of the business up the extent of selling his personal property i.e. should the business fund be insufficient to pay off the debts, the sole trader has to sell off his very personal belongings to raise money to pay the business creditors.
- Limited size of the business hence no economies of scale i.e. the advantages of large scale operation like bulk buying and bulk selling, free transport to his premises etc.

PARTNERSHIP

A partnership is a business organized by two up to 20 people with an aim of making profits.

It is an association of two or more people involved in the ownership and control of a business by pooling their resources together for the purpose of making profits. Each of this person involved in the business is called a **partner** and the business is called a **partnership.**

But , in case of banking business the number of partner is limited to ten, and with professional business like lawyers, engineers, etc, the number may exceed twenty but with legal authority.

How partnership business is formed.

Partnerships may be formed by express agreement or by implication. Express agreement means that the parties agreed verbally or in writing to establish a partnership, while partnership by implication arises when a court holds that two or more parties intended to act as parties. There are no legal formalities to be if the partners wish to run the business under their own names, for example if Mr. Okello and Mr. Kato wish to run their business as M/r. Okello and Kato enterprise, they do not need to apply for any registration. However, if they decide to hide the name of the real business owners and operate a firm under a name other than their own personal names, for example Kampala enterprises, they will be required to register the firm's name with the registrar of business names

Types of partnerships

Classification of partnership according to duration

i). **Temporary partnership**, this is formed to performed certain activities within a stipulated period and is dissolved as soon as the purpose for which it was formed is completed.

ii). **Permanent partnership,** this is the one which is intended to continue indefinitely i.e. its end is not known at the time of formation.

Classification of partnership according to liability of members towards the firm's debts

i).**Ordinary partnership,** under this the liability of members are unlimited. This means that a member stands to lose all his money contributed should the business make losses, and if it is not enough to pay off the debts the members may even lose their personal belongings.

ii). **Limited partnership**, this is where the liability of members is limited to their capital contribution towards the business except one who has unlimited liability.

Characteristics or features of a partnership:

- Membership of a partnership ranges from 2 to 20 partners for ordinary partnership and 2 – 50 partners in case of professional partnerships.
- It results from a contractual agreement among partners; i.e. they agree on raising funds and ideas which may be written or verbal.
- There is unlimited liability by each partner in respect of the firm's debt except in a limited partnership.
- It has no separate legal existence i.e. the business and partners are seen as one in the eyes of the law.

- Each partner acts as an agent of others while carrying out partnership business.
- The business of a partnership must be carried on by all or by any one or more of them acting for all.
- No partner can transfer his share or capital without the agreement or acceptance of all members.
- All partners should be just and honest to each other and the business.
- Only an individual or a person can become a partner, not an institution representing a group of individuals e.g. a school cannot become a partner.
- The partnership business is registered with the registrar of business names.
- Management is carried out by all partners in case of ordinary partnership.
- Each partner must act in good faith with each other and present true accounts.
- Major decision is by the majority and based on interest and mutual understanding.
- Partners must be governed by an agreement called a partnership deed. However, in case a partnership deed is not drawn up by partners, then the partners are governed by the partnership Act of 1934.
- Each partner has full contractual capacity to do things connected with the firm except a minor and a quasi-partner.
- Partners contribute capital and no appeal is made to the public to subscribe.
- A partnership has a limited life. It may be ended any time by death, bankruptcy or withdrawal of any partners.
- Responsibilities, profits and losses are shared on agreed basis.

Types of partners

A business partner is a person who joins another person or persons to form a partnership business. Partners are classified in the following ways.

1).According to the role played.

- Active or managing or working partners. These are partners who take active part in the management and running of the business.
- Sleeping /dormant/silent/financing partners, these are partners who contribute capital but do not participate in the management and running of the business.

2). According to liability towards the firm's debts,

- General/unlimited partner, this is a partner whose liability is unlimited and may be called upon to meet the firm's debts from his personal sources if the firm fails to settle them.

- Special/limited partner, this is partner whose liability towards the debts of the business is limited to his capital contribution and they are found in limited partnership.

3). According to age,

- Major partner, this is a partner who is 18 years and above and his actions are binding both to the partnership and other partners. He is liable for the debts of the firm.
- Minor partner, this is a partner below the age of 18. His actions are not binding to the partnership or to other parties. He is not liable for the debts of the firm beyond his capital contribution.

4). According to capital contribution,

- Real partner, this is a partner who contributes capital to the partnership business and takes part in the running of the business. He shares the profits and losses of the firm.
- Quasi /ostensible /nominal partner, this is a partner who does not contribute any capital and does not take any part in the running of the business but allows his name to be used by the firm as a partner. He is not liable for the debts of the firm. He is invited as a partner to bring good will to the partnership because of his good reputation and conduct in the society.

5). **According to their stay in the partnership**

- Incoming partner, this is a partner who is being admitted into the partnership.
- Retiring/outgoing partner, this is a partner who has withdrawn from the partnership, but he is still liable for all the debts or losses the firm incurred before his withdrawal.

6). According to behavior,

- Partner by estoppel, this is not a partner, but the way he conducts himself makes others to believe he is a partner.

The main features of a limited partnership:

- It has two kinds of partners, general i.e. partners with unlimited liability and special partners with limited liability.
- There must be at least one general partner.
- A limited or special partner only contributes capital and shares profits. He has no management rights in the business.
- A special partner has to bring his capital in cash

- A special partner cannot bind the firm to other partners by his actions.
- The death, lunacy or bankruptcy of a special partner cannot dissolve the firm.
- The registration of a limited partnership is compulsory.

The partnership Deed (articles of partnership)

On formation of a partnership, a document called a partnership deed is drawn up by the partners.

A partnership deed refers to an agreement made between partners outlining the terms and conditions under which the partnership business will be conducted. A partnership deed is drawn up to guide the internal management of a partnership firm and to settle misunderstandings or disputes which may arise at a later stage. A partnership deed should be registered with the registrar of business names who issues a certificate of registration. If the partners have not drawn up partnership deed of their own, then the business is governed by the partnership Act of 1934.

They include the following:

The content of the partnership Deed

- Name, address and purpose of the partnership firm.
- Names, address and occupation of the partners.
- The amount of each partners' capital
- Rights and duties of each partner e.g. provision for interest on capital and salary.
- The amount of drawing privileges allowed to each partner each year and the rate of interest to be charged on such drawings.
- The ratio in which profits and losses are to be shared between partners.
- The life/duration of the partnership if it is temporary.
- The accounting period to be used and nature of accounting records to be kept.
- The method of calculating good will at death, retirement or expulsion.
- The way in which the partnership may be dissolved in case of disagreement.
- The way in which disputes between partners are to be settled.
- How the management committee is elected.
- The status or type of each partner.e.g. active, dormant etc.
- The purpose for which a partnership firm is formed.
- The rate of interest to be allowed on capital contributed.
- The salary if any to be paid to each partner.
- The duties allocated to each partner.

The partnership Act 1934

In the absence of a partnership deed, the provision of the 1934 partnership will apply. They include the following:

- All partners have the right to contribute equal amount of capital.

- Equal profits and losses are shared by all partners.
- No interest in charged on capital to partners.
- No partnership salary to partners who take part in management of the business.
- No person may be introduced as a partner without the consent of all existing partners.
- Any additional capital received in form of a loan receives an interest per annum at 5%.
- No majority of the partners can expel any partner unless power to do so has been conferred by express agreement between the partners.
- The books of account must left at the place of business and all the partners have the right to inspect them.
- Every partnership is dissolved as regards all the partners by death or insolvency of a partner.
- No interest is charges on drawing.

The rights and duties of partners:

- Every partner is supposed to share losses with other partners except a minor and quasi partner.
- No partner can sign or transfer his partnership interest to outsiders before informing others.
- A partner who carries out duties of the partnership carelessly is bound to meet a penalty.
- Partners are bound to be just and faithful in handling business funds, property and to each other.
- All partners have rights to inspect the books of accounts of the business.
- A partner should not carry out any competing business to the partnership and if he does so, he must surrender the profits to be shared by all partners.
- Every partner is expected to carry on business of the firm whenever called upon to do so.
- Every partner has the right to act on behalf of the business except a limited, minor and quasi partner i.e. he can sign documents or enter a contract on behalf of other partners.
- No new partner may be admitted without the consent of all the members.

- No partner may be expelled without dissolving the partnership i.e. whenever a partner is being expelled, the partnership must be dissolved and a new one formed.

Advantages of partnership

i).In case of loss every partner has to share them equally according to the agreement.

ii). As a partnership is a large establishment, buying goods in large amount and receiving bigger trade discount, their prices are relatively lower than those of a sole trader.

iii). Partnership business raises greater capital because of many partners than the sole trade business and this allows it to expand.

iv). business affairs are always kept private unlike the limited companies (public) which have to publish their annual performances to the public.

v). the limited partner has his liabilities limited only to his capital contributed to the partnership.

vi).formation of partnership is normally simple and requires less documents.

vii). There is sharing of responsibilities and work among partners.

viii). Partners can easily utilize various talents and specialists e.g. from doctors, lawyers etc.

ix). Absence of one partner may not affect the running of the business.

x). since there are two or more partners, they can also start more than one business and each partner supervises one business.

Disadvantages of partnership

i). it is not recognized as a separate legal entity. Thus it cannot sue or be sued in its own name.

ii). Lack of continuity, death, insanity, bankruptcy or withdrawal of a key partner may cause or lead to the dissolution of the partnership.

iii). With the exception of a limited partner, all partners have unlimited liabilities.

iv). sharing of profits reduces the incentive to work hard, profits generated by hard working partners are shared by all. This reduces the incentive for hard work as the hard working partner feels cheated.

v). drawings for personal uses by many partners may result into the business running short of money for purchasing stock and expansion of the business.

vi). Disagreement among partners are common, Since there many partners, quarrels and hatred may develop among them on how a firm should be managed and this slows down the progress of the business thus resulting into the dissolution of a partnership.

vii). Misconduct of one partner may affect the partnership business, if one partner makes a mistake, all the partners suffer the consequences of this mistake committed by one partner.

viii). There is a delay in decision making because of the need to consult the other partners.

ix). Partnerships cannot appeal to the public to raise more capital through shares, therefore, expansion may be limited due to limited capital.

x). incapable and lazy partners may be admitted, this may damage the good name of the firm.

xi). Profits are shared; this may reduce the amount received by each partner.

Dissolution of partnership

This refers to the act of bringing the existence of a partnership to an end i.e. terminating the partnership. This may be voluntary dissolution by consent of all partners or compulsory dissolution by court of law or when partners are declared insolvent.

Circumstances or conditions under which a partnership may be dissolved

i). in case of temporary partnership, when the purpose for which it was formed is accomplished or when it has reached expiry period and the period cannot be extended.

ii). When there is a general agreement or consent of all members to dissolve the partnership i.e. voluntary dissolution.

iii). If one partner notifies other partners in writing of his intention to dissolve the partnership i.e. dissolution by notice.

iv). when the business venture is no longer profitable.

v). when partners are declared bankrupt or insolvent by court of law.

vi). When one of the partners acts contrary to the provision of the partnership deed hence damaging the reputation of the firm. In this case the court of law can order that the partnership be dissolved.

vii). In case of death or insanity of one of the partners.

viii). When the partnership becomes unlawful (illegal) as a result of engaging in activities which are illegal.

ix). When the partnership has failed to raise the required capital as stated in the partnership deed.

Differences between a partnership and sole proprietorship

i). sole proprietorship is a one man business while membership of a partnership ranges from 2 -20 for ordinary partnerships and 2 -50 for professional partnership.

ii). A sole proprietor faces unlimited liability while there is limited liability in case of limited partnership.

iii). Management of sole proprietorship is by one person (owner) while in partnership every partner has a right to manage the business except a limited and quasi partners.

iv). a sole proprietor enjoys profits and suffers losses alone while in partnership profits and losses are shared among partners.

v). there is no agreement required when starting a sole proprietorship while a partnership agreement must be drawn up when forming a partnership.

vi). There is no legal requirement for registration of sole proprietorship while there is a legal requirement for registration of business name in case partners decide to hide the names of the real business owners and run the business under a name other than their own personal names.

vii). A sole proprietorship involves relatively small amount of capital compared to partnership.

ix). There is no continuity in a sole proprietorship after the death of the owner while a partnership business may continue even after the death of one partner.

JOINT STOCK COMPANIES

A company is a business organization set up by a group of people to carry out a particular business or given activities with the aim of making profits. A company is a legal entity carried out or created following the requirements of the company Act.

The law therefore defines a company as a fictitious person who can own, enter into contracts, borrow money, sue and be sued by others.

Categories of companies

Incorporated and unincorporated business

a). Incorporated business: this is a business which has a separate legal entity from the owners i.e. the owners enjoy limited liability. It can sue and can be sued in its own name. Examples of incorporated business are joint stock companies.

b). **unincorporated business:** this is a business which has no separate legal existence from the owners. Its owners face unlimited liability i.e. they are personally liable for all the debts of the business up to the extent of selling their personal properties. Examples are sole proprietorships and ordinary partnerships.

Types of joint stock companies

There are two broad categories of companies namely:

a. Statutory companies.
b. Registered companies.

Statutory companies, these are companies created by an Act of parliament. There powers and functions are clearly defined by the act of parliament which creates them. Statutory companies are mostly owned by government e.g. parastatal bodies and public corporations.

Registered companies, these are companies which are formed and registered under the companies Act. These companies come into legal existence after receiving certificate of incorporation issued by the registrar of companies.

Registered companies are further classified according to the following:

a). according to the number of members i.e. private and public limited companies.

b). according to the liability of members i.e. limited and unlimited companies.

c). limited companies may be limited by shares or limited by guarantee

Unlimited companies

These are companies where shareholders have unlimited liabilities towards the debts of the company i.e. in case of any debts to be paid by the company, shareholders have to contribute more money on top of the original capital contribution.

Companies limited by guarantee.

These are companies where shareholders promise (guarantee) to contribute a given sum of money to pay off the debts of the company in case the assets of the company cannot total up the amount of the debts.

Company limited by shares.

This is a company where share holders have a limited liability towards the debts of the company up to the face value of the shares held by each. In case of debts, share holders do not contribute more money to clear them.

Limited liability and unlimited liability

Limited liability, this is where one is responsible for the business debts up to what he has contributed towards the business but not his personal property e.g. limited partners and shareholders of companies

Unlimited liability, this is where the liability of the shareholder is unrestricted i.e. one's responsibility towards the business debts can extend beyond what he has contributed up to the extent of selling his personal property e.g. sole proprietors and general partners.

Features (characteristics) of a joint stock company

i).legal personality or equity, a company has an entity separate from that of its shareholders.

ii). It has a name; a company has a name normally ending with the letters "limited (Ltd) to signify that the liability of its share holders is limited to their capital contribution.

iii). It can sue and be sued in courts of law; a company can take legal action against an individual or firm. Likewise, it can also be sued in the courts of law but not its shareholders.

iv). it has a legal signature or seal; a company has a common seal which appears on all important documents of the company as its official signature.

v). it has perpetual continuity; a company exists indefinitely till it is liquidated. The death, bankruptcy or insanity of any shareholder does not affect the existence of the company.

vi). Limited liability; the liability of the shareholders of the company is limited to the face value of the shares held in the company and not beyond.

vii). Capital is divided into transferable shares; the capital structure of the company is divided into a number of units of uniform value called shares and its owners are the shareholders.

viii). Members cannot bind a company by their acts; members of a company are not entitled to bind it by their acts.

ix). It owns property; a company's property must be registered in the name of the company and it is different from the property of the shareholders and directors.

x). it has a residence; a company has a residence where its administrative and registered offices are located. It should have a postal and telephone address.

xi). It transacts business in its own name; a company conducts business in its own name and not the names of its shareholders.

Private limited companies

A private limited company is a joint stock company with a minimum of two shareholders and a maximum of 50 shareholders. Examples include; Mukwano, Madhivani, Metha groups of companies etc.

Features/characteristics of a private limited liability company

i. Membership is between a minimum of two and a maximum of fifty (2-50).
ii. They are not allowed to sell shares to the public.
iii. Shares in private limited company are not freely transferable.
iv. Private limited companies do not prepare prospectus.
v. The liability of members towards the debts of the company is limited to their capital contribution.
vi. The founders normally take control of the company by holding majority shares.
vii). It can commence business as soon as it acquires certificate of incorporation.
viii). It is not required by law to publish its books of account to the public.
ix). Its share capital is divided into a number of units of uniform value called shares.

