# SPECIAL NOTE

These are commerce notes but not a text book or pamphlet. They can be used by anyone who may need to use them. You can either photocopy them or otherwise for the purpose of enabling you and our learners excel in their Education and more especially in commerce.

The writer has tried to use many examples in the calculation parts i.e. taxation and business arithmetic to make it easier for the users of the notes understand the information easily. New topics like personal selling have been included and both containerization and money and banking enhanced.

The writer has also used different names to try to cater for the different tribes, cultures and regions. Therefore all the names used in this book do not refer to any person or anything of obscene nature but names from different African cultures and tribes including yours.

Mzee Okello Hatuba with his vast teaching experience of over 20 years has written books of Entrepreneurship Education too for Advanced Level and has already written Ordinary Level Entrepreneurship book for the current Senior Ones basing on the current syllabus. The book covers the entire "O" Level syllabus from Senior One to Senior Four and the learners can buy one copy while in Senior One and uses it up to Senior Four than buying different copies at different levels. This will help the learners and parents to save on the cost incurred to buy books. The books are in the titles of "**The Window to Entrepreneurship Education**" by Mzee Okello Hatuba.

Any user for the purpose of using these notes can make any correction or additions that he/she feels were left out.

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## COMMERCE NOTES:

## INTRODUCTION TO COMMERCE

**What is Commerce?**
It is the total sum of all activities carried out between the producer and the consumer. **Or** Commerce is trade and aids to trade.

**What is trade?**
Trade is the buying and selling of goods and services with an aim of making profits.

**Types of Trade:**
1. Home trade (Internal Trade)
2. International trade (Foreign Trade)

### HOME TRADE:

This is the buying and selling of goods and services within the country. It is categorized into:
1. Wholesale Trade 2. Retail Trade

**Wholesale Trade:**
This is the buying of goods from the producer in big quantities and sells them to the retailers in affordable quantities. A trader who carries out wholesale trade is called a Wholesaler.

**Retail Trade:**
Is the selling of goods to the final consumer in small affordable quantities.

### INTERNATIONAL TRADE:

Is the buying and selling of goods and services between or among countries. The trade between two or more countries is called Bi-Lateral trade **while** the trade carried out among many countries is called International Trade. International Trade is categorized into: Import Trade and Export Trade.

**What is Import Trade?**
Is the buying of goods and services from another country. The goods and services trades buy from another country are called Imports. E.g. Cars from Japan.

**What is Export Trade?**
Is the selling of goods and services to another country. The goods and services traders sell to other countries are called Exports.

**What is Entreport?** This is the re-exportation of goods to another country.

### AIDS TO TRADE:

These are services which facilitates the smooth running of trade. They include the following:-
1. **Transport:** This deals with the carriage of goods and passengers from one place to another.
2. **Communication:** This is concerned with the sending and receiving of messages from one place to another.
3. **Money and Banking**: This is a service that accepts deposits and safeguards money and other valuables of businessmen.
4. **Insurance:** This service undertakes to safeguard and compensate businessmen who may suffer losses.
5. **Warehousing**: This concerns the provision of storage facilities of goods before they are demanded by customers.

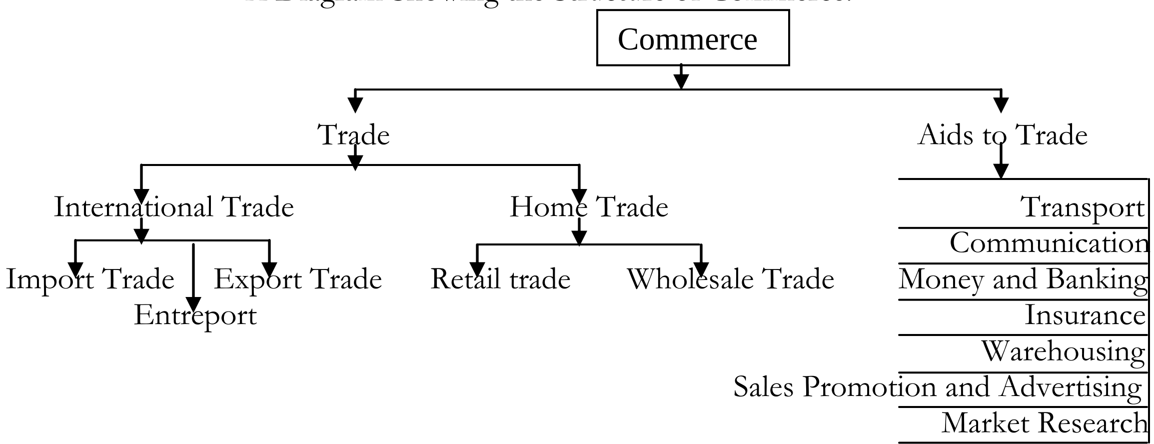
6. **Sales Promotion and Advertising:** Sales Promotion is the way of increasing the sales of a product.

