SENIOR FOUR SELF STUDY WORK

COMMERCE

DAY 1

TOPIC: INTERNATIONAL TRADE:

Refers to the buying and selling of commodities between or among nations. It can be carried out by individuals, companies or government.

It involves the physical transfer of goods or services from one country to another. And it's divided into:

(I) IMPORT TRADE

Is the purchase of commodities from another country.

(I) EXPORT TRADE

Is the sale of commodities to another country

REASONS FOR INTERNATIONAL TRADE

International trade arises out of specialization which results into surplus goods and the need for exchange.

It's therefore acceptable that: -

- No country can produce all that it wants and therefore exchange.
- Different climatic condition has also given rise to international trade i.e certain crops may grow well in one country; it may not do well in another.
- Need to expose off surplus commodities.
- Need to promote international relations.
- To get foreign exchange to pay for what is imported
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- Differences in cost of productions. This is byway of different, wages, costs of labour and raw materials e.t.c.
- Different natural endowments have also given rise to international trade.

TERMS COMMONLY USED IN INTERNATIONAL TRADE

(a) **BILATERAL TRADE**

Is trade carried out between two (2) countries e.g. Kenya and Uganda?

(b) **MULTI-LATERAL TRADE**

Is trade carried out between more than two countries?

(c) **VISIBLE TRADE**

This is trade in goods, it's called visible because it can be verified by customs official s. the difference between visible export and imports is called visible balance of trade

(d) **INVISBLE TRADE**

These include intangible services which don't pass through customs warehouses; they include transport, insurance, tourism, travel e.t.c. The difference between invisible exports and import is called invisible balance of trade.

BALANCE OF TRADE.

Is the difference between visible imports and visible exports of a country when countries import exceed exports it's called unfavorable balance of trade.

BALANCE OF PAYMENT

It shows the relationship between a total expenditure abroad (both for visible and invisible goods) with total income from a broad in a given time (usually one year).

When accepts (income) exceed payments the difference is called balance of payments surplus or favourable balance of payments and when a country pays more than it receives the difference is balance of payments deficit or unfavourable balance of payments.

TERMS OF TRADE.

Is the measure of import purchasing power of exports.

RATE OF EXCHANGE

Is the rate of local currency over foreign currency or the value of one currency in terms of another e.g. Uganda shillings in terms of the us Dollar.

ADVANTAGES OF INTERNATIONAL TRADE

1) It enables countries to get what they can not produce due to lack of technology, manpower and other resources.
2) It enables people in one country to have a variety of goods.
3) It encourages specialization which leads to increased output and decrease in price.
4) Allows competition between domestic and foreign industries and thus improvement on quality of locally produced goods.
5) Provides market for surplus products and encourages countries to exploit their idle resources.
6) It creates employments to home people.

7) Encourages exchange of ideas and values on an international level.
8) Where there is shortage for instance after the war, natural disasters like landslides, earthquakes, people can survive on imported goods.
9) It generates governments revenue informs of import and export duties.
10) Domestic entrepreneurs are able to acquire skills from high quality modern technology from developed countries.
11) It involves the movement of people of one country to another which promotes international understanding.

DISADVANTAGES OF INTERNATIONAL TRADE.

1) Countries exchange of goods leads to exhaustion of some resources e.g. forests, minerals.
2) If a country depends on another for an important commodity, it may sometimes have to tolerate undesirable conditions.
3) Importation of goods normally retards domestic growth of infant industries.
4) International trade may result into (B.O.P) Balance of payment problems.
5) It leads to imported inflation.
6) Price fluctuations may make a country to suffer if the price of its product fall.
7) Handling charges, taxation, warehousing and freight charges make the final price of imported goods very expensive
8) Some of the imported goods have adverse effects on the citizens of a country e.g. detective and romantic literature usually affects the youths by converting them into day dreamers.
9) International trade encourages dumping.

10) By specializing in a particular product (goods) a country may become monopolist in that particular product. This will lead to high prices.
11) International trade makes developed countries richer and developing (3rd world) countries poorer. This is because (3rd world) countries produce low quality primary products whose prices have always remained low e.g. cotton, coffee etc.
12) International trade encourages consumption of expensive luxury goods like dolls, key holders, lipsticks which are not necessities to consumers, such goods require a lot of foreign exchange to import and takes large percentage of consumer's expenditure and more so tends to erode the morals and cultural values of the importing country.

ACTIVITY 1

1(a) what is international trade?
(b)What are the differences between International trade and Home trade?
2.a) What are the factors that give rise to international trade?
b) What is the meaning of the following terms as used in international trade;

i) Bi-lateral trade
ii) Multi-lateral trade
iii) Visible trade
iv) Invisible trade
v) Balance of trade
vi) Balance of payment
vii) Devaluation
viii) Dumping
ix) Terms of trade
x) Comparative cost advantage
xi) Entrepot trade
xii) Customs draw back

b) What are the advantages and disadvantages of international trade?
c) What factors limit international trade?

DAY 2

DOCUMENTS USED IN FOREIGN TRADE

1.INQUIRES AND QUOTATION

An inquiry originates from the producer/seller asking about the availability of the goods, price and terms of sale.

2. QUOTATION

Is from the seller to a prospective buyer on reply to inquiry.

3. INDENT

Is an international order addressed by the buyer to the supplier And it contains the details of goods required, date of delivery, and method of packaging, shipment instructions and any other relevant information.

An indent is of two types; -

a). **OPEN INDENT**

Is an order whereby the selection of goods is left in the hands of a chosen agent? I.e. no name of supplier is mentioned

b). **CLOSED INDENT**

Is an order whereby full details of the exact goods required are given, their prices and the names of suppliers are mentioned.

4. CERTIFICATE OF ORIGIN

Is a document that stipulates the source of the goods. This helps in assessing the duties accurately. Since countries fall with in the regional integration whereby they are privileged to enjoy the benefits of free trade e.g. P.T.A. countries, or reduced trade charges.

5. CONSULAR INVOICE

Is a document that accompanies the goods being exported, it's sealed and signed by the embassy of the country to which the goods are being exported.

FUNCTIONS

- It ensures that the goods are reasonable priced.
- It helps to discourages dumping.
- Helps to avoid imported inflation.
- It ensures that undesirable goods do not enter the country.
- Helps to speed up the delivery of the goods in case of congested ports.

6. BILL OF LADING (B.O.L)

It's issued by the ship owner in triplicate (3 copies) one copy to the exporter one to the importer and the 3rd retained by the owner of the ship.

FUNCTIONS.

- It's an agreement between ship owner and exporter to carry the goods to the destinations.
- It's a document of title to the goods.
- It is an official receipt for the goods shipped.
- Shows terms and conditions under which the shipping company has accepted the business.

EXPORT LICENCE

It is a document issued for the export of certain cargo.

(i) To limit the outflow of scarce resources especially foodstuff.
(ii) To control export of ammunitions and other arguments.

(iii) To preserve the national heritage, in case of artwork and designs.

7. **AIRWAY BILL**

It's a contract between the importer and the airline company for goods transported by air. It is similar in a form to bill of landing except it is not negotiable i.e. title to it cannot be transferred to another person.

8. **SHIPPING NOTE (S.N)**

A shipping note is issued by the owner of the ship giving particular and conditions of the goods shipped.

9. **CALLING FORWARD NOTE (C.F.N)**

This informs the export when the goods should be at the dock (loading place for ships) needy for loading.

10. **WEIGHT NOTE (W.N)**

It is a document which states the weight and measurements of goods delivered at the dock.

11. **FREIGHT NOTE**

This shows the cost of transport from one point to another.