Advantages of private limited companies

i.Limited liability; the shareholders enjoy limited liability and hence properties are safe.

ii. Top secrecy and confidentiality; its books of accounts are kept secret as it is not required by law to publish them to the public.

iii. Control over the business; the promoters of the business always control over their business by holding majority of the shares unlike in public limited companies where the management of the company is in the hands of the directors.

iv. Easy to form; its procedures of formation is not lengthy as that of a public company and it can commence business as soon as it acquires a certificate of incorporation.

v. Economies of scale; greater economies of scale are enjoyed compared to sole proprietorship because private limited companies raise more capital and operate on large scale.

vi. More capital is raised; more capital is raised with large number of shareholders than in the case of sole proprietorship and partnership.

vii. Assured continuity; the death, bankruptcy or withdrawal of any one shareholder cannot affect the existence of the business.

viii. Employment of specialists is possible; Employment of specialists is possible due to large capital.

ix. Specialization; specialization and division of labour can easily be carried out compared to sole proprietorship.

x. Greater chances of increasing capital; private limited companies have greater chances of increasing their capital through selling shares or borrowing from financial institutions.

xi. Possibility of issuing different types of shares; there is a possibility of issuing different types of shares to suit investment.

Disadvantages of private limited companies

i.Limited capital; the company cannot raise as much capital as public limited company because membership is restricted to a maximum of 50 shareholders.

ii. Possibility of fraud; since the company is not compelled by law to publish its books of account to the public, cases of fraud may take place

iii. Shares are not freely transferrable; Shares are not freely transferrable from one shareholder to another and this limits some shareholders who wish to leave the company.

iv. No public appeal for funds; it cannot appeal to the public to buy shares because it is not allowed by law to issue a prospectus.

v. Low economies of scale; it cannot enjoy greater economies of scale like public limited companies because of limited size.

Public limited companies

This is a joint stock company with a minimum number of 7 shareholders and no specified or defined maximum. It raises its capital by selling shares to the public and its shares are freely transferable. Examples are; New vision, Clays Ltd, Stanbic banks etc.

Features/characteristics

i.Membership is between a minimum of seven and no maximum number set.

ii.Shares are freely transferable from one share holder to another through the stock exchange market.

iii. Public companies are allowed to sell shares to the public.

iv. The share holders enjoy a limited liability.

v. Members have got a separate legal entity from the entity of the company.

vi. The death of one member does not affect the operations of the company i.e. it has perpetual continuity.

vii. the management of the company is in the hands of people called directors who are elected by shareholders.

viii.It is required by law to publish its books of account to the .public.
ix). Its share capital is divided into a number of units of uniform value called shares.

x. it is free to call upon the public for funds in form of selling shares and debentures.

Advantages of public limited company

i.Large capital is raised; more capital is raised with the large number of shareholders than in the case of sole proprietorship, partnership and private limited companies.

ii.Members enjoy limited liability; the liability of shareholders is restricted to the face value of shares bought in the company and does not extend to their private property.

iii.Company shares are freely transferrable; the free transfer of shares is an incentive to investors who are assured of freedom to convert their shareholdings into cash any time they wish.

iv.Assured continuity of the business; the death, bankruptcy or withdrawal of any one shareholder cannot affect the existence of the company.

v. Specialization is possible; specialization and division of labour can easily be exploited due to possession of adequate funds.

vi.Shareholders are safeguarded against fraud; Shareholders are safeguarded against fraud i.e. loss and embezzlement of funds by publicity of company's books of account to the public.

vii.There are more sources of funds for expansion; a public limited company has greater chances of improving its capital base through sale of shares, debentures or loans from banks since the firm has adequate collateral security.

viii.Share of loss; the risk or loss suffered is spread among many shareholders and therefore felt lightly compared to sole proprietorship or partnership.

ix.Employment of specialists is possible; e.g. accountants etc due to large amount of capital raised, hence efficiency.

x.Possibility of different types of shares for different members; to cater for different investment habits of members e.g. accumulative preference shares, non-accumulative preference shares etc.

xi. People with low amount of capital are given a chance to invest their capital; by buying shares in public limited companies.

Disadvantages of public limited company

i.They are costly and difficult to establish, formation of a public limited company is lengthy, difficult and expensive compared to sole proprietorship and partnership as it involves many legal procedures like registration and many documents such as certificate of incorporation, prospectus and certificate of trading which is not the case with private limited companies and partnership.

ii. It is difficult to control the company; it is difficult to effectively control the company because of its large size.

iii.Delay in decision making; decision making is slow since the company directors must meet before any important decision is taken.

iv.There is no secrecy and confidentiality; There is no secrecy and confidentiality as regards business affairs since public limited companies are required by law to publish their books of account to the public.

v. Higher taxes charged; public limited companies are subjected to higher taxes on their incomes e.g. company profits, corporation taxes etc compared to other types of business ownership.

vi. Shareholders have no direct participation in management; shareholders especially minority shareholders do not have a direct control over the running of the company as the management of the company is in the hands of the directors.

vii. observation of state laws and regulation; public limited companies are more subjected to state laws compared to small businesses such as sole proprietorship and partnership.

viii. Disagreement among directors; the directors may have their own interests that may conflict with the interests of the company.

Differences between private and public limited companies

i. Membership in public limited company is between seven and infinity well as in private company, it is between 2 and 50.

ii. In public limited companies, shares are freely transferable this is not the case in private limited companies.

iii. Public limited companies are allowed by law to sell shares to the public, but private limited companies are not allowed.

vi. Public companies normally draw a prospectus to advertise shares, but it is not the case with private limited companies.

Advantages of a public limited company over a private company

i.More capital is raised; a public limited company can raise more capital than a private limited company because its members are unrestricted.

ii. Shares are freely transferable; a public limited company shares are freely transferable and any shareholder wishing to quit the company does not have to seek for company's approval or consent of other shareholders unlike a private limited company whose shares are not freely transferable.

iii.Shareholders are safeguarded against fraud; Shareholders are safeguarded against fraud as a public limited company is required by law to publish its books of accounts to the public unlike a private limited company whose shares are not published to the public.

iv.More public confidence; the members of the public have more confidence in public companies because of publishing the books of accounts.

Advantages of joint stock companies

1. Companies are in better position of raising large sums of money through the sale of shares and debentures.

2. The large sums of capital contributed enable the company to operate on large scale which increases the profits.

3. A company has a continuous existence because the death, bankruptcy or insanity of a shareholder does not affect the operations of the company.

4. Companies are in better position of acquiring loans from banks and other financial institutions. This is because they have valuable assets to act as collateral security.

5. The liability of members towards the debts of the company is limited to their original capital contribution i.e. share holders do not contribute more money towards the payment of the debts of the company.

6. In case of a company giving dividends (profits), share holders can easily sell their shares to outsiders.

Disadvantages of joint stock companies

1.The formation of companies involves long procedures i.e. writing of many documents (Memorandum of association, Articles of association etc), this makes it expensive on the side of the Directors.

2. Decision making tends to be slow and complicated since all important decisions are proposed and taken by the directors and share holders.

3. Share holders do not have direct control over the management and running of the company.

4. The directors of the company may have their own interests which may be different from the interest of the company which may be a failure for the success of the business.

5. Companies are large scale enterprises which operate on large scale therefore they are faced with diseconomies of scale (disadvantages).

6. Companies are restricted by law to only registered objectives; therefore they cannot easily change to another line of business.

FORMATION OF COMPANIES

The formation of companies involves drafting a number of documents which are given to the Registrar of companies and these include the following steps:

i.Promotion (birth of an idea to form a company); this is where individuals wishing to form a company i.e. promoters meet and decide on the possible areas of investment, the amount of capital needed, the name of the company to be formed, objectives of forming the company, where the company is to be located, expenses of formation etc. At this stage a list of promoters must be drawn up.

ii.Drawing up and filling company documents; the promoters should engage the services of a lawyer to draw up two important documents namely; Articles of Association and Memorandum of Association. The Articles of Association is a document which lays down the rules and regulations for the internal administration of the company i.e. the constitution of the company. The memorandum of Association is a document which defines the powers and limitations of the company when dealing with outsiders.

iii.Registration with the registrar of companies; after completing the memorandum and Articles of Association, the promoters must present these documents to the registrar of companies. The registrar of companies studies the documents and when he is satisfied with the contents in the documents, he issues a document called a Certificate of Incorporation which gives the company legal existence i.e. allows the company to exist as a separate legal entity. After acquiring a certificate of incorporation, a private limited company immediately commences business activities. However for a public limited company, it has to advertise its shares first by issuing a Prospectus inviting the public to buy its shares and then get a certificate of trading.

iv.Issuing of a prospectus inviting the public to buy shares in a company; after receiving the a certificate of incorporation, a public limited company issues a document called a prospectus inviting the public to subscribe for shares in the company. However, for a private limited company, no prospectus is issued because the company's capital is raised privately for instance from family members who wish to become shareholders in private companies.

v.Commencing business activities; after advertising its shares and after raising the required capital, a public limited company is issued with a Certificate of trading by the registrar of companies which authorizes it to commence trading.

Company documents

Company documents include the following;

i.Memorandum of Association (MOA).

ii. Articles of Association (AOA)

iii. Certificate of incorporation.

iv. Prospectus.

v. Certificate of trading.

vi. Share certificate

vii. Debenture certificate

A. Memorandum of Association:

This is a document prepared by the founders to lay down and define the powers and limitations of a company which governs its relationship with the outsiders or public. Therefore the memorandum of association is a document which connects the company to its customers/clients.

The MOA has got six sections/clauses each describing a particular aspect of the company and these include:

1.**Name clause: This** states the name of the company ending with the word "limited' at the end to serve as a reminder to the people dealing with the company that the liability of its members are limited and the business is a limited company.

NB. The name of the company should be different from the names of the already existing companies.

2. Address /situation (Domicile) clause: this states the location of the company which should be both physical and postal. It shows the registered offices of the company to which notices can be sent i.e. the name of the country, District or Town where the office is situated.

3. Capital clause: This states the total number and nature of the share capital the company is willing to raise, their face values and the types.

4. Objectives clause: it states the aims/objectives for which the company is being formed and it is the most important clause. Once the memorandum of association is registered, a company cannot act beyond these objectives i.e. it cannot engage in another field or business other than that stipulated in the objective clause.

5. Liability clause: this states that liability of members towards the debts of the company is limited to their capital contribution.

6. Declaration clause: this states the desire of the promoters/directors of forming themselves into a limited company. It is signed by at least 7 promoters in case of public limited company and 2 promoters in case of private limited company who must take at least one share each.

b. Articles of Association

This is a document which lays down the rules and regulations for the internal control/administration of the company. It has the following contents among others:

- When to elect and remove the directors of the company.
- The right and powers of the share holders.
- The powers of the directors.
- How and when to conduct general meetings.
- Methods of issuing shares.
- Method of keeping books of accounts.
- Procedures of appointing company secretary, auditors and accountants.
- Procedures of sharing profits and losses.
- Methods of voting in meetings.
- Procedures of transferring shares in case of public companies
- Provision for changing the Articles of Association.
- Names and addresses of the shareholders.
- Voting rights of and powers of shareholders.

C. Certificate of incorporation:

This is a document prepared by the registrar of companies, which gives a company a legal entity of operation by becoming an incorporated body. This document gives a company a separate legal entity.

The certificate of incorporation therefore gives birth to the company and authorizes the founders to begin operating. It is issued after the registrar of companies is satisfied with the memorandum of association and Articles of association.

After receiving a certificate of incorporation, a private limited company can immediately commence business and a public limited company can issue a prospectus inviting the public to subscribe or buy shares in the company. A certificate of incorporation allows a public limited company to appeal for shares from the public.

D. Prospectus: This is a document issued by a public company inviting members of the public to subscribe for shares. It is issued when a public limited company wishes to make a public issue of shares. A prospectus advertises of the public limited company showing the classes of shares available as well as the present and future prospects of the company. The advert may be through news papers, television, Radios etc. The prospectus therefore invites the members of the public to come and buy shares.

E. Certificate of trading/ license: This is a document issued by the registrar of companies to the public limited company authorizing /empowering the company to commence business activities. It is issued only when the registrar of companies is satisfied that the company has raised the minimum share capital required to commence business.

D.Debenture, this is a document that evidences that a company has borrowed a specified sum of money from the person named on its face (debenture holder) and undertakes to pay a fixed rate of interest for the loan.

E.Shares certificate: this is a document issued by a company to a shareholder after buying shares in a company to certify ownership of the shares. It indicates the number and value of shares purchased, name, occupation and address of the shareholder and it must bear the official seal of the company.

Business (company) finance

Business finance may be divided into short term finance and long term finance.

Sources of short term finance

Firms require short term finance for the purpose of purchasing stock and raw materials, paying wages and salaries of employees and meeting operational cost like power, water, rent etc. the sources of long term finance are the following:

I,Personal savings, this refers to part of personal income that is not consumed but saved for future investment. It is the main source for sole trade business.

ii.Trade credit, this is where a firm obtain goods or stock on credit and pays back after selling.

iii.Bank overdraft, this is the amount of money advanced by a bank to a current account holder in excess of his account balance.

iv.Inheritence, individuals with good economic background or from well to do families can start or expand businesses from inherited income or wealth.

v.Fundraising, this refers to soliciting money from the public through an activity that can generate capital to start or expand business.

vi. Gambling, the money got from gambling activities such as selling lottery tickets constitutes business finance.

vii.Bills of exchange, this refers to having one's bills of exchange discounted by a commercial bank and use the money to start a business.

viii. Gifts and grants, this is where person obtain money from friends, relatives and well wishers and use this money to start or expand his business.

ix. Hire purchase, this refers to a situation where a trader buys expensive goods and pays in bits while running his business.

x. Mortgage loans, these are loans obtained against the security of an immovable property like land or buildings.

Sources of long term finance

i.Bank loans, this involves borrowing from financial institutions like commercial banks and the money repaid after a specified long time.

ii. Debentures, these are long term loans to the company from members of the public. It carries a fixed rate of interest.

iii.Sale of shares, public companies can raise capital by selling shares to the public through the stock exchange market.

iv.Retained profits, this is where part of the profits made is plough back into the company.

Shares; a share is a unit of capital of a joint stock company. A group or block of shares is called a stock. So many units of shares make up the capital of limited companies.

A return on a share out of the profits of a company is called a dividend.

The persons who buy shares in a company are called shareholders and they are supposed to share on the profits made by the company and their share is called dividends.

TYPES OF SHARES:

There are basically two types of shares namely;

1. Ordinary shares:
2. Preference shares.

Ordinary shares (equity shares): These are shares held by the founders/promoters of the company (ordinary shareholders) who have no fixed rate of dividends on the profits made by the company but they can take all the remaining profits after paying preference shareholders. The ordinary shareholders are the controllers of the company and the greatest risks of the company fall upon them.

NB. In a given trading period, a company may realize little profits therefore, ordinary share holders stand not to get dividends during that period but if a company makes a lot of profits, they take a big share.

Features of Ordinary Shares

i.They have no fixed rate of dividends. The amount of profits allocated to them depends on what remain after all the creditors and shareholders with a prior claim have been paid.

ii.They have a second right on dividends, i.e. the ordinary shareholders get residue profits after the preference shares have been paid.

iii. in bad years when a company does not get profits, ordinary shareholders do not get any dividend at all. However, in good years when a company makes a lot of profits they receive a higher rate of dividends.

iv. they have a right to vote on important affairs of the company such as election of directors.

v. when a company is winding up, ordinary shareholders are paid after other shareholders and creditors.

vi. there is no special security for such an investment other than the soundness of the company.

vii. they are generally irredeemable.

2.Preference shares:

These are shares held by members of the company which have fixed rate of percentage on the profits made by the company and they are always given a first consideration. They are categorized into the following:

Features of preference shares

i.They carry a fixed rate of return (dividend) e.g. a fixed rate of 5% per year.

ii. They have a fixed right on dividends i.e. they are paid before the ordinary shareholders but after the creditors like debenture holders.

iii. preference shareholders have no right to vote on important matters concerning the company e.g. election of directors.

iv. they are at a lesser risk than ordinary shareholders.

v. the capital repayment to them is after the creditors but before ordinary shareholders.

Types of preference shares

Accumulative preference shares.

ii. Non-accumulative preference shares.

iii. Redeemable preference shares.

iv. Irredeemable preference shares.

v. Participating preference shares.

i. Acumulative preference shares. These are shares where holders are entitled to dividends whether the company makes profits or not. The dividends for the trading period of losses are carried forward to the next trading period in case of profits made. The dividends keep on accumulating until they are paid. If there are no profits this year, these shareholders get two years' dividends in the following year.

Example

An accumulative preference shareholder has missed dividends over the last two years due to lack of profits. If he holds 50 shares of shs 10,000 each at a rate of 6%, how much dividend will he get this (third) year?

Solution

Nominal value of shares = 50 shares X 10,000

= shs 500,000

Annual dividend = $\frac{6 \text{ X}500{,}000}{100}$

= shs 30,000

Total dividend for 3 years =30,000 X 3

= shs 90,000.

ii.**Non-Acumulative preference shares:** These are shares whose holders are entitled to a fixed rate of dividends but for only during the year the company is able to make profits. Therefore, there is no accumulation of dividends i.e. arrears of dividends in bad years are not carried forward to subsequent years.