**While**

**Advertising** is the process informing the public about the goods available for sale.

7. **Market Research**: This concern with the gathering of information about the demand of a product.

A Diagram Showing the Structure of Commerce:




**Reasons for the Growth of Commerce:**

- ✓ **Specialization:** Is where an individual, region, or a country concentrates on the production of good / services which it can produce best and leave others.
- ✓ **Difference in talent endowment:** Different people are gifted with different talents hence deal in production of different commodities (goods and services).
- ✓ **Difference in resource allocation:** Different countries, regions have different natural resources which lead to production of different commodities.
- ✓ **Difference in climatic conditions:** Different countries and regions have different climate conditions leading to the production of different commodities.
- ✓ **Differences in technology:** Different countries have different technologies which enables them to produce different commodities from others.
- ✓ Government initiative to promote trade in the country.
- ✓ Increase in the population which led to the increase in the market for goods and services
- ✓ The development of transport and communication network
- ✓ The growth and changing trends in the banking system.
- ✓ The introduction or giving birth to money as a medium of exchange for goods and services.
- ✓ Improvement in the technology in the economy
- ✓ Improvement in the security in the country.
- ✓ Need to improve on the people's standard of living

**Reasons Why We Study Commerce:**

- ✓ To enable students acquire commercial knowledge for the future employment e.g. commerce teachers, accountants, managers etc.
- ✓ To enable students appreciate the impact of commercial activities in the society like packing of goods and production.
- ✓ To equip students with commercial knowledge and language to use in business.
- ✓ To provide students with the knowledge that will enable them understand the business environment in Uganda.
- ✓ To help train students to be neat and orderly in their daily activities.

- ✓ To enable students understand how auxiliary services and aids to trade work in business.
- ✓ To enable students to know how goods are produced and for who.
- ✓ To enable students to relate home and international trade.

**Importance of Commerce to the Society:**

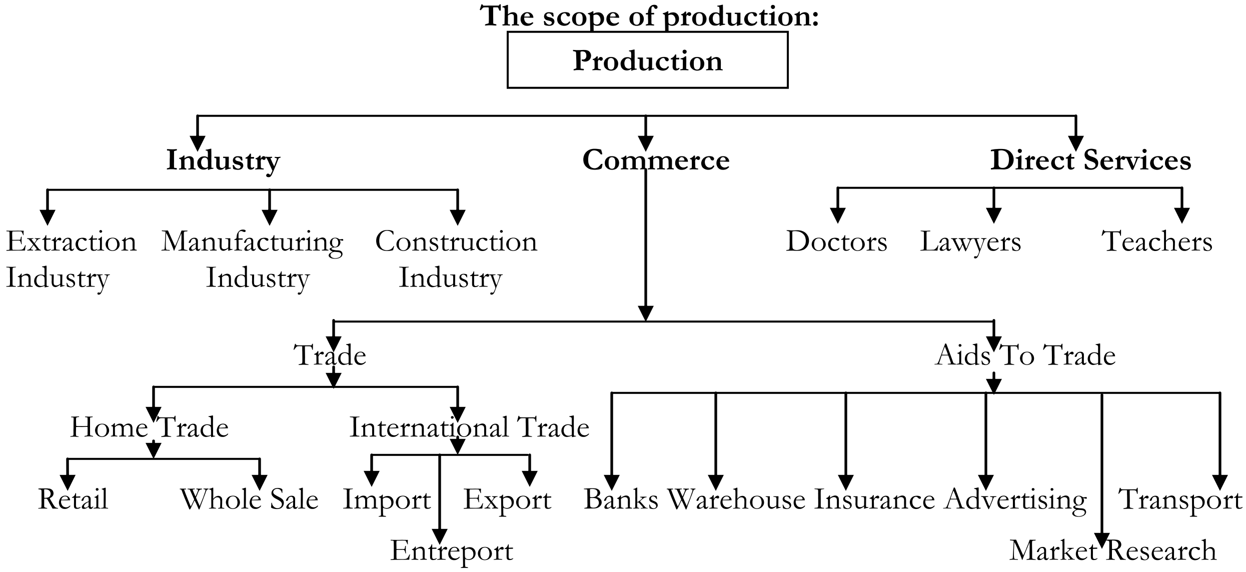
- ✓ It encourages specialization hence developing people's skills in different areas and regions.
- ✓ It ensures constant supply of goods since goods can be stored when they are in plenty and sold during scarcity times.
- ✓ It enables consumers to exercise their choice from a variety of goods and services available.
- ✓ It enables the movement of goods and services plus passengers through transport from one place to another to enable production take place.
- ✓ It enables the society to be aware of goods and services available for sale.
- ✓ It helps people to keep their money safely through banking.
- ✓ It enables the public to know how, when and why prices of certain goods fluctuate/change.
- ✓ It enables the public to acquire skills on how to plan for consumption, saving and investment.
- ✓ It equips students with skills of conducting both home and international trade through communication.
- ✓ It facilitates security for capital to business people as they can access it from banks
- ✓ It leads to creation of utility and full utilization of resources from the community.
- ✓ It leads to creation of employment opportunities for people as transporters, marketers etc.
- ✓ It helps the producers to know the customers opinion through market research.
- ✓ It enables and ensures proper storage for the goods through proper warehousing/stores
- ✓ It ensures constant supply of goods and services to the people in the society.
- ✓ It enables people to know the modern commercial knowledge that facilitates commercial transactions by use of cheques ATMs, Electronic Funds Transfer (EFT) etc.
- ✓ It enables the government to raise revenue through taxation of people involved in business etc.