12. **LETTER OF CREDIT.**

It means by which an importer obtains credit and the exporter gets an assurance of payments of amounts due to him. i.e. the importer gets a letter of credit from the bank which he issues to the exporter since it gives an assurance of payment of money specified. The letter in otherwise signifies that the issuing bank will pay to the corresponding the amount stated there in provided the exporter meets certain conditions.

13.**THE LETTER OF HYPOTHERCATION**

Is a letter from an exporter to his bank authorizing the bank to sell goods being exported for the best price it can get if the bank can not obtain payments on bill of exchange drawn on the importer which is already discounted for the exporter should the bank receive less money from the goods, the deficit is met by the exporter. Likewise, the surplus from the sales is transferred to the exporter.

BARRIERS IN INTERNATIONAL TRADE.

REASONS FOR PROTETIONISM

International trade is always restricted in order to check the disadvantages and it's due to; -

1. Protection of infant industries from foreign competition until they are large enough to enjoy economies of scale.
2. Anti-dumping argument, dumping, means selling surplus commodities in foreign countries at a price lower than that at home. Countries do this to expose off surplus goods and to maintain high prices at home such cheap goods discourages industries in countries where they are dumped.
3. Restrictions are necessary for national security e.g. if trade involves importation of arms.
4. Tariffs or taxes charged on imported goods serve as government revenue.
5. Employment argument imports discourage production and therefore reduce employment opportunities.
6. To check imported inflation.
7. To improve balance of payments position of a country.

8. Health purpose e.g. restrictions on importation of animal products from countries affected by diseases e.g. china with chicken fuel, Britain (mud cow diseases) e.t.c.
9. Reduction of dependence and to encourage investors in the country.
10. To develop import substitution strategies so that a country can produce what it has been importing.

ACTIVITY 2

1. (a) Explain the methods used to regulate international trade.
   (b) Why do countries regulate international trade?
2. Give the functions of each of the following documents below;

i) Indent
ii) Bill of exchange
iii) Consular invoice
iv) Charter party
v) Letter of Hypothecation
vi) Freight note
vii) Bill of lading
viii) Air way bill
ix) Certificate of origin
x) Certificate of inspection

DAY 3

ARGUEMENTS AGAINST PROTECTIONISM.

1) It allows in efficient (high cost) firms to remain in business. This leads to resource misallocation.
2) It shelters industries away from competition as a result they don't improve on the quality of their products.
3) Tariffs on raw materials end up increasing the cost of production.

TOOLS FOR PROTECTIONISM (METHODS)

In practice there is no free trade.

Trade restrictions are imposed on imports to reduce their volume of flow in the country. This tools include; -

1. **QUOTAS**

   This is the fixing of the physical quantities or value of commodities to be imported in the country.

2. **TARRIFFS**

   These are taxes on imported or exported goods. Import taxes increase the price of imported goods and this reduces their demand in the country, these taxes are of two types.

(I) **ADVALOREM TAX**

   Is a tax exchanged on the value of the commodities e.g. value added tax (V.A.T)

(ii) **SPECIFIC TAX**

   Is a tax charged on the volume of commodities?

3. **FOREIGN EXCNAGE CONTROL**

   The government can do reduce the amount of foreign exchange allocated for of goods and his restricts their demand in the country.

4. **TOTAL BAN**

   Refers to prohibition of importation of some commodities by law e.g. arms, opium, phonographic films etc.

5. **DEFLATIONARY POLICY**

   Involves reduction of liquidity in public hands which checks on the domestic demand. This can be done through fiscal policy i.e. increasing taxes and reducing government expenditure.

6. **DEVALUATION**
   Refers to reduction of the value of the currency in terms of other currencies. This makes foreign exchange more expensive and hence leads to increased prices and a reduction of imported goods.
7. **IMPORT LICENCES**
   This may be issued to a few importers or issued at a high price for importation of certain commodities.
8. **TRANSPORT DISCRIMINATION**
   For example, trains may charge more money on imports than on exports. This is to discourage imports.
9. **SUBSIDIES.**
   The government can offer financial assistance to home based industries to enable them complete favorably with foreign goods as far as prices are concerned.
   A subsidy may be offered so that the market price of locally produced goods lowers than that of similar imported goods. Eventually people will prefer to buy cheap local goods and ignore imported ones, thus discouraging imports.

10 **SANITARY REGULATIONS.**
   Under this the government may decide to introduce medical standards to be reached by certain commodities before they are imported into the country e.g. foodstuffs and medicines.

DIFFERENCES BETWEEN FOREIGN TRADE AND HOME TRADE

HOME TRADE	FOREIGN TRADE
- Internal trade of a country.	- is the external trade
- Has small market	- has large markets
- Uses local currency	- uses foreign currency
- Carrying market research is cheaper	- carrying market research is expensive
- Wholesalers and retailers are involved	- involves importer and exporters
- Goods are subjected to excise duty	- goods are subjected to customer's duty
- Roads and railways are used to transport goods	- goods are transported by air and sea
- Goods are kept in wholesaler's warehouse	- goods are kept in bonded warehouse
- Uses local media to advertise goods	- Use foreign media to advertise goods.
- It's possible to carry after sales service.	- Its difficult to carry after sales service.

PRBLEMS FACED IN FOREIGN TRADE

There are quite a number of problems experienced in foreign trade. And this includes; -

(1) Distance between countries increases costs and also expenses of maintaining trade representative abroad.

(2) Currency difference. The rate of exchange favours developed countries to the disadvantages of less developed countries like Uganda.

(3) Documentation and exportation procedures delays trade and inconvenience the traders.

(4) High tariffs barriers hinder countries to trade with others.

(5) Language differences creates problem of translating certain business documents.

(6) lack of banking and insurance facilities

(7) special packaging needed due to bad weather conditions makes goods more expensive

(8) Expensive transport, coupled with bad weather conditions leads to delays in supply of goods and thus making some goods to get expired on the way.

(9) If goods are sent on credit traders may face problems in securing payments.

(10) The problem of accidents leads to great loss of goods in transit.

(11) High competition amongst importers and exporters causes increased in the price goods.

(12) Cultural differences between countries

TERMS OF SALE

When selling goods, the seller should show the buyer the terms of sale and it should include information as to whether the seller is to pay for transport to the buyer's places or not, insurance formalities, duty tax e.t.c.

The terms should therefore be clearly quoted and interpreted to the buyer e.g.

1. **I.O. U (I OWE YOU)**

   Is drawn by the debtor to the creditor indicating that some stated amount of money is owed to the named creditor.

2. **LOCOL EX-WORKS (LOCAL PRICE)**

   This is the price of goods as they are at the exporters' premises. The importer will pay transportation or freight changes to his own place.

3. **FRANCO (FREE OF EXPENSE RENDU)**

   It includes all changes of handling packaging, transport and insurance up to the buyers' premises or other named point. i.e. the seller meets all expenses of delivering the goods to the buyer's place.

4. **F.O.R. (FREE ON RAIL)**

   It includes packaging and delivering charges up to the railway station in the exporter's country.

   Other charges of loading on the wagons, freight costs and insurance charges are paid by the importers.

5. **F.O. B (FREE ON BOARD)**

   It includes delivery, handling and loading charges. Freight and insurance charges are paid the importer.