Example

A non-accumulative preference shareholder has missed dividends over the last two years due to lack of profits. If he holds 50 shares of shs 10,000 each at a rate of 6%, how much dividend will he get this (third) year?

Solution

Nominal value of shares = 50 shares X 10,000

= shs 500,000

Dividend per year= $\frac{6 \text{ X}500{,}000}{100}$

= shs 30,000

iii. Redeemable shares:

These are shares which are held for a period of time and then bought back by the company from the holders after a stated period. They are normally issued if the company wants to raise capital for a short period of time/temporarily after which it buys back or redeems the shares by refunding or paying the shareholders.

iv.Irredeemable shares: These are shares which cannot bought back by the company but instead the shares holders can sell them to new members of the public through the stock exchange market.

v. Participating preference shares. These are preference shares which are entitled to receive a bonus from profits made in good trading years when a company makes a substantial amount of profits. However, they received such a bonus from ordinary shareholders. Participating preference shareholders can take an active part in the running of the business

Issue of shares

Once a public limited company receives a certificate of incorporation, it can offer its shares for sale to the public. The promoters are required to state the minimum share capital necessary to commence business. This amount must be raised first before the company can be issued with certificate of trading authorizing it to commence business. The issue of shares can be done by the company in three stages:

i.By receiving money on application for shares. This money is however refunded to unsuccessful applicants if the shares applied for are not allocated to them.

ii.By receiving money on allotment of shares.

iii.By receiving money on calls. For example, a share with a par value of shs 10,000 can be broken down as follows; on application shs 5000, on allotment shs 3000, on first call shs 1000 and on second and final call shs 1000.

Ways in which company shares are issued

Shares can be issued in the following ways;

i.**Issued of shares at par,** this is where a share is issued at a value or price which is equal to its face value. For example, a share of face value of shs 10,000 being issued at exactly shs 10,000.

ii.**Issue of shares at a discount;** this is where a share is issued at aprice which is lower than its face value. For instance, a share with face value of shs 10,000 being issued at shs 7,000, this implies a discount of shs 3,000 i.e. 10,000 -7,000 = 3000.

iii.**Issue of shares at a premium;** this is when a share is issued at a price which is greater than its face value. For instance, a share of a face value of shs 10,000 being issued at shs 12,000 would imply a premium of shs 2,000 per share, i.e. 12,000 – 10,000 = shs 2,000.

Steps involved in selling shares to the public

i.A prospectus advertising the shares of the company and inviting the public to subscribe is normally put in news papers or sent directly to interested people. It may contain an application form or specify where to obtain it. The members of the public are invited to buy shares usually through appointed banks which distribute prospectus and receive money on behalf of the company.

ii.Interesrted people fill in application forms and send them to the company together with application money.

iii.After receiving the applications, the directors scrutinize or go through them and approve or reject them.

iv.successful applicants are sent allotment letters asking them to pay allotment money.

v.On receiving the allotment money, the company issues applicants with share certificates hence making them bona fide shareholders.

vi.the shareholders are required to pay the balance of shares in 2 to 3 'calls' or installments when the company needs more money.

vii.A shareholder who fails to complete payment loses his shares together with the money already paid for them.

Underwriting of shares

In case a company is unable to sell its shares it is offering, it may opt for an underwriter such as an insurance company or commercial bank for guaranteeing to buy or sell all its shares i.e. underwriting of shares. An underwriter is an institution which undertakes to buy any shares of the company which may not be taken by the public e.g. East African Underwriters. An underwriter is paid an underwriter commission for providing a guarantee to buy all the company shares.

Share capital of the company

Share capital of the company is the amount of money raised through the sale of its shares. it represents the owner's equity of the shareholders.

Forms/Division of share capital (capital structure of a company)

i.**Authorized/registered or nominal share capital:** This is the total or maximum amount of money a company can raise by selling a number of shares as stated in its memorandum of association.

They also referred to as registered capital e.g. a company may decide to raise capital by selling one million shares (1,000,000) with a face value of shs.100 then the registered capital would be calculated as follows;

Registered capital = Number of shares x value of each share

= 1,000,000 x 100 = shs100, 000,000.

ii.Issued share capital: This is part of the authorized share capital which the directors of the company have issued or put on the market to raise capital .e.g. out of one million shares the directors may issue only 600,000 shares for subscription, therefore the capital value is 600,000 X 100 = shs.60,000,000. The remainder of shares not issued is called unissued share capital.

3.Unissued share capital: These are shares out of the authorized share capital which are not issued by the directors. They are kept to raise capital in future. It calculated as;

Unissued share capital = Number of un issued shares x price per share.
= 400,000 x 100 = shs 40,000,000.

4.Called up share capital: This is the amount of money which the shareholders have been asked to pay. They may be called upon to pay for all the total number of shares issued or for only a fraction of what was issued. For instance, out of the 600,000 issued shares, each shareholder is asked to pay shs 80 for every share he has taken up. It is calculated as;

Called up share capital =Number of issued shares x price paid by share holders. =600,000 x 80 = shs 48,000,000.

5. Uncalled up share capital, This refers to remaining shares that the shareholders have been asked to pay for later. It is calculated as;

Uncalled up share capital =Number of issued shares x Balance on each share.

= 600,000 x 20 = shs12, 000,000.

6.Paid up share capital: This is the amount of money out of the called up capital which has actually been received from the share holders either in cash or cheque. Suppose out of the called up share capital of shs48,000,000 some shareholders fail to pay fully for the shares taken and only shs40,000,000 has been paid, then the paid up capital would be shs40,000,000 that has been received from shareholders. The amount unpaid is called Unpaid up share capital or calls in arrears. It is calculated as;

Unpaid up share capital =called up share capital – paid up share capital.

= 48,000,000 – 40,000,000 =shs8, 000,000.

7.Unpaid up share capital:

This is part of the called up capital which is not yet paid by the share holders out of the money called up for payment. It may also be referred to as calls in arrears. It is calculated as;

Unpaid up share capital = called up shares capital – paid up share capital.

= 48,000,000 – 40,000,000= shs8, 000,000.

8. Minimum share capital, this is the amount stated by the promoters of the company when applying for registration of the company as the least amount required for commencing business.

NB.If share holders fail completely to make payments for the cause, they forfeit the ownership of shares to the company and the money so far paid is not refunded.

Steps involved in selling shares:

a).An announcement is made in the media through the prospectus calling up on the members of the public to come and subscribe for shares.

b).The shares are given to the issuing houses which are normally commercial banks and other authorized share brokers.

c).Applications is received from the members of the public who are intending to buy shares. The applications are followed by the application fee.

d).Companies receive applications and allocate shares to the applicants according to the number of shares applied for. The process is known as allotment. Then communication is made to the applicants calling them to make payments.

e).Share certificates are issued to the successful applicants.

Debentures:

A debenture is a unit of loan in a joint stock company.

Companies raise more funds by borrowing either from banks or private individuals. Therefore they have to issue out a document of evidence which is known as a Debenture certificate.

A debenture certificate is a document issued by the company to act as evidence that the company has borrowed money from a named person at a stated interest.

The agreement further states that, the borrower (company) has to pay a fixed rate of interest no matter whether the company is making profits or losses. Debentures are long term loans to the company.

Types of debentures:

Debentures are classified in two ways:

1).Classification according to the security pledged against them i.e. naked debentures or mortgaged debentures.

2). Classification according to redemption i.e. Redeemable or Irredeemable debentures.

Classification of debentures according to the security pledged against them;

i. Naked Debenture (unsecured debentures): These are types of debentures (loans) which are not fully backed by any security of the company i.e. there is no property of the company attached to it to act as collateral security. Therefore, naked debenture holders are considered ordinary creditors of the company. In the event of the company's bankruptcy or liquidation, the holders of naked debentures are paid after the mortgage debenture holders have been paid.

ii. Mortgage debentures (secured debentures); these are debentures which are fully backed up by assets such as land, machinery, building etc of the company as security. If the company fails to pay, mortgage debenture holders have the right to sell the assets to recover the money lent to the company. Mortgage debentures are very safe since they are secured i.e. have collateral security pledged against them. In the event of liquidation or winding up of the company, the proceed from the sale of the pledged property are used to pay off the holders of mortgaged debentures.

Classification of debentures according to redemption

i).Redeemable debenture: These are debentures which can be bought back by the issuing company before the period of maturity i.e. the amount borrowed against them is refunded by the company after a specified minimum period but before a specified maximum period of time e.g. if the agreed time is between 2- 5 years, the company can buy back the debenture after two years and not beyond five years.

ii).Irredeemable debenture: These are debentures which are never bought back by the company i.e. the amount against is never refunded and remains outstanding but the company continues paying interest to the debenture holders till it is liquidated.

iii). Floating debentures; these are debentures which are secured but no specified property or assets of the company is attached to the loan. In the event of the company's liquidation, any asset of the company may be used to pay off the holders of such debentures.

Advantages of a company raising capital through sale of debenture

i.Debentures supplement the share capital contributed by the shareholders when the company finds it adequate for its long term financial needs.

ii. when a company make profits, it can easily pay off debenture holders out of its profits.

iii.Incase of naked debentures which are unsecured, the company's property is not put at a risk of being sold off to pay debenture holders.

iv.Capital can be readily redeemed if it is required for only a short time.

Disadvantages of financing a company using debentures

i.Incase of mortgage or secured debentures, a company's property is put at a risk of being sold off should it fail to pay back the loan.

ii.Payment of interest is expensive to the company.

iii.Development or expansion of the company may be hindered because profits made are used to pay interest on debentures.

Differences between shares and debentures:

1. A share is a unit of capital of a joint stock company while a debenture is a unit of loan of a joint stock company.

2. Shares are rewarded with dividends out of profits made by the company whereas debentures are rewarded with interest whether the company makes profits or not.

3. Share holders have a right to vote in the affairs of the company whereas debenture holders do not have because they are only creditors not business owners.

4. On dissolution of the company, shareholders have a right to share on the proceeds and they may receive more than the face value of their shares if the assets realize

more than the amounts necessary to pay off creditors but debenture holders are only paid the face value of the debentures or the amount due to them.

5. Dividends payable on shares are not fixed except for preference shares whereas interest payable on debentures is limited to a stated percentage.

6. Shares are usually irredeemable i.e. not bought back by companies but debentures are usually redeemable.

7. the shareholders are the owners of the company while debenture holders are creditors to the company.

8. some shareholders may not receive dividends in bad years when a company makes no profits and no dividends are declared while a debenture holder is entitled to earning a fixed rate of interest whether a company makes profits or not.

Winding up a company

Winding up or liquidation of a company refers to the bringing the existence of the company to an end by selling off its property or assets and paying creditors.

Forms of winding up a company

There are two forms of winding up a company namely; Compulsory winding up or winding up by court order and Voluntary winding up.

i.**Voluntary winding up,** this is where the shareholders request the directors of the company to liquidate the company in their own interest and by consent of the shareholders without being compelled by court of law. When the shareholders wish to liquidate the company, the directors are required to compile and file a declaration of solvency. This declares the ability of the company to pay its creditors by selling off its assets.

ii. **Compulsory winding up i.e. winding up by court order,** this the winding up after a petition has been lodged in the courts of law by dissatisfied creditors. The court of law appoints the liquidators and the company goes into receivership. The company assets are valued and sold off to pay the creditors under strict court supervision.

Circumstances under which the company may be dissolved or liquidated

1. in case the company if discovered by authorities for operating outside the objectives of its formation or illegally.

2. in case the company is declared bankrupt by the court of law.

3. if an active director leaves the company to form his own business.

4. in case the directors and shareholders feel the company should be liquidated because it is no longer profitable but instead making or operating on losses.

5. if the number of share holders reduce below 7 for the case public Limited company and below 2 for the case of private limited company.

6. in case the Directors have achieved the purpose of the company formation and there is no need for further continuation.

7. When a company faces a total loss of all its assets for example fire completely burning down the company factory which was not insured.

8. if the directors fail to organize meetings for the share holders.

9. When the creditors of the company petition the company in the courts of law because of not receiving payment. The courts of law may order the company to sell off its assets in order to pay off its creditors.

10. if it fails to commence business within one year from the date of formation.

11. if a disagreement or disputes arise amongst the directors of the company on an important issue and cannot be resolved.

Questions:

1.a). Give any six differences between private limited companies and public limited companies.

b). State eight advantages of limited liability companies over other business companies.

2.a). Explain each of the following documents to a company:

i). Articles of Associations.

ii). Memorandum of Association.

iii). Certificate of Incorporation.

iv). |the prospectus.

3.a). Give the differences between a share and a debenture.

b). Give four ways in which the Gov,t can support the private sectors.

STOCK EXCHANGE

The stock exchange is a market where already issued shares and stocks are bought and sold. The stock exchange market deals in both new and old shares. In stock exchange market, the already held shares are freely transferable from the original share holders to new share holders. If shares are sold to another person by the original share holders, it must be confirmed with written evidence by signing a share transfer form. Any member of the public wishing to buy or sell shares must do so through the stock exchange. The Uganda stock exchange is called the Uganda Securities Exchange (USE).

Obtaining a quotation

This is an act of the public limited company applying to the stock exchange council to allow its shares to be included on the stock exchange lists. It is only those companies approved by the stock exchange council which are allowed to sell their shares through the stock exchange. The companies which are authorized to sell their shares on the stock exchange are called quoted companies. Companies whose shares are not sold through the stock exchange are called unquoted companies. It is only public limited companies which are quoted companies since they are allowed by law to issue a prospectus by appealing to the public for funds in form of selling shares. Examples of quoted companies in Uganda include; Uganda clays Ltd, DFCU bank Ltd, Shell Uganda, New Vision etc.

All private limited companies are unquoted companies since they are not permitted by law to issue a prospectus by selling shares to the public and their shares are not freely transferable. However, a private limited company can be converted into a public limited company to enable it obtain stock exchange quotation and therefore sell its shares to the public. This process is referred to as **going public**.

Advantages of quoting a company

i.Its shares are easily transferable and shareholders will find a ready market if they choose to sell their shares. On the other hand members of the public who want to acquire shares in the company can do so through the stock exchange.

ii.A quoted company is considered a financially sound and reliable company since the stock exchange council will approve only those joint stock companies that are financially sound. This gives the public confidence to invest in the company without any fear. The company also stands a better chance of obtaining loans.

iii.the company can obtain relevant and important information from the stock exchange to guide both the company and investors, for instance, return on sales and rate of stock turn. This information can be used to improve the performance of the company.

iv.A quoted company is always aware of the market value of its shares, which serves as a guide of what opinions investors have about the company. This helps the company when it is contemplating a new issue of shares or redemption of its preference shares.

v.The market value of every quoted company is an indication of the financial performance of the company.

Functions/roles/importance of a stock exchange:

1.It provides market for those who want to buy or sell shares. Therefore it creates confidence in shareholders because they know that when a company is not doing well financially, they can sell off their shares and quit the company.

2. It set/regulates prices for every traded security (shares, bonds, treasury bills e.t.c) listed on the stock exchange regardless of the period when they are bought or sold.

3. It makes the transfer of shares possible i.e. it helps investors (share holders) to sell off their shares if they want to invest in more attractive shares or in other company.

4. It compiles statistical information about the various companies concerning the volume of shares traded or bought and sold, which help in determining the economic progress of the country.

5. It watches the performance of quoted companies that sell shares through its members to ensure compliance to rules and if they perform poorly, they are written off from the list of quoted companies.

6. It helps the public limited companies to raise new capital by selling their new and old shares.

7. It under takes the role of advertising the shares and other securities on behalf of the issuing companies.

8. It is sources of employment to those who work with it e.g. stock brokers and jobbers.

9. it is an important means of raising government revenue through taxation e.g. capital gains tax.

10. It connects countries with outside investors especially when foreign investors buy shares in local companies in the country.

11. It facilitates the raising of long term finance or capital for investment through the sale of shares.

12. It is the quickest way of raising liquidity through the sale of shares.

13. It enables government to invest its shares in the stock exchange.

14. It encourages savings by the public for long term investment in public limited companies which plays an important role in the economic development of the country.

15. It provided an avenue for the divestiture of state own enterprise like Uganda Clays and the New Vision.

Agents/members of the stock exchange:

For a person to deal in shares of quoted companies at the stock exchange market, he should be legally registered by the stock exchange council. The agents of the stock exchange may be Brokers or jobbers.

a).Stock brokers

These are members of stock exchange /middlemen who buy and sell shares on behalf of others. They connect the public to the jobbers. Any person wishing to sell or buy shares must do so through a broker. This helps to protect the public from being exploited by jobbers since members of the public may be ignorant of the market value of shares. Stock brokers work for a commission known as **brokerage**. Some examples of licensed brokers in Uganda include; Baroda capital market (U) Ltd, Crane financial services Ltd, G.A Onegi &Co. Ltd, Africa Alliance (U) Ltd, Equity Brokers (U) Ltd etc.

b). Stock jobbers

These are agents who buy and sell shares in large numbers using their own money for the purpose of making profits. The difference between the cost price of the shares and the selling price makes up the profit of the jobber. A jobber does not deal directly with the public but buys or sells shares through a broker.