## PRODUCTION:

**What is Production?**

Is the creation of goods and services to satisfy human needs. Or It is the process by which a change is made in an object thereby increasing its value or utility to its users.

**The scope of production:**



**Types of Production:**
There are mainly two types of production: (i) Direct Production (ii) Indirect Production

**Direct Production:**
This is the type of production where a producer produces goods for his/her own consumption. It is also known as Subsistence Production.

**Features of Direct Production:**
- ✓ There is low level of output.
- ✓ It involves the use of poor methods of production.
- ✓ It uses simple tools like hand hoes, pangas etc.
- ✓ It requires little or no skills and experience.
- ✓ There is little or no specialization practiced.
- ✓ The output is mainly for home consumption.

**Indirect Production:**
This is where a producer produces goods or services for sale or commercial purpose.

**Features of Indirect Production:**
- ✓ There is high level of output.
- ✓ It involves the uses of better methods of production.
- ✓ It uses modern tools in production like tractors.
- ✓ There is specialization which is practiced.
- ✓ There is acquisition of skills and experience by workers.
- ✓ There is exchange of goods for money.
- ✓ High quality goods are produced.
- ✓ It involves use of more labour due to large scale production.

## UTILITY:

This is the usefulness of a good or service to satisfy human wants.

**Types of Utility:**
- ✓ **Form Utility:** This is concerned with transforming / changing raw materials into finished goods. E.g. cotton into clothes, timber into furniture etc.
- ✓ **Place Utility:** This is crated when goods are transported from the place of production to the market/places of consumption.
- ✓ **Time Utility:** This is concerned with producing of goods at the right time when they are needed.
- ✓ **Possession Utility**: This is concerned with change of ownership through exchange of goods and services.

**Stages/Level/Categories of Production:**
There are three levels of production in general:
1. **Primary Production:** This is the removal of the natural resources from wherever they are located say land. Examples include:-Farming, mining, fishing, stone quarrying, oil extraction, lumbering, fur-trapping etc.
2. **Secondary Production:** This is the changing or transforming of the raw materials got from the primary production into finished goods. E.g. food processing, textile industries, oil refining, carpentry, shoe-making from leather, meat or fish canning etc.
3. **Tertiary Production:** Is the production of services only. The services are either commercial or direct services. E.g. teaching, tour guiding, medical services, play-acting, lawyers' services.

**Factors of Production:**

These are the resources or agents necessary for the production to take place. They can also be called the "**Shock Absorbers**" of production.

**1. Land:** This is any natural resources whenever it is located. It includes forests, minerals, water, animals, crops, sunshine etc. The reward for the use of land is called **Rent.**

**Uses of land:**

- ✓ It used for agriculture.
- ✓ It is a basis for establishing buildings and factories.
- ✓ It is a source of minerals.
- ✓ It is a source of oxygen, water and timber.

**2. Labour**: It is any human effort either physical or mental used in production of goods or services. The reward for the use of labour is called **Wages** or **Salaries**.

**Features of Labour:**

- ✓ Labour is paid for.
- ✓ Labour is mobile, moves from one place to another.
- ✓ Labour is both metal and physical.
- ✓ Labour must create value.

**Categories of Labour:**

a) **Skilled Labour:** This is the type of labour provided by people with high level of training in specific fields. E.g. doctors, teachers, lawyers, accountants etc.

b) **Semi-Skilled Labour:** It is labour provided by people with elementary training in specific field. E.g. Clerical officers etc.

c) **Unskilled Labour:** Is the labour provided by people without any form of training. E.g. Wheel-barrow pushers, sweepers etc.

**3. Capital:** Is money or any physical asset used in the production of goods or services. It also means resources other than land that assist human effort in the production of goods or services. The reward for the use of capital is called **Interest**.