5. **F.A. S (FREE ALONGSIDE SHIP)**
   This price includes delivery up to the side of the ship loading freight and insurance charges are paid by the importer
7. **C&F (COST AND FREIGHT)**
   This quotation includes delivery, handling loading and freight charges up to the importers premises. Insurance charges are paid by the importer himself.
8. **C.I. F (COST INSURANCE AND FREIGHT)**
   Under this price quotation, the exporter pays all the costs of handling, loading, delivery, freight and insurance.
9. **CARR FWD (CARRIGE FORWARD) CARR. EXTRA**
   The quoted price under this includes only the cost of goods. Transport and other handling charges have to be met by the buyer. Since this is an added expense to the cost of goods.
10. **F.A. Q (FREE ON QUAY)**
    This means that the seller has to transport the goods up to the quay. A quay is a place where ships anchor for loading or unloading
    F.A.Q is different from F.A.S because sometimes the ship does not anchor in the quay because the labour may be over crowned or the ship may be too large to anchor some few kilometers from the coast and smaller vessels have to be hired to take goods to it.
11. **EX - SHIP**
    The supplier pays for freight and insurance up to the point of destination. The buyer then will be responsible for the expenses of taking delivery from the ship.

12 **E & O.E (ERROR & OMMISSIONS EXPECTED)**
Normally printed on receipts or invoices and statements. It safe guards the supplier from any omissions or errors which may appear on those documents. It informs the buyer that such errors or omissions that may appear in the figures are not intended and will be subjected to corrections.

13. **DUTY PAID.**
This quotation is very expensive because on top of all expenses involved by bringing the goods to the buyer. It also includes the payment of all customs duties for the goods.

14. **IN BOND**
This means that delivery is to be made into the customs bonded warehouse at the named port, charges for withdrawing the goods from the warehouse are met by the buyer.

15. **D.D (DELIVERED DOCKS)**
Includes the cost of carriage to the docks Docks are places where ships wait for cargo.

16. **LOADED**
Includes all costs to the port of destination plus unloading charges.

FINANCING OF FOREIGN TRADE.

1. BANK DRAFTS
The importer may direct his bank to pay the exporter through the exported bank by drawing up a cheque in favour of the exports bank.

2. **TELEGRAPHIC TRANSFERS**
   This is the quickest method of payment. The buyer pays his bank in advance and the bank pay the seller through the seller own bank. Instead of sending a cheque a telegram is sent.
3. **DOCUMENTARY CREDIT.**
   The exporter may request the importer to open up credit facilities in favour of the exporter at a bank in the exporter's country. This is bank will assure will a letter of credit on behalf of the importer.

BUSINESS UNITS AND THEIR ORGNISATIONS.

A business may be owned individually or collectively, when owned individually, its called a small business and when collectedly owned its called a large business.

FACTORS DETERMINING THE SIZE OF A FIRM.

Small or large business may be determined by the following factors.

1. **The floor area occupied**.
   Large business tends to occupy large a very big floor or place e.g. Agric enterprises, textiles, Niles breweries etc.
2. **Amount of capital employed**
   Large business employ large amounts of capital while small firms employ little capital in business.
3. **Number of people employed**
   Large firms employ many people and vice versa.

4. **Production techniques used**
   The method of production used may also determine the size of the firm i.e. large firms employ modern method, while small firms don't.
5. **Quantity of goods produced**
   The gross output of large firms is large than that of small firms.
6. **Market area served.**
   Large firms normally serve large markets as compared to small business.
7. **Departments involved**
   Large firms practice specialization because of large scale operation. And this calls for a large number of departments within the firm as compared to small firms

ACTIVITY 3

1). Explain the following price quotations and delivery terms in international trade.

i.	Ex-works/loco/Ex-factory	vii.	C.I&F
ii.	F.O.R	viii.	Loaded price
iii.	D.D	ix.	In bond
iv.	F.A.S	x.	Paid duty
v.	F.O.B	xi.	Franco
vi.	Cost &Freight		

2). Give the functions of each of the following documents below;

i.	Indent	vi.	Freight note
ii.	Bill of exchange	vii.	Bill of lading
iii.	Consular invoice	viii.	Air way bill
iv.	Charter party	ix.	Certificate of origin
v.	Letter of Hypothecation	x.	Certificate of inspection

3.) Explain any five tools of protectionism as used in international trade.

(b) What are the Limitations of foreign trade?

DAY 4

ECONOMICS OF SCALE

Whether small or large a business should have a name.

The name of any business unit depends on the number of people involved and the one of operation. The common business includes;

1.**SOLE PROPRITORSHIP**

Is a business organization owned and operated by single individual

FEATURES OF SOLE PROPRIETORSHIP

- One man is responsible for the raising of capital from his servings or personal resources.
- The owner is responsible for the success or failure of the business.
- He takes all the profits but also responsible for all the business losses.
- Usually the business is managed by the owner, but sometimes a paid manager is employed. In the late case its legally possible if the owner wishes to arrange for a share of profits to be paid to the manager. However, the owner can not make any legally binding agreements to share losses with the manager.
- The liability of a sole trade is un limited i.e. there is no distinction between his business and personal property. Incase of business failure, the creditor of the business can claim payment from private property.

- Normally the business is operated under the owner's name.
- Sole trade is the simplest, oldest and most widespread form of business.
- Sale trade is most suitable for persons with small capital and who prefer to be their own bosses.
- It's the legal form of ownership used by many small businesses in Uganda e.g. retail shops, tailoring, and butcheries etc.

ADVANTAGES OF SOLE TRADE.

1) Ease and low cost of establishment. There is no act of parliament or rule for sole trader. The trader can start and change his business as he wishes without being interrupted by laws. Apart from the cost of trade license.
2) High personal incentive. The sole trader being entitled to all the business; he normally has highest incentive to make the business a success.
3) Freedom of speech and action. The sole trade since he owns the business alone; he has the freedom to make any decisions without waiting to consult others for approval.
4) Sole trade organizations are relatively small in size and therefore easy to manage.
5) In most cases the owner knows his customers personally. He can extend credit to trust worthy customers and cater for individual interest personal tastes and complaints.
6) This type of business can be self set up any where and therefore they take services nearer to people.

7) If a person wishes to cease (stop) business as a sole trader, he does not have to ask permission. He merely stops doing business.
8) As the assets and profits belong to the owner, the sole trader is likely to put much effort than a person working for some one else.
9) There is confidentiality as regards his business since every transaction benefits or loss is known to him alone.
10) It is flexible one can change his business from one line of business to another.
11) The sole trader pays a single personal income tax on the profits realized from the business unlike the co-operation, he is not subjected to specific tax charged on the income of the business.
12) A sole trader provides employment to his family members.

DISADVANTAGES OF SOLE PROPRIETORSHIP

1) Unlimited personal liability for all business debts. i.e. if the liabilities of the business exceed assets, the owner can be required by low to pay the differences from his personal resources.
2) A sole trader is usually limited in the amount of capital he can obtain and limited capital means limited stock.
3) A sole trader often has to do all the work himself he is therefore overworked.
4) Limited talent. A sole trader is responsible for every phase of the business. He therefore can not do everything efficiently and effectively.
5) A sole trader working capital is normally small so his purchases are relatively small and the discounts he receives on

6) purchases are quite small compared to those of large organization.
7) Lack of continuity. The very fact that the sole trade is the sole owner of the business. Means that his absence through illness, bankruptcy or death can quickly throw the business into confusion.
8) Where there is retail price maintenance i.e. where the price of goods he deals in are fixed by the manufacturer, his profits margin is limited.
9) Not a legal entity. The business is not recognized as a separate entity.
10) A sole trader ca not afford modern techniques of operation.
11) There is no proper accounting system with a sole trader.
12) Little capital gives no room for business expansion.

ACTIVITY 4

a. What is sole proprietorship?
b. Why is sole proprietorship the most common form of business ownership in Uganda?
c. What are the advantages and disadvantages of sole proprietorship?