Types of jobbers:

There are three types of jobbers namely Bears, Stags and Bulls.

i).Bears

These are jobbers who sell shares in market when their prices are high and buy them back when their prices are low. For example a bear may sell shares at shs 1,200 per share and buys them back when their prices have fallen to shs 1,000 per share, earning a profit of shs 200 per share.

ii). Stags

These are jobbers who deal in new issues i.e. shares issued by new companies. When the company wants to sell new shares to the public, they always contact stags. Stags deal in new issues hoping that their prices will soon rise and therefore be able to sell them at a profit within a short time.

iii). Bulls

These are jobbers who buy shares when they are cheap hoping to sell them when the prices go up in order to make profits, but sometimes the bulls may speculate poorly and get losses instead of profits. The difference between the cost price and selling price of a share is called **Jobber's turn or Jobbers profit.** For example a bull may buy shares at shs.1,000= each and sells them at shs 1,200= per share, earning a profit of shs 200 per share.

Steps in the purchase of shares

i.A member of the public or investor wishing to buy shares approaches a buying broker.

ii.The buying broker inquires from other brokers if they have any client, who wishes to sell the particular shares, and on finding one, bargains for the best price and agree on it.

iii.After the buying broker has agreed on the price, he issues out a Contract Note to his client containing such information like the price of shares, his commission i.e. brokerage, amount of stamp duty or transfer duty, fee for registering the name of the new shareholder and details of the shares to be bought.

iv.The selling broker makes out a Stock transfer Form and gets it signed by the seller for whom he is acting.

v.The selling broker passes the stock transfer form and Share Certificate to the buying broker.

vi.The buyer pays the buying broker.

vii.The buying broker pays the selling broker

viii.The selling broker deducts his commission and tax on capital gains if any, on the sale of the shares, and pays the balance to the seller.

Common terms used in stock exchange:

i.Pervalue/nominal value

This is the face value (price) of a share which is indicated on the share certificate. It is the amount for which a shareholder is responsible in the event of a company's inability to meet its liabilities.

ii.Market value of shares

This is the value (price) of the shares at the stock exchange market. Shares may be sold at a face value or more than the face value or less than the face value. If shares are sold at more than the face value, it is referred to as **premium** but if they are sold at less than the face value it is referred to as a **discount**.

Factors that determine the market value of shares

The market value of shares keeps on changing and depends on number of factors

i.The demand for shares.

ii.The supply of shares.

iii.Economic performance of a company.

iv.prevailing economic situation in the country.

v.Political climate in the country.

iii.Go-public

This is when a private limited company is converted into a Public Limited Company. This authorizes it to conduct a stock exchange market to sell its shares to the public.

iv.Dividends

This refers to the amount paid out of profits of the company to its share holders. These dividends are paid according to the number of shares held by each share holder. Preference shares carry a fixed rate of dividend while ordinary shares do not carry a fixed rate of dividend but are paid varying dividends depending on profits.

v.Issuing houses

These are financial institutions such as banks which issue new shares and securities on behalf of the public companies.

vi. Gilt-adged securities.

These are bonds issued by government to raise income.

- They carry a fixed rate of interest.

- Interest payments are periodic.
- They are redeemable.

vii. Portfolio.

This is a group of several securities handled by one investor; who has invested in a number of companies.

viii. Blue chips.

These are first class securities. They are shares or stock of public companies with a high sound reputation e.g. Rockefeller International

ix. Stock.

This is a name given to a block of shares. Once a company sells shares and gets the required capital, it is said to be with 'stock' and hence the name joint stock companies.

x.Bonus shares. These are shares which issued freely by the company to its shareholders out of accumulated reserves or distributable profits into a permanent share capital. The act of issuing these bonus shares is called **capitalization of reserves** while a bonus issue is called a **script issue.**

xi.Right issue of share; This is a situation where the existing shareholders of a company are given a right to buy shares out of new issue depending on their present holding. This comes about when a company that has profitably operated for some years wishes to raise more capital by selling new shares whose market value is likely to be greater than its par value. Such a company may decide to benefit its existing shareholders by restricting the new issue to members only or by selling new issues (newly issued shares) at two prices, a lower price for existing shareholders and a higher price to other prospective shareholders or applicants intending to join the company.

xii.Yield rate; This is the rate which shows the true return to an investor on his investment.

xiii. Bargain; This is a deal between a broker and a jobber.

xiv. Transfer form or Deed; this is the form which is used to transfer the shares. it is signed by the seller and is submitted by the broker along with the share certificate to the company whose shares are being transferred.

xv. Contract Note; This is a document issued by the broker to his client giving details arising from the sale or purchase of securities.

xvi. Public offering; This is where a public limited company issues a prospectus advertising its shares and inviting the public to subscribe by buying its shares.

xvii. Money market (Discount market); This is the one in which short term financial assets or securities are exchanged e.g. promissory notes, bills of exchange, bank overdrafts etc.

xviii. Capital market; This is the one where short term financial assets or securities are traded e.g. stock exchange, building societies, investment trust, pension funds.

xix. Under writer; This is an institution or person who guarantees to a company launching a new issue that all its shares will be sold. If some shares of a company are not taken up by the public during the launching of the new issue, the under writer buys that portion himself. He is paid a commission called **under writing commission** for his services.

xx. Institutional investor; This is an institution that invests its funds in various securities with the aim of making profits both by earning dividends or interest and by selling its investment at a higher price at an opportune moment.

xxi. Speculation; This is an act of undertaking risks in an anticipation of higher financial gains e.g. a bull may expect the price of shares to rise in future and so he buys shares when their prices are low with the hope of selling them when their prices rise in future.

Types of securities traded on the stock exchange market

i.Blue chips; These are shares in companies which have a high reputation and sound financial back ground or history. They are high grade equity (ordinary shares) of companies which have a good dividend record extending over many years. Blue chip holders are normally assured of their dividend payment.

ii.Gilt-edged securities; These are securities sold by government. They are considered to be absolutely safe regarding payment of interest and refund of capital e.g. bonds and treasury bills issued by government.

iii.Bonds (Debentures); These are loan securities issued by government, nationalized corporations or companies that carry a fixed rate of interest. They are instruments of long term borrowing from the public with a fixed rate of interest.

iv.Treasury bills; These are instruments of short term borrowing by the government normally maturing within 91 days.

v.Bearer securities; These are securities that can be transferred by mere delivery without any transfer form being registered by the issuing company.

vi.Stocks; These are fixed interest loans comprising of government bonds, local bonds, foreign bonds and public company debenture stocks.

vii.Portfolio securities; This is a group of several securities held by one investor or institution. The aim is to diversify his profit sources against risks of loss.

Selling prices of shares

Shares may be traded or bought and sold at the stock exchange at different prices. These include;

a).**Cum-div and Ex-div prices;**

i**.Cum-div prices**; Cum-div stands for "with dividends". Cum-div is the price at which a seller offers his shares after the company has declared dividends but has not yet paid them, and the buyer becomes entitled to that dividend that has already been declared when it is paid by the company. The seller asks for a higher price if he sells the shares at cum-div price.

ii.**Ex-div price;** Ex-div stands for "without dividends". It is the price at which a seller offers his shares after the company has declared dividends but has not yet paid them, and the seller receives the already declared dividends when it is paid by the company. The buyer becomes entitled to subsequent dividends, not the one that may have been declared prior to the date of purchase of shares by him. A seller asks for a lower price if he sells shares at ex-div price.

b.**Cum-right and Ex-rights prices**

i.**Cum-rights price;** This is the price at which a seller offers his shares when a company has announced a right issue, but has not yet actually issued them and the buyer becomes entitled to the rights to buy shares out of the new rights when the company issues them. A seller asks for a higher price if he sells shares at cum-rights price.

ii.**Ex-rights price;** This is the price at which a seller offers his shares when a company has announced a right issue, but has not yet actually issued them and the seller retains the rights to buy shares out of the new rights issue when a company issues them out. A seller asks for a lower price if he sells shares at Ex-rights price.

c).Cum-cap and Ex-cap prices

i.Cum-cap price; Cum-cap stands for cum capital. This is the price at which a seller offers his shares when a company has declared a bonus issue but has not yet issued the free bonus shares, and the buyer becomes entitled to receive the free bonus shares (in addition to the ones he is now buying) when the company actually issues them. A seller asks for a higher price if he sells shares at cum-cap price.

ii.**Ex-cap price;** this stands for Ex-capital. this is the price at which a seller offers his shares when a company has declared a bonus issue but has not yet issued the free bonus and a seller retains the rights to receive the free bonus shares when the company actually issues them out, the buyer only gets the shares he is now buying.

Problems facing Stock Exchange

i.Limited capital to invest in buying already issued shares and stocks due to low income of the population.

ii.Ignorance by the public about the importance of the stock exchange and the existence of capital markets.

iii.Political instability in some areas which discourages investment.

iv.Low interest rates which do not encourage people to buy securities.

v.Small industrial sector which limits the market for shares.

vi.Limited supply of stock exchange specialist such as jobbers and brokers.

vii.High taxes like capital gains tax which discourages potential investors in securities.

viii.Limited government support by way of developing the financial infrastructure.

ix.Limited domestic markets which discourages potential investors.

x.High level of corruption and embezzlement of funds as well as mismanagement which scares away potential investors.

xi.Poor financial performance of the companies which makes it difficult to sell their shares on stock exchange.

Questions:

1.a). Define stock exchange.

b). Give the roles played by stock exchange in your country.

2.a). Explain the following stock exchange agents:

i).Stock brokers ii).Bulls iii) Bears iv). Stags

b).Give and explain the various terms used in stock exchange.

3.a).What is meant by stock exchange?

b).Explain the importance of stock exchange to a country.

c).Describe the role of the following in stock exchange:

i).brokers.

ii). Jobbers. (UNEB 2001)

4.a).Give six differences between private limited companies and public limited companies.

b).State 8 advantages of limited liability companies over other types of business units. (UNEB 2006)

5.a). State reasons why government owns enterprises

b).Why is the government of Uganda selling part of its enterprises?

(UNEB 1999 AND 2005)

CO-OPERATIVE SOCIETY:

A co-operative society is a business organization set up by a group of people having a common interest and goals of carrying out a particular business to benefit themselves.

Characteristics of co-operative society:

1.They are registered under the industrial Act.

2. A minimum of 10 people is required to register as a co-operative society.

3. No voting in proxy.

Principles governing co-operative society:

i).Open and voluntary membership: The membership of cooperative society must be open to everybody that can fulfill the by-law of the society. Therefore it should not be limited to social, economic and political differences.

ii).Democratic administration: The affairs of the society should be administered democratically e.g. members of the cooperative society elect their own leaders based on the principle of one man one vote regardless of the number of shares one has.

iii.Profit distribution (dividend payment:

Co-operative societies give profits to members in form of dividends during the financial year. The payment of dividend depends on the members' contribution to the society activities. In case of a consumer co-operative society, dividend payment depends on how much a member has purchased from the society while in case of

a producer co-operative society it depends on how much goods a member has sold to the society.

iv. Co-operation with other co-operative societies; co-operative societies should co-operate with other co-operative societies at local, national and international levels in order to learn from each other since they have a lot in common.

v. Limited or no interest payment on share capital: Members get little or no interest on share capital contributed to the society according to their capital contributions. Members do not share all the profits since part of it is used to expand the business.

Types of co-operative societies:

i.Consumer co-operative societies.

ii. Producer co-operative societies.

iii. thrift and loan or savings and credit co-operative societies.

Consumer co-operative societies:

A consumer co-operative society is a business owned and operated by a group of consumers to enable them purchase goods and services collectively and distribute to their members at fair prices. The main function of a consumer co-operative is to provide goods and services to members at fair prices by buying in bulk directly from producers. Sharing of profits in a consumer co-operative society depends on how much a member has purchased from the society.

Advantages of consumer co-operative society:

i. They offer essential goods to their members at a relatively fair price.

ii. They bring goods as nearer as possible to their members.

ii. They normally advise members on how to use certain goods.

iv. They at times give short term loans to members at low interest rate.

v. They allow members to express their rights as regards to the affairs of the society.

vi. They promote a social understanding among members.

Functions/services performed by consumer cooperative societies

i.They transport goods nearer to their members.

ii. They enable their members learn how to conduct business by involving them directly in the running of the co-operative business.

iii. They provide their members with goods and services at fair prices.

iv. They educate their members about the quality, uses and prices of goods.

v. They provide quality goods to members.

vi. They improve members' welfare through savings and increased purchases.

vii. They protect members against exploitation by dishonest traders.

viii. They remove excessive profits enjoyed by individual traders and pass it to the benefits of members.

Problems facing consumer co-operative societies

i.

B. Producer co-operative societies:

These are societies formed by manufacturers or producers which deal in the production, processing and marketing of mainly agricultural products. The sharing of the profits in this society is based on the amount of sales to the society by the members.

<u>Advantages of producers' co-operative society</u>:

1. They offer transport to members who produce in large quantities.

2. They offer market for the produce of members.

3. They offer a fair price for the produce of members.

4. They normally advise members on how to improve the methods of production.

3. <u>Thrift and loan co-operative society (saving and credit society):</u>

These are purely financial institutions aimed at encouraging members to save especially low income earners.

<u>Advantages of thrift and loan society:</u>

1. It encourages low income earners to save their money.

2. It lends money to members to initiate profit making projects.

3. It distributes interest to members for the capital contributed.

4. Savings enables members to acquire expensive assets.

Problems faced by co-operative societies:

1. Lack of skilled and committed administrators. Most of them devote their effort to their own affairs and little time is reserved for the society.

2. Most co-operative societies deal in food and cash crops which almost the majority of the citizens are producing. Therefore, there is stiff competition.

3. Most co-operatives societies suffer from members who are dishonest i.e they get loans from the society and fail to pay back.

4. Government intervention in the activities of the co-operatives.

5. Problems of fluctuation where farmers produce expecting to earn more, but when prices fall, they get discouraged.

6. Problem of inadequate funding which limits their capacity to carry out the society's activities.

7. Problem of insecurity in areas where they operate.

Roles of co-operative societies:

1. They extend loans to members at a low cost (interest rate).

2. They teach farmers on new methods of farming which improves quantity and quality of the produce.

3. They offer farm in puts like seeds, fertilizers and chemicals at a reduced cost than those in the open market.

4. They provide farm machines like Tractors, spraying pumps etc at a low cost and payments are made in installments.

5. They look for market for farmers produce in and out side the country.

6. They offer transport services to farmers who produce in large quantities which minimizes their expenses.

BUSINESS MERGING

Merging refers to a situation where two or more business firms at different levels or forms come together to forms to create one sizable business. It may also be referred to as business amalgamation/combination.

The growth of business:

Business organizations may grow either internally or externally.

Internal growth:

This arises out of natural expansion of a business. Businesses may expand because of the following:

- Maintaining its share of an expanding market.
- Development of new markets.
- Development of new products.
- After accumulating a lot of profits.

External growth:

This involves two or more businesses pooling their resources to form one big firm. Mergers between firms can either be voluntary or compulsory; it may be temporary or permanent. When two or more firms agree to merger, this is Voluntary; however, if they are nationalized and forced to combine, then it becomes compulsory.

Importance of mergers:

1.The new large firm enjoys economies of large scale production.

2.Technical skills are brought together towards efficiency in production.

3. Profits expand when firms combine.

4. The market served widens due to large quantities produced.

5. Employment opportunities become available as the firm expands its operations.

6. The cost of production is covered by large scale production.

7. The operating capital expands leading to increased production.

Problems of mergers:

1.Large firms become very difficult to manage.

2. Diversifying mergers may bring about combination of firms producing unrelated goods and coordination of such production becomes complicated.

3. A variety of skills may be required to run mergers and this may not be available.

Forms/types of business merging:

1.Horizontal Merging/integration:

This is when firms producing similar products (same levels) come together to increase the quantity and quality of goods produced e.g. joining two soda or beer industries.

2.**Vertical combination/merging/integration:**

This is when firms of different levels of production come together to increase the rate of production e.g. sugar factory combined with sugar cane plantation. There are two types of vertical mergers:

a).**Backward vertical integration.** This is where a business at an advanced stage takes over that at a lower stage of production e.g. a sugar making firm takes over the sugar cane growing plantation.

b).**Forward vertical integration.** This is when a firm combines with another at the next stage of production e.g. the sugar making firm combines with the sugar transporting company to facilitate quick distribution of sugar.

3.**Absorption:**

This is when a business takes over another business to form one big business. The absorbing company/business takes over control e.g. Airtel taking over Warid.

4.**Complete merging:**

This is when companies or businesses dissolve completely and create a new business to take over all activities.