AY 5

PARTNERSHIP

Partnership is legally defined as the relationship between persons carrying on a business with the common objective of making profits.

TEMPORALLY AND PERMANENT PARTNERSHIP

A partnership may be temporal or permanent. A temporal partnership is formed for either a specific purpose or period. When the period or purpose has expired the partnership is dissolved e.g. if Mr. Owino and Mr. Mukasa form a partnership of constructing a building at the completion of the building, the partnership will be dissolved.

Temporal partnership is also called joint ventures. Permanent partnership can continue in indefinitely i.e. up to a time not known when the partnership is dissolved.

FEATURES/CHARACTERISTICS OF PARTNERSHIP.

- Partners need to be 2-20 and professional firms it is 2-50 partners.
- It results from contractual agreement among partners i.e. guided by a partnership Deed.
- Management is carried out by all in case of ordinary partnership.
- Each partner is an agent of the firm i.e. one is bounded by the activities of the others.
- Each partner has unlimited liability except in limited partnership.
- A partnership firm has no separate legal existence.
- There is no transfer of capital without the knowledge of others.
- Major decisions are made by majority through mutual understanding or consent.
- Profit sharing is not in proportion to capital contribution especially where there is no written agreement.
- Each partner must act in good faith with each other and present true accounts.
- Association is registered with the registrar of business.

MEMBERSHIP

This usually comprise a minimum of two and a maximum of twenty (2-20) except for a firm that offers professional service like accountants, lawyers, which have a maximum of 50 provided all are qualified people who have no contractual capacity e.g. the save, bankrupt

One can not be apart of partnership because it is a contract where partners agree to abide by certain conditions and to undertake certain responsibilities.

TYPES OF PARTNERS.

Partners may be classified into various ways.

(1) They are classified according to the role the role they play i.e. active or dormant.
(2) According to their liabilities for the firm’s debts i.e. may be general or limited.
(3) Classified according to their ages i.e. major or minor.
(4) And may also be classified according to their capital contributions i.e. a partner may be real or quasi

1. **ACTIVE PARTNER**
   Is one who provides capital shares profits and losses. He plays an active role in the day to day running of the business and they include people like accountants, managers’ etc.
2. **DOMANT/SLEEPING/SILENT PARTNER**
   Contributes capital towards the business, shares profit and losses, but take no part in the running of the business.
3. **LIMITED PARTNERS**
   Is a partner whose liability towards the firm’s debts is limited to a state sum usually the capital contributed by him

4. **GENERAL PARTNER/ORDINARY PARTNER**
   Is one who has unlimited liability and may be called upon to meet the firm debts from his personal resources if the firm fails to settle them.
5. **MAJOR AND MINOR PARTNER**
   A major partner is one who is above 18 years of age.

MINOR PARTNER

Is one who is below 18 years of age. He is a limited partner i.e. his liability towards the firm's debts do not exceed his capital contribution. However, he has a right to act on behalf of the business and also entitled to certain privileges.

6. **QUASI/OSTENSIBLE PARTNER**
   Is a person who lends his name and standing to the business in exchange for a free but does not contribute any capital to the business or take part in the daily running of the business daily running of the business. He is not liable for the debts of the business.
7. **ESTOPPEL PARTNER**
   Is a partner by behavior so other members believe him as a partner by basing on his associative character.

FORMATION OF PARTNERSHIP.

A partnership may be formed by express agreement or by implication.

Express agreement means that the parties agree verbally or in writing to establish a partnership.

Partnership by implication arises when court hold that two or more parties intended to act as partners. E.g. they share profits and losses even through no express agreement were made.

Joint or common ownership of property however, is not sufficient evidence of partnership even if the owners share any profits from its use which the partnership business will be conducted.

It's necessary as it helps to solve misunderstandings when they arise.

CONTENTS

- The name, address and purpose of the firm.
- The names and addresses of the partners.
- The amount of each partner's capital.
- Status or types of each partner such as active, dormant, general or limited, partner.
- Provisions for interest on capital and services if any.
- The ratio in which profits and losses are to be shared.
- The drawing privileges if any of the partners.
- The authority and duties of each partner.
- Limits to a partners right to individual action financial commitment for over one million shillings without other partner's consent.
- The life of the partnership.
- The way in which retired deceased or expelled partners share of partnership is to be settled.
- The accounting period to be used and the accounting records to be kept.
- The ways of settling disputes between partners.
- When and how management committee is elected.

ACTIVITY 5

1. (a) What are the advantages and disadvantages of partnership?
   (b) What are the features of partnerships?
2. (a) What is the difference between a partnership and a partner?
   (b) What is the difference between the following types of partners?
      i. General partner and limited partner
      ii. Active partner and dormant (sleeping) partner.
      iii. Real partner and quasi(nominal) partner
      iv. Minor partner and major partner
   (c) What is the meaning of the following forms of partnership?
      i. Permanent partnership
      ii. Temporary partnership
      iii. General partnership

DAY 6

THE PARTNERSHIP ACT OF 1890

If there is no deed of partnership, the partnership act of 1890 revised 1934 chapters (29) applies

CONTENTS OF THE ACT (1890)

(a) All partners have the right to contribute equal amount of capital.
(b) Profits and losses shall be shared equally by all partners.
(C) No partner can claim interest on capital
(d) Any additional capital is a loan and should receive interest at 5% per year.
(e) Every partner should take part in the management of the partnership but no partner should claim salary or wage.
(f) No person may be introduced as anew partner without the consent of other partner.

(g) No majority of the partners can expel any partner unless power to do so has conferred by express agreement between partners.

(h) The books of accounts must be left at a place of business and all partners have the right to inspect them.

(I) Every partnership is dissolved as regards all the partners by the death, bankruptcy of a partner.

(j) No change may be made in the nature of the business without consent of all partners.

NB the above rules only apply when there is no partnership agreement.

RIGHTS AND DUTIES OF PARTNERS.

(1) Every partner is an agent of the firm.

(2) A partner has implied authority and power to draw, sign documents, buy and sell goods but only in a trading firm.

(3) Partners deal with each other in at most good faith in all matters concerning partnership.

(4) If a partner has a private business that competes with the partnership, all profits made by him should be surrendered to the firm.

(5) Partnership properly is jointly owned.

(6) Majority votes can not expel a partner unless stated out in the deed or agreement.

(7) No new partner may be admitted without the consent of all partners. Similarly, no partner can sell his shares to any outside without the consent of all other partners.

(8) All partners are liable for the debts of the firm.

(9) The firm must indemnity a partner for liabilities incurred by him in the conduct of the business.

ADVANTAGES OF PARTNERSHIP

1. More capital. It has more capital than that of sole trade and thus making it possible for easy expansion.
2. Better credit standing. Partnership finds it easier to obtain trade credits from suppliers and loans from banks because of large scale operation.
3. Pooling of knowledge. Because partnership involves many people, its easy to share knowledge and skills and thus better management than sole trade.
4. The owners are not overworked because work is shared amongst partners.
5. Usually it's a family business in terms of ownership and staffing, so it tends to be more successful than companies.
6. Unlike company's partnership affairs are private.
7. Formation of partnership does not require many legal formalities.
8. In limited partnership member's liability is limited to their capital contributions.
9. New partners may be invited in case the business needs more capital for expansion.
10. The loss burden is shared by all partners unlike in sole trade where only one person faces the burden.

DISADVANTAGES OF PARTNERSHIP.

1. Unlimited liability. Each general or ordinary partner has unlimited liability for the debts of the business.
2. Profits are shared by many which reduce the amount received by each person.

3. Partners are liable to disagree on various matters affecting the business. This may create unpleasantness and may show own or even retard the firm's progress.
4. Lack of continuity. A partnership is legally terminated if one partner dies, become insane, insolvent e.t.c.
5. Compared to sole trade, there is less freedom of action since each partner must be consulted every time decision is made.
6. The death of an active partner may affect the efficiency of the business.
7. If one partner makes a mistake all the partners have to suffer the consequences.

DISSOLUTION OF PARTNERSHIP

Dissolution means bringing an end to the existence of partnership. Partnership can be dissolved under the following conditions.

1. It entered for a defined time. By expiry of that time.
2. In case of change of the name of business.
3. it entered for a fixed term, by the expiry of that term
4. By any partner giving notice to the others of his intention to dissolve partners.
5. If the purpose for which it was formed is achieved.
6. By the helping of any event that makes it unlawful to continue with the partnership business e.g. if the business can not be run at a profit.
7. Also section (35) of the act provides that the court may on application by a partner decreed solution, e.g. in case where a partner is proved to be of unsound mind.
8. If a partner becomes in same, bankrupt or death of a partner.

NB Upon dissolution the rights and obligations of partners continue to fill all transactions have been up each partner is entitled to the properly of the partnership and to share in the surplus of assets after the debts of the firm has been cleared.

DIFFERENCES BETWEN A SOLE TRADER AND PARTNERSHIP.

SOLE TRADER	PARTNERSHIP
-Single owner.	- At least two
-No agreement is required	- An agreement is a must.
-No legal requirement for Registration	-There is legal requirement for limited partnership.
Management is by one person.	-Management maybe shared among members.
- Losses and profits are suffered by one Person.	-Losses and profits are shared among the partner.
- Amount of capital is usually small	-The amount of capital is co-operatively large.
- Liabilities are unlimited	- Liabilities limited to the limited partnership.
- No continuity after the death of the owner	- May continue after the death of one partner.
-Decision making is easy.	-Decision making may be slow.

PROBLEMS FACED BY SMALL TRADER IN UGANDA.

1. limited capital
2. Poor transport especially in rural areas.
3. high level of competition
4. space difficulties

5. Selling poor quality products that results in low rate of turn over.
6. Small trade discounts because they purchase in small quantities.
7. Bad debts because of credit selling.
8. Faster rate of commodity depreciation especially by hawkers.
9. They can not afford advertising costs due to small scale operation and thus low sales.
10. high taxes charged by government
11. Most of them are one man firms hence personal problems affects the business.
12. Political instabilities in some parts of the country affect their activities.
13. Common theft affects them.
14. Limited skills in business
15. High rate of uncovered risks because they are poor.

ACTIVITY 6

1. (a) what is the difference between a partnership and a partner?

(b) What is the difference between the following types of partners?

v. General partner and limited partner
vi. Active partner and dormant (sleeping) partner.
vii. Real partner and quasi (nominal) partner
viii. Minor partner and major partner

(c) What is the meaning of the following forms of partnership?

(i) Permanent partnership.
(ii) Temporary partnership.
(iii) General partnership.
(iv) Limited partnership.

2. (a) What is a partnership deed?

(b) What are the contents of a partnership deed?

(c) Outline the provisions of the partnership act of 1934 cap 29 that will apply in the absence of the partnership deed.

3.(a) What is the meaning of the term 'dissolution of partnership'?
(b) Under what circumstances may partnership be dissolved?
(c) What are the rights and duties of partners?

DAY 7

JOINT STOCK COMAPANIES.

Defn: Is a corporate association of person formed to carry out certain specific functions. Its corporate body because it created under law and has an entity of its own quite separate from the members that comprise it.

It's a legal person that can enter into contact, own properties, incur liabilities, sue others and be sued by others.

FORMATION OF COMPANIES

The first move in the formation of a company is to bring it into separate legal entity a part from the individuals who comprise it i.e. registering it to the registry of joint stock companies under the companies of 1988 and 1989 respectively.

That incorporates all forms I of undertaking from the largest to smallest business.

TYPES OF COMPANIES.

Companies classified into:

Statutory companies and registered companies.

1. **Statutory companies**

   These are formed by the power or laws passed by the parliament but do not work for ordinary companies formed this way are Uganda railways co-operation, (URC), National water and sewage co-operation (NW&SC) etc.

2. **Registered companies**

Are those formed and registered under the companies act of 1985 and 1989 and are the most common type of companies found in East Africa e.g. Kakira sugar works 1985 (u) limited (Ltd) e.t.c.

TYPES OF REGISTERED COMPANIES.

Registered companies are classified into

(1) Public or private companies i.e. according to the number of members.

(2) According to liability of members as limited or unlimited companies.

(3) Limited companies may be limited by shares or limited by guarantee.

PRIVATE LIMITED COMPANIES.

Is developed form of partnership business. They are formed when there is no intention of going to the public for funds. And it may consist of between (2-50) share holders. And has the status of a private company only if its articles of association contain the following three restrictions.

1. The right to transfer shares is restricted

2. The number of members exclusive of present and past employees who become shareholders when they were employed and have continued to remain share holders ever since is limited to fifty (50)

3. no subscription of shares from the public.

CHARACTERISTICS OF A PRIVATE LTD COMPANY.

CHARACTERISTICS.

1. It consists of 2-50 members.
2. it’s a legal entity
3. member’s liability is limited to their capital contributions
4. share is not sold to the public
5. Transfer of shares is restricted. It must be approved by the board of directors
6. Its information is voluntary.
7. its capital is divided into various shares
8. it is formed for the purpose of making profits
9. Starts business after receiving a certificate of incorporation.
11. There may be no need for the prospectus.

ADVANTAGES OF PRIVATE LIMITED COMPANIES

1. It has more capital than that of partnership and sole trade.
2. Better credit standing because of large scale operation, private companies can afford to get trade credits from suppliers and loans from banks.
3. Pooling of knowledge because its owned by many members, its easy to share knowledge and skills for better management.
4. Since it owned by many people (up to 50), the owners are not over worked.
5. It enjoys privacy unlike public ltd companies.
6. New members may be invited incase the company needs more capital.
7. Formation of a private company is not very expensive.
8. its members enjoy limited liability
9. It has a separate legal entity.

DISADVANTAGES OF PRIVATE LIMITED COMPANIES

1. Profits are shared by many people which reduces the amount received by each member
2. There are disagreements by various matters affecting the business.
3. There is less freedom of action since its by many people.
4. can not go to subscribe for shares from the public
5. Transfer of shares is restricted. This ties the members in remaining share holders for life.
6. if one member makes a mistake all the members have to suffer the consequences

LIMITED AND UNLIMITED COMPANIES

A limited company is one liability of whose member is limited to a stated amount (usually the face value of capital contributed by them)

The liability of unlimited companies is unlimited like those of sole traders and general partners.

LIMITED BY SHARES OR GUARANTEE.

Limited companies may or may not have shares. If they have a share capital, the liability of their shareholders is limited to the face value of the shares held by them.

If the company has no share capital, the liability of its members may be limited to a sum guaranteed by them. i.e. if such a company is liquidated and debts, the members would be asked to contribute up to the maximum of the amount guaranteed by them at the time of taking membership.

PUBLIC LIMITED COMPANIES

A public company can be formed in three ways.

1. By registering it.
2. By registering it as a private company and converting after wards into a public company.
3. By converting unexciting private company, the convention is made by removing from its articles of association the three restrictions.