5.**lateral merging:**

This is when two firms producing related goods which do not compete with each other for market come together as one firm e.g. beer and soda industries merging.

6.**Consortium:**

This is pulling of efforts towards a complicated and costly task to be accomplished.

7.**Franchising:**

This is where some businesses allow others to buy or use their brand names or techniques in the production process. The parent company is referred to as the franchiser and the user is referred to as the franchisee e.g. Coca-Cola international allowed centaury bottling company to use their brand name.

8. **The holding company:**

This is a company controlling a number of other companies by holding a large share (at least 51%) in those companies. But it does not take active part in the management of those subsidiary companies.

9. **Cartel:**

This is an association of firms producing similar goods established with a purpose of controlling the prices of their goods. They maintain a particular price by restricting output of their products. The importance of cartel is to eliminate wasteful competition and maximizing production.

MULTI NATIONAL ENTERPRISES:

These are business organizations which extend their operations across the boarders of different countries. Examples of Multi Nationals enterprises include: Shell, Airtel, Stanbic bank, MTN, CocaCola etc.

Advantages of Multi National Enterprises:

1.They create employment opportunities for the citizens of their Countries of operation.

2. They increase government revenue from taxes which improves the budget of the country.

3. Multi national enterprises make use of local raw materials which earns the producers some good income.

4. Multi national enterprises take part in the development of infrastructures and recreational centers i.e. they build houses, sponsor sports etc.

5. Multi national enterprises take part in developing technical and managerial skills through training their employees.

6. Multi national enterprises normally produce goods and services on large scale, hence satisfying the needs of the citizens of the country.

7. The presence of Multi national enterprises results into the development of subsidiary industries to produce raw materials and to use finished goods as raw materials.

Disadvantages of Multi national enterprises:

1. Multi national enterprises normally out compete local enterprises which prevents them from their levels of operations.

2. They tend to be monopolists because they lack close competitors. Therefore they end up overcharging the citizens of the country.

3. Multi national enterprises normally work in the interest of their home countries; therefore they take a lot of profits from countries of operation.

4. They tend to over exploit the local resources like labour and minerals which puts the host country in danger.

5. They are usually located in urban areas which results into imbalanced development.

CONSUMER PROTECTION:

This refers to the policies under taken by law (by government) to ensure that the interest of the consumers are protected in order not to be cheated by dubious businessmen.

Reasons why consumers are protected:

1.To safe guards consumers against high prices set up by businessmen in order to maximize profits.

2.To guard consumers against the consumption of dangerous/harmful/expired goods imported from other country.

3. To protect consumers from being cheated by businessmen who use weighing and measuring scales when selling goods.

4. To protect consumers from misleading and persuasive advertisement which are characterized by false descriptions of the goods.

5. To protect consumers against consuming poor quality or sub standard goods.

6. To protect consumers against the use of any type of goods dumped in a country from other country.

Methods employed to protect consumers:

Consumer protection can be done by government, consumer's association and by business association.

1.The government protects consumers through several ways:

i).The price control Act. The government fixes prices of essential goods so that traders do not sell above the fixed price.

ii).Weight and measures Act. This requires businessmen to use recommended weighing scale and measurements when selling goods to consumers. The government through the national bureau of standards (NBS) checks all the weighing and measuring scales to ensure that consumers get exact quantity of goods bought.

iii).Public health Act. This empowers the inspection of goods and drugs to confirm whether they are free for human consumption.

iv).Food and drugs Act. The government sets up several regulations to safe guard consumers against goods and drugs which may cause adverse effects on their health e.g. maintain food hygiene, correct description etc.

v).Trade description Act. This is where the government ensures that producers give correct specifications of goods produced e.g. warnings on the consumption of certain goods e.g. tobacco. The trade description Act, transfers the general caution **caveat Emptor** (let the buyer be aware), to **Caveat Venditor** (let the seller be aware).

vi). The sale of good Act. This act ensures that the goods sold to consumers are of acceptable quality. The government withdraws trading license from traders not abiding with the laid down standards.

2.Protection by consumer's association. These are committees set up by consumers in order to protect their interest to avoid exploitation by businessmen who dubious.

3. Protection by business association. These are formed by businessmen to ensure satisfactory standards of their goods and services to consumers. For example Resale (retail) price maintenance (RPM) was set in an attempt to control price at which their products are sold to consumers.

INTERNATIONAL TRADE:

This refers the exchange of goods or services between two or more countries. It is the exchange of goods and services beyond the boundaries of one country.

The exchange of goods and services between two countries only is known as BI-LATERAL TRADE.

The exchange of goods and services between more than two countries is referred to as MULTI-LATERAL TRADE.

Countries involved in the exchange of goods only are said to be engaging in visible trade.

Countries involved in the exchange of services only are said to be engaged in invisible trade.

Differences between international trade and home trade:

1).International trade is composed of export and import trade well as home trade is composed of wholesaling and retailing.

2).Goods in international trade is charged with customs duty (tax) well as goods in home are charged with excise duty.

3).Goods in international trade is advertised using international media whereas goods in home trade are advertise using the local media.

4).Goods in international trade is normally stored in bonded ware house where as in home trade goods are stored in manufacturer or whole sale's ware house.

5).International trade involves many documents well as home trade has fewer documents.

6).In international trade there is a problem of language barrier where as home trade has no language barrier.

Why countries get involved in foreign trade:

Countries get involved in foreign trade because of the following:

a). In order to acquire goods and services which are not produced at home.

b).To supplement on the goods and services produced at home but not enough to satisfy the needs of the citizens.

c).In order to get market for the goods and services produced in surplus.

d).To acquire modern technology and managerial skills from other countries.

e). Countries get involved in foreign trade because of the differences in natural resources e.g. labour, minerals, forest, land, water bodies etc.

f). To create good economic, social and political relationship.

g). In order to increase revenue from exports and taxes imposed on imports.

Advantages of foreign trade:

i).foreign trade enables a country to acquire goods and services which are not produced at home but needed by the citizens.

ii).foreign trade widens the size of the market for the products of the country outside which makes it possible sell off surplus goods and services.

iii).foreign trade increases competition among countries which increases efficiency and this result into production of quality goods and services.

iv).foreign trade enables a country to acquire foreign exchange which strengthens the financial position of a country.

v).foreign trade helps a country acquire technical and managerial skill which improves the production of goods and services.

vi).foreign trade enables a country to utilize the idle resources e.g land, labour) etc to produce and exchange them with other countries.

vii).foreign trade helps to improve the economic relationship between countries which helps to acquire assistance in times of problems.

viii).foreign trade enables a country to get revenue from taxes imposed on imports and exports.

ix).foreign trade creates employment opportunities for people who are involved in the production of goods to be exported.

Disadvantages of foreign trade

i).Foreign trade affects the growth and development of local industries especially where most of the goods are imported from other countries.

ii).Foreign trade encourages dumping i.e. where goods are sold to another country at low price than the price at home. Dumped goods therefore dominate the market and kill the market of local products.

iii).Foreign trade leads to a balance of payment problem where money spent on imports exceeds money received from exports.

iv).Foreign trade makes some countries rich and others poor. This is possible where countries produce low quality agricultural products yet other countries produce high quality products.

v).Foreign trade encourages specialization which leads to over exploitation of natural resources e.g. minerals.

vi).Foreign trade makes some countries depend on others i.e. relying more on imported goods which may be dangerous in times of misunderstandings.

Problems faced in foreign trade

The following are the problems faced in foreign trade:

i).Language barriers which makes communication and description of goods difficult.

ii).Fluctuating rates of exchange of one currency in terms of others, this makes the prices of goods unstable.

iii).Differences in currencies which makes it difficult to understand prices quoted in foreign trade and exchange rates of various currencies.

iv).It requires a lot of documents both legal and commercial in order to allow goods enter into another country e.g. export license.

v).There is a number of risks in foreign trade which include damages on goods, losses, accidents, thefts, etc.

vi).There is fluctuating world market prices and stiff competition at the international levels.

vii).It is not easy to obtain credits in foreign trade since suppliers may not be having sufficient information regarding the credit worthiness of the buyer.

viii).Foreign trade is characterized by different measurements and sizes in different countries.

ix).The problem of long distances which leads to high cost of transport and this increases the final prices of goods.

x).There is also a problem of finding a reliable suppliers and trustworthy buyers which makes transactions complicated.

Reasons why countries control the volume of foreign trade (protectionism)

Countries control the activities of foreign trade because of the following reasons:

i).In order to protect home infant industries by creating markets for local products.

ii).To check on dumping which creates a threat to the locally produced goods by dominating the markets.

iii).To check on inflation-which is the rising prices of goods. This is caused by over exporting of goods which leaves local markets with no goods and importing goods from countries experiencing inflation.

iv).To improve on the balance of payment position. This is done by reducing the money spent on imports and increasing receipts from exports.

v).To avoid the importation of harmful products e.g. drugs/expired goods which are dangerous to the life of the citizens.

vi).To avoid depending on other countries which is dangerous in times of conflicts.

vii).In order to get revenue from taxes imposed on imports and exports.

Methods used to control foreign trade

The following methods are employed to control foreign trade:

i).Tariffs barriers (taxes):

These are taxes imposed on exports and imports. If imposed on exports, it is called export tariffs and if imposed on imports, it is called import tariffs.

NB; tariffs are also known as customs duties.

Non-tariffs barriers

ii).fixing Quotas (quantity):

This is when the government puts a limit on the quantity of goods to be imported and exported.

iii).Total ban (embargo)

This is when the government completely stops the importation and exportation of some goods and services.

iv).Foreign exchange control:

This is when the government limits the amount of foreign exchange available for traders which reduce the amount of goods imported in the country.

v).Subsidies (assistance):

This is when the government gives assistance to local industries in form of reduced taxes or tax holidays in order to enable them compete with foreign industries.

vi).Delay in issuing license:

This is government delays or refuses to issue export and import license to traders.

vii).Pre-payment (payment in advance):

This is when the importer of goods is instructed to make payments for the goods before they are delivered, which discourages him from importing.

viii). Trade associations:

This is when countries form themselves into trading associations and they agree not to sell or buy to and from a non-member country.

Various terms used in foreign trade

1).Visible trade; this is the buying and selling of tangible goods between countries e.g. machinery, coffee, vehicles etc.

2).Invisible trade; this is the buying and selling of intangible items (services). If a country gets money from insurance, banking and hotel services, it is said to be dealing in invisible trade.

3).Terms of trade (value or price); this is the relationship between the value/price of the country's imports and the value/price of the country's exports. If the price/value of exports is more than the value of imports, the country is said to be experiencing a favorable term of trade. But if the price or value of imports is more than the value or price of exports, the country is said to be experiencing an unfavorable terms of trade.

4).Balance of trade (quantity); this is the difference between the visible exports and visible imports of the country.

5).Certificate of origin, this is a document prepared by the seller showing the country where goods were manufactured. This certificate is important because of the following:

i).it helps in determining the amount of tax payable by the importers.

ii).it helps to locate the county where goods are coming from in case of a need to return.

iii).it helps in developing the preferential trade area.

6).Consular note/invoice; this is a document filled and signed by the embassy of the importing country resident in the exporting country. It is signed to ensure that goods being exported are desirable for human consumption.

7).Certificate of inspection; this is the document issued by the embassy to certify that goods entering the country have been fully inspected and recommended by the embassy officials for human consumption.

8).Bill of lading; this is a document acting as a contract between the shipping company and the owner of the goods (importer or exporter). The document shows the acceptance by the shipping company to transport goods from the port of embarkation to the port of destination. The bill of lading outlines the terms and conditions under which the shipping company has accepted the goods, and it is signed by the ship captain to evidence receipt of goods by the shipper.

A bill of lading is prepared in four copies and they are distributed as follows:

i).one copy is retained by the exporter.

ii).one copy is given to the ship captain.

iii).one copy is given to the importer.

iv).one copy is sent to the port's authority at the port of destination.

Contents of the bill of lading

A bill of lading contains the following:

i).the name and address of the exporter.

ii).the name and address of the importer.

iii).the name of the shipping company.

iv).the name of the ship, registration number, color and captain's name.

v).the description of the goods.

vi).freight charges (transport charges).

vii).the port of embarkation and destination.

viii).due date of delivery.

Functions of the bill of lading

i).it is a contract of carriage between the exporter or importer and the shipping company.

ii).it acts as a document of title, whereby it authorizes the importer to claim for goods.

iii).it acts as an evidence for the receipt of goods by the owner.

Types of the bills of lading

The bill of lading can be categorized as follows:

a).according to the conditions of the goods

i).Clean bill of lading; this bill satisfies that the goods loaded onto the ship are in good condition and free from any danger during transportation.

ii).Dirty bill of lading; this bill satisfies that goods loaded on to the ship are not in good conditions.

b).according to the person named to receive the delivery or consignment:

i).bearer bill of lading; this bill does not state the name of the importer or the person to receive the consignment, therefore whoever presents it to the shipper receives the goods.

ii).order bill of lading; this contains the name of the person to receive the consignment even though it is transferable.

c).basing on the mode of transport:

i).ordinary bill of lading; this is a bill of lading used on water transport only.

ii).combined transport bill of lading; this bill covers a multi-model kind of transport i.e. covering water transport and another form of transport to get goods delivered at the buyer's premises.

9).Charter party:

This is an agreement signed between the exporter and the shipping company to hire a ship for a particular period of time or journey. If a vessel is hired for a given period of time, the agreement is **time charter,** but if hired for a particular journey the agreement is a **voyage charter.**

The charter party outlines the following:

i).the name of the exporter.

ii).the name of the shipping company.

iii).the description of the goods.

iv).the mode of payment.

v).the sea routes.

vi).the time of agreement.

10).Shipping order; this is a document prepared by the shipping company directing the ship captain to load the goods named on it then on to the ship. It may be ready note if the name of the ship is mentioned; or an advanced note if the name of the ship is to be stated on a later date.

11).Certificate of insurance; this is a document which shows an agreement between the insurance company and the owner of goods to cover goods on transit against any risk such as accident, theft, damages etc.

12).Profoma invoice; this is a document prepared by the (seller) exporter and sent to the importer (buyer) showing the value of goods to be ordered for. The document is sent in case the buyer is likely to find it difficult in obtaining foreign exchange to pay for the goods.

13).Letter of credit; this is a document prepared by the importer's bank issued to the exporter as an assurance or guarantee to pay for the goods supplied. The credit note can only be issued if the importer has enough foreign exchange and sufficient local currency on his account to cover for the cost of goods.

14).Letter of hypothecation; this is a document drawn by the exporter authorizing the bank to confiscate and sell the goods in order to recover the money against the discounted bill of exchange.

15).Air way bill; this is a document signed between the consigner and the transporter if goods are to be transported by air. Therefore it acts as an evidence of carriage between the transporter and the owner of the goods.

16).Weight note, this is a document drawn up to show the weight and measurement of goods to be delivered at the dock.

An indent.

Price quotations/business abbreviations

Price quotation in foreign refers to the terms of trade and payment which should be agreed upon between the seller and the buyer. In foreign trade, some costs may be made by the exporter and others by the importer, depending on the agreement. The costs incurred by the seller on behalf of the buyer are included in the final payment.

They include the following:

1).Ex-work/ex-factory:

The price quoted shows that the seller is only responsible for the goods when available at the factory premises or warehouse. Therefore the buyer has to meet loading and transport costs from the factory up to the final destination.

2).Free on rail (F.O.R)

The price quoted shows that the seller pays for transport cost from the factory up to the railway station and pays for the loading cost but he does not pay for transport cost from the station to the buyer's premises. The buyer therefore pays for transport cost, insurance, customs duty and any cost involved.

3).Free on board (F.O.B)

The price quoted covers the cost incurred in transporting, handling and loading goods on to the ship. Therefore the buyer pays for freight charges from the port of embarkation to the port of destination.

4).Free alongside ship (F.A.S)

The price quoted includes all expenses till the goods are placed alongside the ship. But not loading expenses.

5).Free of expenses (FRANCO)

This price quoted includes all charges up to and including delivery of goods to the buyer's premises. This price quoted excludes the buyer from all expenses.

6).Cost insurance and freight (C.I.F)

The price quoted in the invoice covers the cost of goods, cost of insurance and the shipping charges. It is the duty of the seller (exporter) to obtain an insurance policy which is sent to the buyer for compensation in case of any loss or damage.

7).Cost and freight (C&F)

The price quoted covers the price of goods and the cost of transport from the factory up to the agreed destination. It is therefore the duty of the buyer to arrange for the cost of insurance.

8).Loco

The quotation requires the buyer to meet all the expenses involved in getting goods delivered from the factory up to his premises.

NB. Entrepot trade refers to re-exporting formally imported goods to other countries.

Economic integration/Economic co-operation

This refers to coming together of countries in a given region, sharing boarders, and forming one economic bloc with a major aim of encouraging trade, promotion of investment and ensuring steady economic growth and development within the region. Example of economic integration include: European Economic Community (EEC), East

African Co-operation (EAC), Common Market for Eastern and southern African (COMESA), Economic Community of West African States (ECOWAS).