FEATURES OF A PUBLIC LIMITED COMPANY

1. They have a legal entity of their own quite separate from the member that constitutes them.
2. The liability of members is limited.
3. they have a minimum of 7-with no maximum
4. their capital is divided into units of uniform value called shares
5. The owners are people who hold its share and are called shareholders.
6. Shareholders have no direct contact with employees or customers of the company.
7. Shares are freely transferable.
8. The company is not affected by the death bankruptcy of a shareholder.
9. The company is under the control of board of directors who are policy makers of the company and are elected from the shareholders themselves.

ACTIVITY7

1. (a) what is a joint stock company?
   (b)What are the features of a private limited company?
   (c)What are the features of a public limited company?
2. What are the advantages and disadvantages of joint stock companies?

DAY 8

STEPS IN THE FORMATION OF A COMPANY

Interesting people wishing to form up a company should present the following documents to the registrar of companies.

1. **MEMORANDUM OF ASSOCIATION**
   Is the most important document prepared when forming a company. It hays down and clearly defines the limitations and powers of company.

CONTENTS

- The name of the company with the word limited at the end e.g. international limited.
- The country or town in which the registered office is situated.
- Objectives it shows the aims and purpose for which a company is formed. Helps public to know what they subscribing for decline to become shareholders or not.
- The nature of its capital stock i.e.
  - Total amount of share capital
  - Value of each unit
  - The type of share capital i.e. preference shares and ordinary shares.
- Name, postal address and signature of each applicant.
-

- Whether the company is to be private and if private the restrictions to be placed on the transfer of its shares.
- A statement that the liability of members is limited.
- The rights of each class of shares. The purpose of memorandum of association is to sell out the rules as between the company and the people and organization with whom it deals. It gives the external relationship of the company with the nest of the world.

ARTICLES OF ASSOCIATION

It states the rules and regulations for internal working of the company.

Contents

(i) It contains the rights of shareholders.
(ii) The issues and transfer of shares.
(iii) Share capital and its divisions into various classes and rights attaching them.
(iv) The methods of calling and conducting annual general meetings and voting powers of shareholders.
(v) Methods of dealing with alterations in the capital.
(vi) Regulations concerning the qualifications, appointments and powers of directors and secretaries.
(vii) The conversion of shares into stock
(viii) The payment of individuals and reserves.
(ix) The method of audit and other internal or domestic affairs of the company.

NB. The articles of association serve as guidance to internal management of the company.

STATEMENT OF NOMINAL CAPITAL

This document specifies the maximum amount of capital the company expects to raise and specifies the different classes of shares which constitute it.

LIST OF DIRECTORS

A list of persons who have accepted to become directors and their written promise to act as directors.

CERTIFICATE OF INCORPORATION

After receiving the memorandum of association, articles of association and registration fee paid, the registered of companies issues the certificate of incorporation. This bring the company into legal existence or identity quite separate from the members who complete at this stage, a private company can begin business if it has capital. But a public company must first issue a prospectus for the imitation of shares.

THE PROSPECTUS

Is any notice to the public inviting them for the subscription or purchase of shares or debentures of the company

CERTIFICATE OF TRADING

Is a document that empowers a public limited company to start business. It is issued by the registered of companies after;

- The minimum share capital has been paid.
- The directors have filled a recreation that the above requirements have been incurred.

DIFFERENCES BETWEEN A PUBLIC LIMITED COMPANY AND A PRIVATE LIMITED COMPANY.

- ❖With a public limited seven members to start with not maximum. While at least ten to fifty members in a private limited company i.e. begins with two and maximum of fifty.
- ❖Public limited company sales shares to public while private limited does not sale share to the public.
- ❖In a public limited company shares are freely transferable whereas in private limited company not i.e. restricted.
- ❖Public limited company enjoys and limited liability while in a private limited company liabilities are unlimited.
- ❖A public limited company is a legal entity while a private limited company is not a legal entity.
- ❖A public limited company needs a proper thus to start its business, while the private limited company does not.
- ❖For a public limited company to start business requires certificate of trading while a public limited starts business after receiving certificate incorporation.

THE CAPITAL STRUCTURE OF A COMPANY

The company obtains its capital by the sale of shares or its capital, stock which may be issued with per value i.e. with certain value.

ACTIVITY8

1(a) Define and give the contents of;

i. Memorandum of association
ii. Articles of association

b) Give the meaning of the following documents as used in the company formation;

i. Certificate of incorporation
ii. Prospectus
iii. Certificate of trading

2. What are the differences between a public limited company and A private limited company**.**

DAY 9

SHARES

A share is a unit of capital or a fixed part of capital of joint stock Company i.e. it's the interest which a shareholder has in a company and is measured in terms of money.

They are normally sold at a smaller amount to encourage more people to buy there.

FORMS OF SHARE CAPITAL

1. **NORMINAL OR AUTHORISED OR REGISTERED SHARE CAPITAL.**

This is the maximum amount of money that the company expects to raise from its shares. And it's the amount state in the memorandum of association and statement of understanding Capital. Its raised by selling shares to the public. Assume that the company's share capital is made up of 10,000 shares capital is made up of 10,000 shares each 100/=. The nominal capital will be 10,000x100= shs100,000.

2. **ISSUED SHARE CAPITAL**

This is part of the company capital authorized which the directors have issued to the public. Suppose they issue 5000 shares each at shs 100/= Thus 5000x100 = shs 500,000/=. The member is what is called the un issued up shares capital.

3. **CALLED UP SHARE CAPITAL**

One the shares have been issued and allocated to the public, the shareholders are called up to subscribe or to pay.

They may be called up to pay for all the shares issued at their face value or only a fraction of what is issued.

Assume that each share holder is called upon to subscribe shs 50/= for the amount of called up capital is 5000x50/= = shs250.000

4. **PAID UP SHARE CAPITAL**

When the company calls upon subscribers is pay a portion out of the issued capital, some will pay and others may not pay, e.g. out of the shs 250,000/= called up capital only shs 200,000/= may be paid, therefore shs 50,000/= becomes unpaid up capital.

5. **MINIMUM SHARE CAPITAL**

This is the amount stated by the promoters when applying for registration of the company as the minimum amount needed to begin trading

TYPES OF SHARES

A company normally shares different classes of share capital. The issue may be ordinary or preferred share.

ORDINARY SHARES

They have no fixed rate of return. They get residue i.e. the entitled to the remainder of the profits. After the preference dividend and loan interest are paid. In days of good business, they get more than the preference share holders.

Only ordinary shareholders have a right to vote on important company matters.

PREFERENCE SHARES

Have fixed rate of return i.e. are entitled to the first rate of dividend. Profits distributed to shareholders before any distribution to ordinary share holders. Dividend is paid to them at a fixed percentage e.g. 5% e.t.c. But have no voting rights.

CLASSES OF PREFERENCE SHARES.

1.**COMULATIVE PREFERNCE SHARES**

Holders of this are assured of their dividend every year. The areas are carried forward and must be paid in succeeding years before profits are distributed to other classes of shares. i.e. dividend keep on accumulating till paid.

2.**NON-ACUMULATIVE PREFERENCE SHARES**

Un like the above these stand chance of not getting dividends should a company fail to make profits in a particular trading period. However, they carry higher dividend than ordinary shares.

3.**PARTICIPATING PREFERENCE SHARES**

The holders of these are entitled to share in some proportion in any profits that are distributed after the ordinary shares have received a specified amount.