Stages of economic integration

It has several stages starting with: preferential trade area, free trade area, customs union, common market and economic union.

Advantages of economic integration

1). It widens the market for a country's commodities within the region.

2). It encourages joining of efforts and sharing of cost of production to establish highly capitalized firm.

3). It encourages specialization which leads to increased output.

4). It creates a regional monopoly and hence can increase in the bargaining powers on the world market.

5).Countries can share the services within the region at a very low cost e.g. railway lines, airlines, communication services etc.

6). It leads to regional political stability e.g. EEC.

7). It encourages research within the region on various activities due to collective contribution.

8). Integration encourages equitable income distribution within member states.

9). It encourages free movement of resources which reduces shortages of demand and solving the problems of surplus in areas where they exist.

10). Regional co-operation reduces colonial dependence especially of LDCs on the MDCs.

11). A co-operating region may help a neighbouring state to achieve political independence e.g. PTA region helped South Africa to achieve independence.

Disadvantages of economic integration

1). It leads to loss of revenue to the government through reduced tariffs or free trade among member countries.

2). It leads to trade diversion, a situation where a country shifts from trading with a low cost non-member state to a higher cost member states.

3). It may lead to loss of national sovereignty of a country especially when the integration has reached the final stage.

4). If one country has more resources than the rest, the development may not be evenly attained.

5). It may lead to consumption of poor quality products produced in the region.

6). A country with better working conditions may attract a lot of labour from other member states leaving them in labour shortage.

7). Misunderstandings among the member states bog down all the trade activities which may cause distortions in the economies.

Limitations of effective economic integration in LDCs

1). Cultural, traditional and political ideological differences among the people in LDCs which are rigid and strong in their societies.

2). Sharing of benefits has received more problems than the integration desired to solve.

3). There is a lot of interference by the western powers who fear that integration will make them lose their international political and economic powers over the developing countries.

4). Redistribution of industries in the region has not been fair. So some countries silently withdraw from the co-operation.

5). Most of these countries produce similar commodities so exchange among them has not been viable.

6). Political insecurity in many parts of the developing countries caused by the neighbouring countries which are member states, thus reducing co-operation and trust among themselves.

7). Member countries do carry out trade with non member countries in order to get revenue since integration encourages abolishing of customs duty. This limits trade within the region.

8). Most countries in LDCs are not at the same level of development. The rich countries feel that the poor ones will affect the rate of their development.

9). Many African states still suffer from the control of their former colonial powers (neo-colonialism), this affect their effective co-operation.

10). Strong nationalistic interests among the member states where each country feels it should develop its nation instead of contributing to regional development.

11). Differences in consumption patterns in different countries have affected the effective integration.

12). Failure to accept poor quality goods from within the region has encouraged importing of better quality goods from MDCs instead of supporting their local products within the region.

13). Difficulty in developing a common regional language within the region has greatly affected the effective co-operation.

14). Poor infrastructure within the region has affected the smooth co-operation among the member states.

15). Misunderstanding among heads of states and the continuous changes of African governments have affected the effective co-operation.

Measures put forward to promote regional trade.

i) Government provides a well improved transport system/networks.

ii) There should be a common acceptable language for communication.

iii) Regional governments should have a common currency to trade easily with other member countries.

iv) Government should have the same economic policies like quotas, trade restrictions with other member countries.

v) Government should specialize in exploitation of few natural resources and leave the rest to other member countries.

vi) Government should adopt a common political ideology to improve the peace of the region to allow trade to flow easily.

vii) There should be freedom of labour mobility across the borders.

viii) Government should promote cooperation among sister countries to share the natural resources given by God.

BARTER TRADE

What is barter trade?

Barter trade is the exchange of goods for goods/services or services for services/goods. It was the earliest form of exchange which was replaced by monetary trade because of the problems associated with it.

Advantages of barter trade

1.it does not require many documents when carrying out.

2. it removes the problems of currency differences because money is not used.

3. it reduces the risk in carrying money.

4. it enable one to know the exact quantity of goods exchanged for.

5. it promotes social understanding between the parties involved.

6. it can be carried out by anybody ie even people who cannot read and write.

7. it helps to save the scarce foreign exchange since it does not involve the use of money.

8. it encourages specialization because individuals or societies can concentrate on particular activities to produce goods which they can exchange for other goods.

Problems of barter trade

1.Needs for double coincidence of wants, this involves someone to get a person who has exactly what he wants and who want what he has. Such a situation is difficult to find and limit trade.

2. lack of divisibility, some commodities cannot easily be divided in terms of others, for example dividing a cow for a kilo of sugar.

3. difficulty in valuing goods, it is quite difficult to value a commodity in terms of another for example how many eggs one would exchange for a goat.

4. problem of portability, there is a difficulty in transporting some bulky goods over a long distance for example a sack of potatoes.

5. problem of storage, commodities which are perishable cannot easily be stored while looking for market, hence losing value over time before exchange takes place.

6. Barter trade does not encourage borrowing and lending especially on commercial basis. Absence of these two affects the rate of investment and development

7. lack of standard of deferred payment, it is difficult to arrange for credit transactions where payment can be made at a future date. it cannot be used in deferred payments which are mainly used in contracts, ie paying in future while the commodity is being used now.

BUSINESS CALCULATIONS

This refers to a way of determining the profitability of the business at the end of the trading period.

Importance of business calculations

-it enables businessmen to determine whether they are making profits or losses.

-to determine the financial stand of the business at the end of the trading period (normally a year), this is determined by the values of assets and liabilities.

-to enable a businessman acquire loans from banks and other financial institutions.

-it provides necessary information for future planning and control of the business.

-to provide information necessary for determining the amount of tax payable by the business i.e. corporate tax, income tax, etc

-to make a comparison with other business organizations

-to make a comparison between the amount of capital invested and the amount of profits realized (even losses).

The balance sheet of a business

A balance sheet is a statement showing the value of a company's assets, capital and liabilities at a particular date.

It is a company's financial statement which indicates the financial position of a company. The balance sheet has two sides; the right hand side is named the **assets** side, while the left hand side has two parts; capital and liabilities.

The balance sheet equation is normally expressed as: Capital=Assets-Liabilities.

(C = A - L), (A = C + L), (L =A –C).

Capital

Capital refers to the amount of money/physical items invested by the owners in the business. There is no business that can run without capital. Formula: (C =TA -TL)

Capital owned= total assets - total liabilities

There are many types of capital in business:

a). **Fixed capital (illiquid capital):** This refers to all fixed assets e.g. land, machinery, buildings, fittings, vehicles etc. Formula:

Fixed capital = total fixed assets.

b). **Liquid capital**: this refers to total current assets; e.g. stock, debtors, cash at hand, cash at bank etc. Formula:

Liquid capital = total current assets.

c). **Capital owned/equity capital or net worth**: this is the real capital of the business. It is calculated as total assets minus total liabilities. (CO = TA – TL)

d). **Capital employed:** this is the capital which is fully put into the business to operate. Formula: (CE =FA + WC/CO+LTL)

Capital employed = fixed assets + working Or, capital employed= capital owned + long term liabilities.

e). **Short term capital/current liabilities:** this refers to capital borrowed on short term basis from the bank/ individuals e.g. creditors, bank overdraft etc. Formula:

Short term capital = total current liabilities.

f). **Long term capital or long term liabilities:** this refers to total long term liabilities e.g. long term loans from bank or debenture which mature after more than 1,2, 5, etc years. Sometimes such loans are known as fixed liabilities,e.g. debentures and loans.

g). **Working /circulating capital:** this is money which circulates in the business for the daily expenses e.g. buying stock, paying workers etc. Formula: (WC =CA –CL).

Working capital = total current assets – total current liabilities.

$$\text{-Working capital ratio} = \frac{\text{current assets}}{\text{Current liabilities}}$$

If a business lacks working capital it is said to be **insolvent.** It is called **solvent** if it has working capital.

Liabilities; This refers to claims on the business assets by the outsiders. Formula: (L=TA-C), i.e. total assets minus capital. It is divided into long term and current/short term liabilities.

i). Long term liabilities, this refers to debts of the business payable after a long period of time i.e. two years and above. Formula:

Long term liability = total long term loans

i.e. LTL =LOANS (2,3, 5 etc loans).

ii). Short term liability: these are debts of the business payable within one year e.g. creditors, bank overdraft, etc. Formula:

STL = creditors + bank overdraft etc.

Assets; This refers to things that belong to the business (property of the business).

Assets are divided into fixed and current assets. Formula: (A =FA +CA).

Assets =fixed assets +current assets.

Assets =Capital +Liabilities (A=C+L).

i). Fixed assets; this refers to the property of the business which is meant to last for a long period of time in the business. They are not for sale. Examples are; land, buildings, machinery etc. Formula:

Fixed assets = total of fixed assets.

ii). Current assets; this refers to the business property which are used for day to day trading and vary in amount over a short periods of time, e.g. stock of goods, debtors, cash at bank, cash at hand etc.

Formula: current assets=total current assets

A debtor is a person who owes business money. A debtor is an asset to the business

A creditor is a person a business owes money. A creditor is a liability to the business.

Example i:

Below is a list of assets, liabilities and capital of Muzee Okello as at 31/12/2010.

Items	SHS
7 years loan	200,000

Plant and machinery	70,000
Furniture and fittings	150,000
Buildings	100,000
Land	80,000
4 years loan	15,000
Creditors	10,000
Bank overdraft	20,000
Debtor	90,000
Stock	40,000
Cash at hand	60,000
Cash at bank	55,000
Motor van	120,000
Office equipment	15,000

Required:

Calculate the following;

i. Capital net worth/owned.

ii. Working capital.

iii. Working capital ratio.

iv. Liquid funds.

v. Liquid capital.

vi. Liquid capital ratio.

vii. Circulating capital.

viii. Fixed capital.

ix. Capital employed.

x. Borrowed capital.

Solutions

i).Capital net worth or capital owned/Equity

=Total assets – Total liabilities

But total assets =fixed assets+ current assets

Fixed assets = (Plant and machinery +Furniture and fitting +Building +Land +Motor van +Office equipment) + (Debtors +Stock +Cash + Bank) – (7 years loan +4 years loan) +(Creditors +Bank overdraft).

= (70.000 + 150,000 + 100,000 + 80,000 + 120,000 +15,000) + (90,000 +40,000 +60,000 +55,000)

=535,000 + 245,000

=shs. 780,000.

Total liabilities = long term + current liabilities

=(200,000 + 50,000)+ (10,000 + 20,000)

= 250,000 + 30,000

=shs. 280,000

Capital = 780,000 – 280,000

= shs. 500,000.

ii). Working capital:= current assets – current liabilities

= debtor	90,000	creditors	10,000	
Stock	40,000	bank overdraft	20,000	
Cash	60,000			30,000
Bank	55,000			
	245,000			

Working capital = 245,000 -30,000

Working capital = **shs. 215,000.**

iii). Working capital ratio =current assets current liabilities

Working capital ratio = $\frac{245,000}{30,000}$

$= \frac{49}{6}$

=49:6 or 8.2

iv). Liquid funds = cash + bank

Cash at hand =60,000

Cash at bank = 55,000

Liquid funds = 60,000 + 55,000

= **shs. 115,000**

v). Liquid capital =Current assets –stock.

Current assets = 245,000

Stock = 40,000

Liquid capital = 245,000 – 40,000

= **shs. 205,000.**

vi). Liquid capital ratio = $\frac{\text{current asset –stock}}{\text{Current liabilities}}$

Current assets = 245,000

Stock = 40,000

Current liabilities= 30,000

Liquid capital ratio = $\frac{245,000 - 40.000}{30,000}$

$= \frac{205,000}{}$

$$= \frac{\underline{\;30{,}000\;}}{\underline{41}} \\ 6$$

= 41:6 or 6.83

vii). Circulating capital = Total current assets

Current assets = 245,000

Thus circulating capital = **shs. 245,000**

vii). Fixed capital = Fixed assets

Plant and machinery	70,000		
Furniture and fittings	150,000		
Buildings		100,000	
Land		80,000	
Motor van		120,000	
Office equipment	15,000		
			535,000=
Total =		shs. 535,000	

Fixed assets = shs 535,000=

Thus, fixed capital = **shs. 535,000=**

ix). Net Capital employed=Total fixed assets + working capital

Total fixed assets = 535,000

Working capital = 215,000

Capital employed = 535,000 + 215,000

= **shs. 750.000=**

x). Borrowed capital = long term liabilities

7 years loan shs. 200,000 +4 years loan shs. 50,000

Long term liabilities = 250,000

Thus, borrowed capital = **shs. 250,000.**

Exercise

Below are lists of assets, liabilities and capital of Mr. Kapere as at 31/12/2012

Items	shs
Capital	419,000
Land	300,000
3 years loan	13,000
10 years loan	100,000
Cash at hand	13,000
Cash at bank	15,000
4 years loan (Stanbic)	60,000
Machinery	120,000
Office equipment	80,000
Furniture	70,000
Building	9,000
Bank overdraft	35,000
Creditors	40,000
Debtors	40,000
Stock	20,000

Required

Calculate the following:

i. Capital owned.

ii. Working capital.

iii. Working capital ratio (current ratio)

iv. Liquid funds.

v. Liquid capital.

vi. Liquid capital ratio/quick asset/acid test.

vii. Circulating capital ratio.

viii. Fixed capital.

ix. Net Capital employed.

x. Borrowed capital.

xi. Gross capital employed.

1).The following information was extracted from the books of BCK as at31/12/2014

Capital	2,000,.000/=
Debentures	1,500,000/=
Bank loan	1,350,000/=
Creditors	800,000/=
Bank overdraft	760,000/=
Furniture	1,600,000/=
Equipment	1,800,000/=
Stock	1,450,000/=
Debtors	1,080,000/=
Cash	480,000/=

Required,

a).Prepare BCKs balance sheet as at that date

b). Calculate:

i). Capital owned, 06 mks.

ii). Borrowed capital, 02mks.

iii). Working capital, 04mks.

iv). Fixed capital 02mks.

v). Capital employed. 02mks.

a). Differentiate an income statement from a balance sheet. 04mks.

b). BCK balance sheet as at 31/12/2014

Liability $ Capital	**Shs**	**ASSETS**	**Shs**
Capital	2,000,.000.	Fixed assets	
Long term liabilities		Furniture	1,600,000.
Debentures	1,500,000.	Equipment	1,800,000.
Bank loan	1,350,000.	**Current assets**	
Current liabilities		Stock	1,450,000.
Creditors	800,000.	Debtors	1,080,000.
Bank overdraft	760,000.	Cash	480,000.
Total	**6,410,000**	Total	**6,410,000**

Calculate:

i). Capital owned, 06 mks.

ii). Borrowed capital, 02mks.

iii). Working capital, 04mks.

iv). Fixed capital 02mks.

v). Capital employed. 02mks.

NB. Insolvency is a situation where a business has more liabilities than assets and is therefore unable to pay its debts from its own sources.

Solvency is a situation where a business has more assets than liabilities and is therefore able to pay its debts with its own resources.

When current assets are greater than current liabilities, a business is said to be solvent i.e. capable to pay its debts using its own resources.

When current liabilities are greater than current assets, a business is said to be insolvent i.e. incapable of paying its debts from its own resources.

Bankruptcy, this is a situation where a business is unable to pay its creditors.

Drawings, this refers to cash or goods taken out of the business by its owner for his private use. Drawings reduce the capital of the business. It is subtracted from capital.

Net profit, this refers the real or actual profit of the business after subtracting all the business expenses from gross profit. The net profit increases capital of the business. It is added to capital.

Stock refers to the value of goods held by the business for resale at a particular time. Only the closing stock i.e. stock of goods at the end of the year (3^{1st} December stock) is included on the balance sheet while the opening stock i.e. stock of goods at the beginning of the year (1$^{st.}$ January stock) is excluded.

Debenture, this is money/loan borrowed by a company from the public/ banks with a fixed rate of interest.

Rate of return on capital, this refers to net profit expressed as a percentage of capital owned. It is the percentage of net profit realized from investment of capital and it measures the profitability of the business.

Rate of return on capital = <u>net profit</u> X100

Capital owned

If the rate of return on capital is relatively high i.e. 20% or more, then it is a good return and one should continue to invest in the business. However, if the rate of return on capital is less than 20%, then it is not a good return and one should not continue to invest in that business but should invest his capital in another business.

Trading and profit and loss accounts

(Income statement)

Income statement is a financial statement which shows the gross profit/loss and net profit/loss of a business organization for a particular period of time. Gross profit or loss is calculated in the trading account while net profit is calculated in the profit and loss account. It is also called Trading and profit and Loss account.

Trading account refers to the calculation of gross profit or gross loss.

Profit and loss account refers to the calculation of net profit or net loss.