4.**FOUNDERS SHARES OR DEFFERED SHARES.**
These are not common today and when they exist in a firm, they are usually few in number and owned by the founder of the company in relation to their value and number, the holder of these shares posses very high voting power but have no claim on the profits of the company. However, they are paid after the preference and ordinary shareholders have been paid. And where the profits are high, the dividend received by them may large.
5.**REDEEMABLE PREFERENCE SHARES.**
Are shares that are bought back by the company after a stated period of time e.g. 5years.
The company pays some interest to shareholders for the period held and is issued when the company needs money temporally.

IRREDEEMABLE PREFERENCE SHARES.

Unlike the above, these can not be bought back from the holders by the issuing company. If one wants to convert theses shares into cash, he may do so by selling them to any member of the public or to the stock exchange.

ISSUE OF SHARES.

Once the company has received a certificate of incorporation, it can offer its shares to the public. The promoters of the company are required to state the minimum amount which they need to start business.

This amount must be raised by selling allowed to start its business activities.

Application for the issue of Shares is invited through press advertisement. A prospectus of the company is prepared which contains the necessary information about the company including the memorandum of association. Members of the public are invited to apply for the shares through specially appointed banks that distribute prospectus and application forms and receive applications for shares and money on behalf of the company.

UNDER WRITING

If the company feels that it will not be able to sell the shares its offering, it may get a commercial bank or insurance.

Company or shares broker to under write the issue. This means that the underwriter undertakes to buy any shares that may not be taken up by the public. He is paid a small commission for the guarantee.

DIFFERENCES BETWEEN SHARES AND STOCK

STOCK	SHARES
• Is a block of shares	- Shares may be converts into Stock if the Articles of Association Permit it.
• Could be of any amount don't bear serial Numbers	-Shares are of fixed denomi and nations and bears serial numbers

DEBENTURES

It's a limit of loan i.e. money borrowed by the company from the public for its long term financial needs.

Debenture holders are paid a fixed rate of interest which must be paid whether the company makes profits or not. And its classified under the following

(a) Classified according to the security pledged against them as naked debentures or mortgaged debentures.

(b) Classified according to demotion as redeemable debentures or irredeemable debentures.

1. **NAKED DEBENTURES**
These are unsecured debentures i.e. no property is pledged against them. If the company goes bankrupt, the holders of naked debentures rank among ordinary creditors of the company.

2. **MORTAGE/SECURED DEBENTURES**
These are fully backed by specific company assets, failure to pay the money, the debenture holder can sell off the assets to recover his money.

3. **REDEEMABLE DEBENTURES**
These are borrowed for a specified period and redeemed at the end of the loan period i.e. the amount borrowed against them is refunded after a specified minimum period e.g. (7-10) years.

4. **IRREDEEMABLE DEBENTURES**
These are never refunded. The money borrowed against them remains outstanding till the company is liquidated.

DEFFERENCES BETWEEN SHARES AND DEBENTURES

SHARES	**DEBENTURES**
• Is a limit of capital	- is a limit of a loan
• A shareholder is one of the owners of The company	- A debenture holder is a creditor of a company.
• Shares are paid dividends	- Debentures are paid interest
Shares are unredeemable	- Debentures are redeemable

- Shareholders have a right to vote on the affairs of a company ***while*** Debentures have no right to vote on the affairs of the

company

Except for preference shares, there is no limit return on dividend paid on shares ***while*** debentures are restricted to percentage stated.

WINDING UP OF A COMPANY

A company may be liquidated voluntarily by shareholders or by court upon petition from unsatisfied creditors.

1) It members wish to liquidate the company; the directors are required to fill a declaration of solvency. This document states that the directors believe that the assets of the company are sufficient to pay off its debts. A liquidator is appointed by the shareholders, assets are sold and adverts are placed in newspapers for creditor to come forward to prove and claim their debts. If any money remains after settling all debts, it is distributed amongst shareholders.
2) If the directors are unable to fill a declaration solvency because they think that the assets will not be sufficient to pay off the company's debts, a meeting of directors is called. Creditors then appoint who sells assets and pays off creditors.
3) A court can order liquidation if its satisfied that the company is unable to pay off its creditors and continued existence would only result in further accumulation of debts. The court appoints an official receiver who carries out the procedure of selling the companies assets and paying off creditors.

ADVANTAGES OF PUBLIC COMPANIES.

1) They have more capital than that of sole trader and partnership.
2) Its members enjoy limited liabilities
3) Death of a shareholder does not affect the existence of the company.
4) Employment of specialists is possible due to its large capital
5) People with small capital can easily join it.
6) Specialization can easily be exploited.
7) Management is elected democratically.
8) Shareholders are safeguarded by the legal regulations underlying these companies.
9) They enjoy large profits due to their large scale operation.
10) Incase of public limited companies, shares are freely transferable.
11) Employees may be allowed and encouraged to buy shares in the company. This gives an additional incentive to work hard.

DISADVANTAGES OF PUBLIC COMPANIES

1) The shareholders don't have direct control over the running of the business.
2) The directors may have their own interest that may conflict with the interest of the company.
3) Formation of company is along and expensive procedure.
4) Since all important decision are taken by the directors and shareholders, decision making may be slow and often very expensive.
5) Being large management is difficult.
6) There is lack of personal initiative to work hard compared to sole trade.
7) Taxes imposed on companies reduce its profits.

8) There is no secrecy as regards business out comes, since many people on it.
9) Sharing of profits reduces the amount of dividends received by each shareholder.
10) They are not flexible due to its large size.

ACTIVITY10

1(a) what is a debenture?
(b)Explain the different types of debentures.
(c)What are the differences between shares and debentures?
(d)Outline the grounds that may justify the winding up of a company.

2. What are the differences between a partnership and a company?
3. Distinguish between the following;

i. Equity shares and preference shares.
ii. Cumulative preference shares and non-cumulative preference shares.
iii. Redeemable preference shares and irredeemable preference shares.
iv. Participating preference shares and deferred shares.

DAY 11

CO-OPERATIVES

Is a voluntary association of individuals operating a business with the aim of improving the welfare of their members.

WHY GOVERNMENT SHOULD PROMOTE FORMATION AND DEVELOPMENT OF CO-OPERATIVE SOCIETIES.

- They give financial assistance in form of credit especially to farmers.
- Provide transport facilities.
- Education of farmers.

- Provide storage facilities.
- Provision of farm inputs at subsidized prices
- They provide tractor hire service to farmers.
- Marketing produce
- Buying produce.
- Advising farmers.
- Selling of goods to members at fair prices.
- Help in implementation of government policies.
- They help in transformation of economy from subsistence to commercial production.

FORMATION OF CO-OPERATIVE SOCIETY

Following are steps in the formation of co-operative societies.

1. The drafting of the bye-laws. This is an equivalent to the memorandum of Association and articles of association of a limited company.
2. The bye-laws are then submitted to the commissioner for co-operatives for approval and registration of the society.
3. Upon approval, a registration, a certificate is issued to the new society by the commissioner for co-operatives. Then the society can start its business.

CAPITAL OF CO-OPERATIVE SOCIETIES.

The capital of a co-operative society is raised from the subscriptions of its members. Each member pays a small sum of money to become a member when this is put together, they build a large capital.

Unfortunately for the co-operatives even if this money is put together, it can not run a big business instead the co-operative has to look for other sources of capital namely.

1) The loans from co-operative development Bank (UCDB) normally passed through the co-operative unions.
2) The savings of members deposited with co-operative savings and credit societies.
3) Reserves i.e. part of dividend made by the society which is not given out to members but retained to provide additional capital.

CONTROL AND MANAGEMENT OF CO-OPERATIVES

The business of co-operative is entrusted to a committee of management which is elected by members on the basis of one man one vote.

The executive would include the president/chairperson secretary manager treasurer and committee members.