The items entered in the income statement include;

1).Stock , this refers to money value of goods held for resale by the business at a particular time. It may be opening stock or closing stock

2). Opening stock; this is the total value of the goods purchased or available at the start of the business. Or stocks which remained in the previous trading period. In purely a new business, the opening stock is equal to the purchases at 1st January.

In a continuing business, the opening stock is equal to the value of closing stock of the previous trading period i.e. 31st December of the previous year.

3). Closing stock; refers to the amount of goods which remained unsold at the end of the trading period. Usually it is taken to be 31st December stock.

4). Average stock, this is the average of the opening stock and closing stock of a business. The two stocks are added and their total divided by two to arrive at the average stock.

$$\textbf{Average stock} = \frac{\text{opening stock + closing stock}}{2}$$

$$\text{Or} = \frac{\text{stock at } 1^{st} + \text{stock at } 31^{st}}{2}$$

$$\text{Or, Average stock} = \frac{\text{cost of sales}}{\text{Rate of turn over}}$$

5). Stock taking, this refers to the physical counting and recording of stock in order to determine the amount of goods held by the business.

6). Stock valuation, this is the process of finding the value of stock held by a business at a particular time. Stock can be valued at cost price or at selling price. Cost price is the price at which the goods were purchased while selling price is the price at which the goods are to be sold.

7). Purchases; this refers to amount of goods bought by the business for sale during the trading period. Formula:

Purchases = total purchases

8). Sales these are goods sold by the business during a given trading period.

9). Returns, these are goods which are returned to the business by its customers or those returned by the business to its suppliers for various reasons. These may be sales returns (returns inwards) or purchases returns (returns outwards).

i). sales returns (returns inwards), these are goods previously sold by the business to customers but have been returned to the business by them due to some reasons such as goods being defective, damaged, poor quality etc, or when they were not ordered for by the customer. Sales returns (returns inwards) reduce the value of total sales because they are subtracted from the total sales in order to obtain the total net sales (turnover).

10).Total net sales (turnover), this refers to the actual sales of a business in a given trading period. It is obtained by subtracting the sales returns (returns inwards) from the sales.

Total net sales = total sales – sales returns (returns inwards).

ii). Purchases returns (returns outwards), these are goods purchased by the business for resale but later returned to its suppliers before selling them, because of some reasons such as goods being defective, expired or when they were not ordered for. Purchases returns reduce the value of total purchases because they are subtracted from the total purchases in order to obtain the total net purchases.

11). Total Net purchases; this refers to the total actual purchases of the business in a given trading period. It is obtained by subtracting the purchases returns from the total purchases. Formula:

Total Net purchases =Total purchase –purchases return (returns outwards) or total value of goods returned.

NB carriage inward is added to purchases while carriage outwards is added to expenses.

12). Goods available for sale (cost of goods available for sale), this refers to the sum of opening stock and total net purchases.

Goods available for sale= opening stock +closing stock.

13). Cost of sale, this refers to the price at which goods purchased by the business are sold to its customers during a given trading period.

Cost of sales = Opening stock + net purchases –closing stock

Or cost of sale = turnover – gross profit.

Cost of sale = Average stock x Rate of turnover

Cost of sale = Goods available for sale – closing stock

Cost of sale = $\frac{100 - \text{margin}}{100}$ x turnover

Cost of sale = $\frac{100 \times \text{turnover}}{100 + \text{markup}}$

Turnover = $\frac{100 \times \text{cost of sale}}{100\text{-margin}}$

Turn over = $\frac{100 + \text{markup} \times \text{cost of sale}}{100}$

14). Gross profit; is the excess of selling price over cost price.

Formula:

Gross profit =selling price – cost price

Gross profit=Turnover(net sales)–cost of sales

Gross profit =Mark up X cost of sales

Gross profit = margin X turnover

Gross profit = net profit + expenses

NB. It is a gross loss if the answer is negative.

15). Gross profit ratio = $\frac{\text{gross profit}}{\text{Turnover (net sales)}}$ x 100

16). Gross profit as a percentage of selling price = $\frac{\text{gross profit}}{\text{Net sales}}$ x 100

17). Gross profit as a percentage of cost price = $\frac{\text{gross profit}}{\text{Cost of sale}}$ x 100

18). Turnover (net sales)= Total sales-sales return (returns inwards)

19).Net profit = gross profit – expenses

20). Net profit ratio = $\frac{\text{net profit}}{\text{Net sales}}$ x 100

21). Net profit as a percentage of selling price = $\frac{\text{net profit}}{\text{Net sales}}$ x 100

22). Net profit as a percentage of cost price = $\frac{\text{net profit}}{\text{Cost of sale}}$ x 100

23). Selling expenses (overhead); are the expenditures met in the process of selling the commodities e.g. transport, advertising, taxes, salaries, wages etc.

Formula:

Expenses =gross profit – net profit.

Expenses = total expenses.

24). Expressing gross profit as a percentage on turn over (sales) or margin =

Margin= $\frac{\text{Gross profit}}{\text{Net Sale}}$ X100

25). Mark up is a fixed percentage a trader adds to his cost of a product so as to obtain the selling price. Formula:

Mark up = $\frac{\text{gross profit}}{\text{Cost of sale}}$ X 100

26). Rate of stock turn; the number of times a business renews its stocks after sales.

Rate of turn over= $\frac{\text{cost of goods sold}}{\text{Average stock}}$

27). Average days spent on selling goods

= <u>365 days</u>

Rate of stock turn

28). Rate of return on capital; this is the interest rate on the capital which is put in business. Formula: Net profit X 100

Capital

Relationship between mark up and margin

Both markup and margin relate to the same profit. If one is known as a fraction or percentage, the other one can be calculated. If markup is known, to find margin; take its numerator to be the numerator of the margin, then for the denominator of the margin, take the total of the markup's denominator plus the numerator. Example;

Markup	**margin**
25%	.?
25/100 = ¼	¼+1 = 1/5

¼ x 100 =25%, 1/5 x 100 =20%

If markup is 25%, margin is 20%.

If margin is known, to find markup; take the same numerator to be the numerator of markup, then for the denominator of the markup, take the figure of margin denominator minus the numerator.

Margin	**markup**
25%.	?
25/100 = ¼.	¼-1=1/3
¼ x 100 =25%.	1/3 x100 =33.3%

If margin is 25%, markup is 33.3%

EXAMPLES

The following information was extracted from Jupiter's books of account

Stock on January 1. 2007	**820,000=**
Stock on December 31. 2007	**940,000=**
Purchases in 2007	**2, 310,000=**

Goods returned out 200,000=

Total sales 2,970,000=

Overhead expenses 150,000=

Calculate Jupiter's

i). Cost of goods in 2007.

ii). Gross profit in 2007.

iii). Net profit in 2007.

iv). Average stock.

v). Rate of stock turn.

Working

i). Cost of goods = opening stock + net purchases – closing stock

= 820,000 + (2,310,000 – 200,000) -940,000

= 820,000 + 2,110,000 – 940,000/=

= shs. 1,990,000=

ii). Gross profit = total sales – cost of goods

= 2,970,000 – 1,990,000

= shs. 980,000=

iii). Net profit = Gross profit – overhead Expenses

= 980,000 – 150,000

= shs. 830,000=

iv). Average stock

$$= \frac{\text{opening stock + closing stock}}{2}$$

$$= \frac{820{,}000 + 940{,}000}{2}$$

= shs. 880,000=

v). Rate of stock turn = $\frac{\text{cost of sale}}{\text{Average stock}}$

$$= \frac{1{,}990{,}000}{880{,}000}$$

= 2.261 or 2.3 times.

Exercise

A firm had the following values of stock at cost price in 2009.

January	**7,740=**	**July**	**7,250=**
February	**6,300=**	**August**	**6,800=**
March	**7,100=**	**September**	**7,000=**
April	**7,360=**	**October**	**7,550=**
May	**6,900=**	**November**	**7,400=**
June	**6,600=**	**December**	**8,400**

The firm's average margin was 20%. It also had the following records in the year.

Purchases	**37,000=**
Returns outwards	**250=**
Expenses	**6,600=**
Stock on 1st Jan.2009	**7,340=**

Stock at 31st Dec. 2009 was included in the above months.

Calculate:

a). Average stock at cost price **shs 7200**

b). Average stock **shs 7870**

c). Total cost of sale **shs 35,690**

d). Turnover **shs 44,612.5**

e). Gross profit. **Shs 8,922.5**

The following financial records relates to Kikuubo traders.

Turn over	**shs. 4,200,000**
Mark up	**25%**
Over heads	**shs. 420,000**

Calculate Kikuubo Trader's

(i) **Total cost of sales** **(04marks)= 3,360,000**
(ii) **Gross profit** **(04marks)= 840,000**
(iii) **Net profit** **(04marks)= 420,000**
(iv) **Profit margin** **(04marks)= 20%**

v) Net profit margin

Total cost of sale =

$$\text{Turn over} = \frac{100 \times \text{cost of sale}}{100 - \text{margin}}$$

$$= \frac{100 \times 35{,}690}{100 - 20}$$

$$\frac{3{,}569{,}000}{80}$$

Turn over = Shs 44,612.5

OR. $\text{Turn over} = \frac{100 + \text{markup}}{100} \times \text{cost of sale}$

$$= \frac{100 + 25}{} \times 35{,}690$$

$$= \frac{125}{100} \times 35{,}690$$

Turnover =Shs 44,612.5=

$\text{Cost of sale} = \frac{100 - \text{margin}}{100} \times \text{turnover}$

$$= \frac{100 - 20 \times 4{,}200{,}000}{100}$$

$$= \frac{80 \times 4{,}200{,}000}{100}$$

Cost of sale = Shs 3,360,000=

OR. Cost of sale = $\frac{100 \times \text{turn over}}{100 + \text{markup}}$

$$= \frac{100 \times 4{,}200{,}000}{100 + 25}$$

$$= \frac{420{,}000{,}000}{125}$$

Cost of sale = Shs 3,360,000=

1). The following financial record was extracted from BCK business records.

Cost of goods sold	shs. 160,000
Closing stock	shs 48,000
Net purchases	shs 152,000
Gross profit	shs 64,000
Net profit	shs 50,000

Using the information above, determine

a). opening stock

b). turnover

c). rate of stock turn

d). expenses

2). Given that the firm's cost of sale amount to shs 200,000 and the average markup is 20%. Calculate the turn over (sales).

3). Given the business has markup of 20% and its turnover (sales) is shs 240,000, calculate the cost of sale.

4). Given that the business has a markup of 20%and gross profit of shs 40,000, calculate the cost of sales.

INSURANCE

Insurance is an aid to trade whereby people contribute money towards a common pool against various risks for compensation should the risks take place e.g. theft, accident etc. Or it refers to the protection against events which may or may not occur.

COMMON TERMS USED IN INSURANCE

1.POOLING OF RISKS. This refers to a situation where every person exposed to a risk pays a small amount of money to an insurance pool from where people suffering a loss are compensated.

2. PREMIUM. This is the periodical contributions (money) paid by the insured in respect of insurance cover or policy under taken.

3. INSURED. These are people or companies that insure themselves with the insurance companies.

4. INSURER. This is the insurance company that offers insurance covers to people or organizations in need of it .e.g. NIC, SWICO ETC.

5. CO-INSURANCE (DOUBLE INSURANCE);This refers to insuring an article against similar risks with more than one insurance company. In the event of a loss occuring, only amount of loss is contributed by all insurance companies like it would have been with one insurance company.

6. OVER INSURANCE. Refers to a situation when an insured over declares the value of his property at the time of taking out insurance policy. He will be required to pay higher premium but in the event of total loss, he will be paid only the correct value of the property.

7. UNDER INSURANCE. This is a situation when an insured under states the value of his property. In case of a loss, the compensation will depend on the amount understated.

$$\text{FORMULA} = \frac{\text{SUM INSURED} \times \text{LOSS SUFFERED}}{\text{VALUE OF PROPERTY}}$$

EXAMPLE: peter has insured his vehicle at shs. 10,000,000. But the correct value of his vehicle was shs. 15,000,000. An accident destroyed part of his vehicle valued at shs. 2,000,000. How much shall he be compensated by the insurance company?

ANSWER,

$$\text{Value of claim} = \frac{\text{sum insured} \times \text{loss suffered}}{\text{Value of property}}$$

$$= \frac{10{,}000{,}000 \times 2.000{,}000.}{15{,}000{,}000}$$

=Shs 1,333,333

Value that is self-insured = 2,000,000 – 1,333,333

Shs. = 666,667

8. RE-INSURANCE. This is when an insurance company insures a risk with a second insurance company. This may be because the property is so valuable to be handled by one insurance company or the first insurance company does not offer that particular policy.

9. INSURANCE POLICY. This is a document of contract given to the insured as an evidence of insurance cover. It states terms and conditions of an insurance transaction, risk covered, period ETC. The insured uses this certificate to claim the sum insured.

10. POOL. This is the bulk of money formed by collecting premium.

11. SUM INSURED. This is the value of the property insured as stated by the owner at the time of applying for insurance.

12. SUM ASSURED. This is the total sum the insurer hands over at the death of the insured in life insurance.

13. RISK. Is an event against which an insured takes up a policy with the insurance company e.g. fire, burglary, theft, accident etc.

14. SURRENDER VALUE. This is the money paid back to the insured when he decides to cancel the insurance agreement before the period specified.

15. NO CLAIM BONUS. This is a document given to the insured that makes no claims from his policy. With time this reduces the amount of premium required to be paid by the insured.

16. ACTUARY. This is a person who calculates the premium to be paid basing on the past statistics.

17. Assessor (Adjuster),

FUNDAMENTAL PRINCIPLES /DOCTRINES OF INSURANCE

there are five major insurance principles which the insurance companies have set to be followed when dealing with the insured and the risks. These principles are sometimes called insurance doctrines. They are always considered when the insurer is going to make compensation for the losses suffered by the insured or property. For the people seeking for the policy, they are given and explained to clearly.

The basic principles of insurance include the following:

i).Principle of Indemnity. This principle ensures that a person insuring his property does not make any profit or any gain from his property, but in case of a loss the insurer only restores him to original position before the loss.

ii). Utmost good faith/uberrimma fide. This principle requires that the person filing the proposal form discloses all relevant facts about the property being insured to enable the insurer assess the suitability and calculate the premium.

iii). The principle of Insurable interest. This principle states that a person should insure only the property in which he stands to incur a financial loss in the event of its destruction.

iv). The principle of Proximate cause. This principle states that there should be a close relationship/connection between the cause of the loss and the risk insured so as to be compensated.

v). The principle of Subrogation. The principle states that in the event of loss and after an insured has been fully compensated on the claim, the insurer becomes the owner of the spoilt property (scrap).

vi). The principle of contribution. This principle states that the insured is not supposed to insure the property in two insurance companies against the same risk. In case the insurer discovers it before or at the time of loss, the two insurance companies will both contribute to the actual value of loss and the insured receive a single compensation.

TYPES (CLASSES) OF INSURANCE

There are two major categories of insurance:

1. Insurance of life (life insurance/assurance).

2. Insurance of property (General insurance).

LIFE INSURANCE/LIFE ASSURANCE:

This refers to the insurance of human being only. Assurance refers to cover against events that are bound to happen or must happen e.g. death, old age etc.

Characteristics of life insurance

i.It is a cover for human life for a specified period of time or until death.

ii. the event insured against is bound to or must happen, only that one is not certain about the time of its occurrence e.g. death, old age etc.

iii. It has a date of maturity when the sum insured is payable.

iv. life insurance policies are basically “saving plans” i.e. a sure way of saving for the future during old age or after retirement.

v. life insurance can be assigned to beneficiaries e.g. one’s family or his dependents.

vi. it requires insurance of life only where one has got an insurable interest e.g. his own life, a business partner’s life etc.

vii. it has a surrender value, which is the amount of money paid back by the insurer to the insured who has decided to terminate a life policy before its maturity period.

viii. it is usually a long term contract.

ix. the life policy can be of any value or amount depending on the ability of the assured to pay premiums.

x.In life assurance, the principle of indemnity does not apply.

Types of life insurance policies

i).**whole life policy:** This is life insurance policy which requires payment of premium for the whole life time of the insured till death. This policy is meant to assist the family of the insured when he dies. Under whole life policy, the policy holder is required to name the people who will benefit from the policy after his death. This process is called nomination. The bigger the number of people named, the higher the premium.

ii). **Endowment policy**: This policy is meant to benefit the insured after he has retired from the job or during his old age. Payment of premium is made for a specified period and claims are made at the expiry of such a period or at death, whichever comes first.

iii). **Group life policy:** this is where a group of people take out insurance to provide pension during old age.

iv). **Sickness policy:** This policy covers people against specified diseases or all forms of curable diseases. It is meant to assist individuals in times of sickness as the insurer undertakes to pay medical treatment bills as well as supporting his family during the time of sickness.

v).Annuity policy, Annuities are a form of pension to the assured and the policy may be mortgaged to secure a loan. this is where the assured pays either a lump sum of money as premium or a series of installments each year. The amount paid depends on the age or sex of the insured, the age at which payment of indemnity is to start is stated.

vi). Time or temporary policy, this is where a person insures himself for a short period of time when going for a journey and after a journey the policy is terminated.

2. **General insurance:**

General insurance refers to the insurance of property against risks that may be suffered. A person can insure only that property in which he has insurable interest i.e. his own property whose destruction or damage would make him suffer a financial loss.

Characteristics of general insurance

i.it covers insurance of properties for a specific period of time.

ii. it is a contract of indemnity where the insured is compensated by the insurer to restore him to the financial position he was in before the occurrence of the loss, but not to benefit him financially.

iii. A person can insure only that property in which he has insurable interest e.g. his own house against fire but not his neighbor's house as he will not suffer any loss incase his neighbor's house is destroyed.

iv. In the event of total loss, the insurance company undertakes to pay the sum insured or the correct value of the property, whichever is less.

v. the premium charged depends on the sum insured, the value of the policy and the degree of the insured risk.

vi. it can be assigned to the beneficiaries e.g. one's family or relatives.

vii. it has no surrender value.

viii. it is usually a short term contract which is renewed annually e.g. motor vehicle third party policy.

Types of general insurance policies

General insurance policies are categorized into three forms:

1.Fire insurance policies.

2. Accident insurance policies.

3. Marine insurance policies.

Fire insurance policies; This refers to the insurance of property against risks arising from fire damages.

Types of fire insurance policies include:

1).**Fire policy**: this covers the risk of losing property as a result of fire caused by explosion, domestic boilers, accident etc which is not intentionally caused.

b).**consequential fire loss,** This policy covers additional or later losses which may be insured against as a result of fire outbreak like repairs being done to fire damaged property, paying fire brigade workers who assisted in putting out the fire.

c). **Burglary and theft policy:**, This policy covers the insured against losses arising from property being stolen by burglar and thieves e.g. forced house breaking by armed robbers and stealing goods. This is normally taken up by banks, land lords and business men.

d).**Household risk policy**, This covers an insured against losses to household property resulting from fire outbreak e.g. especially furniture, kitchen utensils etc.

e). **All risks office equipment policy,** this covers office equipment and machinery against fire e.g. office computers, furniture etc.

2). Accident insurance policy, This refers to the insurance that safeguards property owners against damages or injury arising out of all accident losses. Policies covered under accident include:

i).**Motor Vehicle insurance policy:**, This is insurance against accidents to motor vehicles especially due to crushing, overturning, etc. There are three parties involved in motor vehicle insurance.

-The first party (insurance company).

-The second party (vehicle owners or insured).

-The third party (passengers travelling in the vehicles or property of members of the public).

Motor vehicle policy may be provided in two forms namely;

a). Comprehensive policy.

b). Third party risk policy.

a). Comprehensive policy:, This is a policy which compensates all parties involved in an accident e.g. the driver, conductor, passengers traveling in the insured vehicle, pedestrians and damage caused on the vehicles.

b). Third party risk policy:, This policy covers losses incurred on a third party i.e. any person or property involved in the vehicle accident but not the vehicle itself and the vehicle owner. For example, if a vehicle insured under this policy crashes or overturns injuring passengers on board and pedestrians on the road, the insurance company compensates the injured passengers on board and those knocked by the vehicle on the road i.e. pedestrians but not the owner of the vehicle or his vehicle. Third party insurance policy is compulsory for all commercial and private vehicles in Uganda.

Third party insurance covers:

- Passengers travelling in the car insured.
- People injured as a result of the accident i.e. other cars, pedestrians etc.
- Any other property damaged as a result of the accident.

ii. Personal accident policy: This is taken up by individuals to cover against any accident which may affect them especially due to motor vehicles.

iii. Fidelity guarantees policy:,This is the insurance policy that covers an insured against losses arising from the dishonesty of his employees. It covers losses arising from embezzlement of funds by employees. E.g. cashiers, accountants etc who handle large sums of money.

iv. Plate glass policy: This policy covers the company's employees or members of the staff, customers of the business against serious injuries from broken pieces of glass.

v. Cash in transit policy: This is an insurance policy that covers an insured against losses arising from loss of cash while being transported from one place to another i.e. safe guards money loss while leaving or going to the firm.

vi. Bad debts policy: This is an insurance policy that protects businessmen against loss arising from failure by their customers to pay off their debts.

vii. Employer's liability policy or workmen's compensation policy; This is an insurance policy that covers an employer against injuries or accidents suffered by his employees while at the place of work as a result of employer's negligence. viii. Aviation insurance policy: This policy covers people against losses or damage resulting from air craft crushes or accidents. Aviation policy is provided in two forms;

-Aviation hull policy.

-Aviation cargo policy.

Aviation hull policy, this is an insurance policy that covers loss or damage to an air craft.

Aviation cargo policy, this is an insurance policy that covers loss or damage to goods on an aircraft.

ix. Public Liability policy: This policy covers against any injury which may occur to a person as a result of the operations of the insured firm or factory, e.g. building construction companies e.g. Roko Company kakira sugar works.

x. Machinery breaks down policy: This policy protects the firm or factory owners against loss suffered as a result of machinery break down. It caters for loss of profits when the firm is not producing or selling any good on the market as a result of machinery break down.

xi. Engineering insurance policy: This policy protects engineers against items such as boiler, lift cranes etc. It is taken out by factory owners and constructors.

xii. Cash in safe custody: This policy covers loss of money kept in office overnight.

xiii. Travel baggage insurance: This policy covers an individual against risk and loss of property while on a journey from one place to another.

xiv. Goods in transit policy, this policy covers goods against risks while being transported from one place to another.

xv. Profits and loss policy, this policy covers loss of profits due to uncontrollable circumstances.

xvi. Mortgage insurance, this policy covers risks to property used as collateral security for a loan from a financial institution.

MARINE INSURANCE

Marine insurance refers to insurance that safeguards water vessels and goods that they carry against possible risks on water e.g. damages or losses due to water body disasters, goods being stolen or going bad while on board.

<u>The main policies:</u>

The main policies of marine insurance include:

i. Marine hull policy: This is an insurance policy that covers loss or damage to the ship as a result of collision, floods, storms, sinking or theft. It does not cover the cargo on the ship.

ii. Marine Cargo insurance: This is an insurance policy that covers loss or damage to the goods on the ship or port. It does not cover the ship.

iii. Ship owner liability policy: This is an insurance policy that covers people's lives and cargo against damage or injury resulting from negligence in navigating the ships.

<u>The marine sub policies:</u>

Other marine insurance policies that cover goods or ships on water or ports are:

i.Voyage policy: This is a policy which covers loss or damage to the ship or cargo for only one specified journey e.g. from Mombasa to Bombay and back only.

ii.Time policy: This policy covers loss or damage to the ship or cargo for a certain period of time e.g. from January to April. The insurance policy ends as soon as the time has expired.

iii. Mixed policy: This policy combines both the Journey and time policies i.e. it covers losses or damages to the ship or cargo for one specified journey for a specific period of time e.g. from Mombasa to Bombay, January to April.

iv. Open policy: this policy covers all risks as regards the shipment of goods and transporting them from one port to another and at any time.

v. Fleet policy: This policy covers loss or damage to a number of ships belonging to one particular organization or businessman or company.

vi. Floating policy, this policy covers losses on a particular route for a specified period and all ships sailing on this route during that particular period.

vii. Valued policy, this is where the insured is compensated with the value agreed upon at the time of taking out the policy.

viii. Unvalued policy, this is a policy which does not specify the value of compensation to be given to the insured. The amount of indemnity is only determined after the occurrence of the loss.

ix. Port policy, this is a policy that covers loss or damage to the ship for a specified period of time while in port.

x.Construction policy, this policy covers a ship against risks during the process of its construction.

Types of losses in marine insurance;

a).Actual total loss: This refers to a situation when the ships or goods insured are totally destroyed beyond repairs.

b).Constructive total loss: This refers to a damage or loss to a ship which is beyond the cost of repairs. The damage on the ship or cargo may be repairable or recovered. However, should the cost of repairs be exceeding the value of a new vessel, the insurer may prefer compensating the insured by buying a new vessel.

c). Average loss, this is where the ship or its cargo suffers only a partial damage which is repairable and the cargo can still be used to serve the intended purpose . Average loss is of two types namely; General and particular average loss.

-General average loss: This policy covers the damage at sea. It is where the loss is shared both by the ship owner and the owner of the cargo because it is incurred as a result of jettisoning or throwing off some cargo over board to prevent the ship from sinking so as to save life. It is done on the principles of "Loss cargo and save life"

-Particular Average Loss: This is where part of the cargo or ship is damaged and the partial loss caused is either met by the owner of the cargo or the owner of the ship.

Factors considered in determining the premium to be paid

1. Precautions taken to reduce the risk. If the insured takes up precautions and measures to reduce the risk, then lower premiums are paid, e.g. in cases of fire,

having fire extinguishers tend to reduce the premium to be paid but if an insured does not take up precautions to reduce the risk then higher premiums are paid.

2. Type of or value of the policy. The more valuable (expensive) the policy, the higher the premiums paid. E.g. Aviation policy requires higher premiums than Motor accident policy.

3. The nature of the property insured. In case of fire, those handling highly inflammable substances pay high premiums e.g. petroleum stations.

4. Number of applicants for a similar policy. The more the people for the same policy, the lower the premiums paid because the risk or loss is shared over many people each bearing a smaller proportion of the loss.

5. The age of a person. In case of life assurance, old people pay higher premiums than young ones because in normal situation, mature people are faced with high chances of dying soon than young ones but in case of motor accident, teenagers pay high premium because they stand high chances of knocking down the vehicles due to over speeding.

6. The age of the property. If the item has stayed for a long period of time, it is likely to face more chances of damages than the one which is still new, so large premiums are paid than when the property is new.

7. Period of payment, the shorter the period of premium payment, the higher the premium charged and vice-versa.

8. Probability or chances of occurrence of the insured risk, the greater the chances of occurrence of the risk insured against, the higher the premiums charged and vice-versa. E.g. in case of fire insurance policies, petrol stations and factories are charged higher premiums.

Procedures/ Steps taken to open up an insurance policy

Before taking up an insurance policy, one should have contractual capacity. The following steps are involved in taking out an insurance policy;

1.Inquiry, an applicant or person wishing to be insured makes an inquiry from the insurance company or from the insurance agent/broker on how to get cover for a certain risk.

2. Filling a proposal form; a person wishing to be insured fills a proposal form. All the material facts regarding the items should be stated in the proposal form, he should display maximum honesty when filling the proposal form. It includes:

i. the name of applicant.

ii. the name of insurance company.

iii. The location and address of the applicant.

iv. The policy required.

v. All relevant information regarding the property to be insured.

3. Determining the premium to be paid, on receipt of the proposal form, the insurance company calculates the premium. When the proposal form has been approved, the prospective insured is asked to pay the first premium towards the policy.

4. Issue of cover note. If the application is accepted and the first premium is paid, the insurer issues a cover note offering immediate protection until a policy is issued. The cover note serves as a proof that the first installment has been paid. A cover note/binder is a temporary protection which is valid for a period of 30 days during which an insurance policy is being processed.

5. Issue of an insurance policy. A policy is issued within 30 days after the issue of a cover note.

A policy is the main document of insurance and it constitutes a contract binding the insurer and the insured. It states:

- Details of the risk covered.
- Name and address of the insured
- Name and address of the insurer
- Terms and conditions under which insurance is taken.
- Premium to be paid and the renewal date.
- Duration of the insurance.

6. Payment of subsequent premiums, this should be done on the dates stated. Failure to pay the premium makes the policy null and void.

Procedure of claiming compensation from insurance company

After the risk has occurred, the following are done**;**

i.Notification of the insurer, if an event insured against occurs, the insured notifies the insurer accordingly.

ii. Filling the claim form, the insured is required to fill a claim form clearly indicating all the details of the loss without falsifying the information.

iii.Investigating the claim, the insurer sends out an assessor to carry out a thorough investigation with a view to determining the cause, nature and extent of the loss suffered by the insured.

iv. Settlement of the claim, the claim is settled by the insurer basing on the assessor's survey report. On receiving the survey report, the insurer pays the due compensation to the insured.

Reasons why the insurer may not honour the claim of the insured (refuse to pay compensation)

i.if the immediate cause of the loss is not directly related to the risk insured against i.e. no fairly close connection between the cause of the loss and the actual risk insured against e.g. if a car is insured against accident but is instead lost through theft.

ii. If the insured does not have insurable interest in the property destroyed and therefore suffered no financial loss e.g. if a person insured his friend's house against fire and the house is later destroyed by fire, no compensation will be made since the insured has suffered no financial loss.

iii.If the loss is deliberately caused by the insured himself e.g. if one insured his house against fire and later goes ahead to set it on fire himself, there will be no compensation.

iv. If the insured violated the principle of utmost good faith i.e. if the insured fails to disclose all relevant material facts about the property and is later or deliberately gave wrong information about the property and is later discovered, the insurer will not honour his claim.

v. If the insured has not paid the subsequent premiums agreed upon hence making the policy null and void.

vi. If the loss took place after the expiry of the specified period e.g. in case of the endowment policy under life insurance.

Factors considered before issuing an insurance policy

i.the nature or type of risk i.e. whether it is insurable or non-insurable. Policies are only insured against insurable risks.

ii.Whether a person applying for insurance has an insurable interest in the property or life to be insured.

iii. whether a person applying for insurance has filled the proposal form with utmost good faith i.e. displays maximum honesty and disclose all relevant and material facts about the property or life to be insured.

iv. The past records of the person applying for insurance i.e. whether he is careful and responsible or not.

v. The sum insured i.e. the value of property to be insured if it can be covered.

vi. whether the applicant has paid the premium. A policy is only issued after the insured has paid the premium

Insurance and gambling:

Gambling refers to undertaking something risky or an act where people work on probability or chances which may result in loss of money or making money e.g. betting, buying lottery tickets etc while insurance is an aid to trade where people contribute money towards a common pool against various risks for compensation should the risk take place.

Similarities between insurance and gambling:

1.They both involve a number of people with a common point of interest.

2. They both have a set of guiding regulations or rules governing their operations. In case of insurance, there are insurance principles while in case of gambling e.g. betting rules apply.

3. they are both based on chances as none of the participants is sure to win or lose.

4. Both involve risks.

5. they both involve financial contribution in form of premium in case of insurance and entrance fee in case of gambling.

Differences between insurance and gambling:

1. Insurance is an aid to trade which protects people against risks, while gambling is not an aid to trade but a game of chance.

2. In insurance one must have an insurable interest in the property or life insured, but this does not exist in gambling.

3. Under insurance the risk insured may or may never occur unlike in gambling where the event must take place to decide the winner.

4. Insurance aims at compensating the unfortunate people who have suffered losses by restoring them back to their original financial position. It does not improve their status. On the other hand, the money paid to the winner in gambling improves his financial position.

5. In insurance there is need for utmost good faith which is not the case with gambling.

6. Insurance is legal while some gambling practices are illegal.

Roles/Importance of insurance:

1. Provision of security and safety of the insured against uncertainty as a result of fire, theft, accidents, poor health etc

2. Insurance companies can act as trustees for the businessmen i.e. can stand in for them in case of reference.

3. Provision of loans to businessmen especially to those who operate on large scale and have collateral security.

4. It provides employment opportunities to the public.

5. It promotes international trade because traders are able to export and import without fear of loss.

6. Insurance companies raise government revenue through payment of corporate tax and income tax by their employees.

7. It is a means of saving e.g. life assurance policies are suitable ways for providing for future.

8. Insurance policies can serve as collateral securities when borrowing money from commercial banks by the insured.

9. It promotes investment through using the premium collected to set up economic ventures like houses for rent, schools, industries etc.

10. It earns foreign exchange to the country through foreign owned companies e.g. leads insurance, AIG etc.

Problems facing insurance industry in Uganda:

The insurance problems are:

1. Ignorance about the services offered by the insurance companies by the public.

2. Insufficient trained technical manpower e.g. Actuaries etc.

3. Lack of capital for operational activities like its establishment and compensating expensive policies like Aviation risk policy etc.

4. loss of confidence by the public in insurance because of failure to compensate losses, slow procedures for compensating victims etc.

5. Misrepresentation of facts on the proposal forms through over insurance making it difficult to calculate premium and assessment of loss.

6. Problem of inflation which reduces the value of the policy hence people are discouraged to take out policies.

7. High tax rates charged on insurance by government on profits enables insurers in turn to raise the cost of insurance policies.

8. Corruption among the insurance workers which reduces the financial base of insurance.

9. Low demand for insurance policy cover due to existence of small business sectors in Uganda.

10. Stiff competition with other insurance companies.