THE BASIC CO-OPERATIVE PRINCIPLES

1) Open and voluntary membership. The membership of co-operatives is open to all who can fulfill the bye-laws of the society e.g. Age, lives within a given geographical area and also possess land incase of agricultural co-operative. And should not be limited by social, political, tribal, racial, or religious differences.
2) Democratic administration. The administration of co-operative is under taken by members who are shareholders and has the policy of one man one vote regardless of the number of the shareholder.
3) Payment of limited interest on share capital. They normally provide small interest rate on share capital which does not exceed 5%.
4) Dividend (share of profit). It pays dividend to shareholders in good years but on condition. E.g. in producers’ co-operative,

dividend is given out according to the ratio of how more the dividend and vice-versa. In case of consumer co-operative, dividend is given according to how much one has purchased from the society. The higher the purchase, the higher the dividend payable on share capital.

5) Co-operative with other member co-operatives at local national and international levels this is because they have the same things in common and can learn from each other.
6) To become a member, a small membership fee is payable.
7) Education of members. They undertake to educate their member to attain a good standard of education.
8) Most co-operatives carry their business in cash basis and do not give credit.
9) They are supposed to be impartial i.e. no interference by politics, religious and ratio differences.
10) Their major aim is not to maximize profits but to maximize services to members by providing goods and services at reasonable prices.

STRUCTURES AND MANAGEMENT OF CO-OPERATIVES

1. PRIMARY CO-OPERATIVE SOCIETY

This co-operative society are small and membership consist of individuals in an area e.g. peasants

2. SECONDARY/CO-OPERATIVE UNIONS.

They are larger than primary co-operative society. They are formed to help primary societies have a strong bargaining power in the marketing system of their produce.

To help farms obtain agricultural inputs like hoes, fertilizers, seeds, pesticides e.t.c.

Often co-operative unions are formed at the district/regional levels and represent primary society at international levels.

The almost organ in this movement is the co-operative alliance e.g. Uganda co-operative alliance

Secondary co-operatives include south Booked co-operative union, Bugs Co-operative Union.

TYPES OF CO-OPERATIVES

There are basically four types of co-operative society

1. RETAIL CONSUMER CO-OPERATIVE

Is a form of retail business owned and operated by a group of final consumers who buy and sell goods to fellow members at reduced prices.

FUNCTIONS

- To protect members and non-members against excessive high costs of distribution due to too many middlemen in the distribution network
- To protect consumers many of which are in experienced and weak buyers who are persuaded by skillful sales men to buy things which they really do not want.
- They buy cheaply and collectively from either producers or wholesalers and sell to themselves at a fair price.

2. PRODUCERS CO-OPERATIVE SOCIETY

Formed by a group of producers to strengthen their bargaining power in the marketing system of their produce.

FUNCTIONS

- Collection and transportation. They collect and transport farmers produce to markets and other buying agents.
- Help to improve agricultural products by encouraging the production of more standardized products or effective grading of the product.
- Financing the producers. They buy farmers produce at fair prices which has been established.
- They provide useful channel of spreading ideas for the improvement of cultivation to peasant farmers. The farmers are thus provided with special and advisory services e.g. how to apply fertilizers and insecticides to crops.

WHOLESALE CO-OPERATIVE SOCIETY

This was the first formed in 1863 to supply the retail societies with goods and so reduce their dependence on other forms of wholesale business.

They operate in the same principle and membership is by individual consumer co-operative societies.

FUNCTIONS.

- ❖To assist retail consumer co-op0eratives by providing specialists services such as advertisement, market, market research e.t.c
- ❖To offer commercial services like Banking, insurance and building societies.
- ❖To extend credit facilities to their members
- ❖To buy, process and produce other farm products like milk.

NB This form of co-operative society is not very popular in East Africa.

SAVINGS AND CREDIT CO-   OPERATIVE SOCIETIES

Formed to encourage savings by consumer producers and other salaried workers whose income is fixed.

Members of this society are allowed to obtain loans from the society for the purpose of improving the farm, educate children, and construct houses e.t.c.

REASONS FOR THEIR SUCCESS IN EAST AFRICA.

1. In East Africa producer co-operatives deal mainly in primary products which are the main foreign exchange earner therefore the government finds it necessary to support them
2. They are located in remote areas where individual farmers can not afford the cost of marketing their crops.
3. In many parts of East Africa people service by subsistence farming thus giving little scope for consumer co-operatives.
4. They have strong bargaining power.

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PROBLEMS FACED BY CO-OPERATIVES IN UGANDA.

1. lack of sufficient transport facilities like trucks, good roads e.t.c

2. Failure of members to pay their subscriptions tends to limit efficient operations of co-operatives some members are poor.
3. Mismanagement of the co-operatives due to lack of skilled management staff.
4. Co-operatives have constantly suffered from little support from the government especially on the side of finance.
5. Embezzlement of the funds of co-operatives by the officials has led to some co-operatives to close down their business.
6. Wide spread illiteracy among the co-operative members, most of them are ignorant about the affairs of co-operatives.
7. Tribalism in Uganda is common practice which endangers the unity of the members in a co-operative society.
8. Storage is yet another problem especially where it involves bulk and perishable commodities.
9. Price fluctuations at the world market discourages co-operatives to actively participate.
10. None payment of farmers' products has discouraged farmers, thus limited co-operatives activities.
11. Insecurity in some parts of the country has not favored co-operative operations.
12. Government policy of liberalization of the board reduces their activities and adversely affects flexibility of their operations as well as the efficiency of management.
13. Lack commitment of the managers of the society who are not full time mangers, but merely part time employees hence no a lose attention to societies.
14. Co-operatives have failed to complete favorably with the private traders whom they are stirring to replace. The private

15. traders even offer attractive prices to producers hence out competing them in business.
16. Smuggling of produces to neighboring countries to some extend, limits the activities of producers' co-operative societies.

ROLE OF CO-OPERATIVES IN AGRICULTURAL DEVELOPMENT IN UGANDA.

1. They help farmers in getting better prices for their producers thus making agriculture a profitable occupation.
2. Help in distribution of farm input at a reduced price e.g. fertilizers, seeds, farm tools among others.
3. The climate wasteful competition and exploitation of farmers by middlemen.
4. They collect, store and transport agricultural products.
5. Consumer co-operatives provide members with cheap consumer goods.
6. They create employment to people in transportation, marketing and export of other products.
7. Provide education to members and to the general public on how to use agricultural inputs and on methods of farming.
8. They increase co-operation among the people. In some countries co-operatives have acted as political units especially in socialists' countries.
9. They also provide a channel of distribution of whatever loans and help government wishes to give to farmers.

ADVANTAGES OF CO-OPERATIVE SOCIETIES

(a) They increase the bargaining power of its members.
(b) The running of co-operatives societies is democratic e.g. in consumer co-operative society.
(c) There is no conflict between seller and buyers because they are the same people.
(d) The main objective of c-operative is to server members but not to make profit.

DISADVANTAGES OF CO-OPERATIVE SOCIETIES

(a) The elected committees are not skilled in business management which always leads to inefficiency.
(b) Lack of enough capital as most members are low income earners.
(c) Lack of trained personal to run co-operatives
(d) Illiteracy by members makes embezzlement of funds by officials easy.

ACTIVITY11

1. (a) what is a cooperative society?
   (b) Explain the principles of cooperatives.
   (c) Give reasons why cooperatives have failed to succeed in Uganda.
2. (a) what is the meaning of the following;
   a. Consumers' cooperative society
   b. Producers' coop Savings and credit cooperative society

   (b)What are the roles of cooperatives in the economic development of Uganda?