**4. Entrepreneur:** Is the owner of the business. It also means the factor that organizes production. He undertakes all the risks in the business. The reward for the Entrepreneur is called **Profit.**

**Functions of an Entrepreneur:**

- ✓ He mobilizes resources to set up a business.
- ✓ He identifies a suitable business to invest in money
- ✓ He organizes and manages the business operations.
- ✓ He carries out market research and marketing in the business.
- ✓ He manages the challenges faced by the business.

**5. Organization:** Is the factor of production which combines the basic factors in the production process. A person who undertakes the work of organizing is called an Organizer. E.g. the Head teacher, Manager etc. the reward for the organizer is called **Salary/Wages.**

## BRANCHES OF PRODUCTION:

There are basically three branches of production and these are as seen below:

**Commerce:** Is a branch of production that deals with trading activities plus agents that facilitates trade like banking, insurance etc.

**Commodity Industry:** This is the branch that deals production of goods like cloth machines. Commodity industry is further divided into:

**Extractive Industry:** This deals with getting of raw materials from wherever they are found. E.g. fishing, lumbering, mining, oil drilling etc.

**Manufacturing Industry:** This industry transforms raw materials extracted into finished goods

**Service Industry:** This is a branch of industry that deals in production of services.

## SPECIALIZATION AND DIVISION OF LABOUR:

**Specialization:** Is the concentration on production of one commodity or performing of given task where one has advantages and exchanges it for other commodities or money.

**Division of Labour:** Is the sharing of work by workers in an enterprise leading to production of a commodity. The division may be according to sex, age or experience.

**Forms / Types of Specialization:**

**Specialization by Craft:** This is where an individual concentrates on a commodity in which he/she can do best. E.g. farming, black smith, etc.

**Specialization by Process:** This is where every stage in production is carried out by different people. E.g. in making clothes, some people sort cotton, others spine and other weave.

**Regional Specialization**: Is where a region can produce what it can produce best and get what it cannot produce in from other regions. E.g. Mbarara produces milk which it sells to Gulu etc.

**International Specialization**: Is where a country produces what it can produce best and exchanges it for what is produced by other countries. E.g. Uganda produces coffee which it sells to Japan for Cars.

**Advantages of Specialization:**

- ✓ It saves both time and energy since one does not move from one department to another.
- ✓ It promotes the degree of choice since workers have the freedom to work in departments that they are most suitable for/in.
- ✓ It encourages the development of skills since workers do the same type of work/job over and over again.
- ✓ It helps to make work easier since tools and machines are used in the production process hence leading to mass production.
- ✓ It leads to minimization of wastage since skilled labour is employed promoting better utilization of resources.
- ✓ It promotes the exchange of goods as people are encouraged to produce what they can and exchange with those that they cannot produce.
- ✓ It enables people to pursue those occupations where they are most suited.
- ✓ It promotes international trade as countries are able to buy and sell to other countries what they cannot produce.

**Disadvantages of Specialization:**

- ✓ It leads to boredom and tiredness of workers as they do the same work over and over again.
- ✓ It leads to unemployment due to uses of machines and also during time of being laid off and a worker lacks skills of production.
- ✓ It leads to loss of creativity and craftsmanship as the result of use of machines in production.

- ✓ It may lead to over dependence on other countries due to international division of labour.
- ✓ It encourages the use of machines that are specific to particular fields and may not serve more than one purpose.
- ✓ The whole process may come to a standstill in case there is breakdown in one stage of production or one employee is absent.
- ✓ It may lead to over exploitation of resources by countries in the process of mass production.
- ✓ It makes a country suffer in case it depends on goods from other countries and later their get a misunderstanding.
- ✓ It denies the people of the country to have a variety of goods to choose from and hence affecting their standard of living.

## LOCATION OF INDUSTRIES:

This refers to the process of choosing a suitable site where an industry can be setup. It also means the process of setting up a particular business in an area.

**Factors Considered When Locating An Industry:**

**Availability of raw materials:** One should choose and are where raw materials are easily available to minimize the cost of transportation from their source to the factory.

**Availability of Labour:** One should choose an area with enough human labour, skilled, semi-skilled and unskilled to work in the business.

**Presence of good security**: During up an enterprises, one should choose an area with enough security to make the business secure from any threats.

**Availability of good transport and communication network**: One should choose an area with good transport network to help in the easy transportation of both the raw materials and finished goods at the same time good communication network help to track the suppliers and transporters of goods.

**Availability of water and power**: One need to choose an area with enough water sources to help in the business at the same time power shall help in the running of the machines.

**Availability of enough land and room for expansion**: Entrepreneurs need to locate businesses in areas with enough land and enough space for expansion to meet increasing market.

**Cost of land**: One should choose an area where the cost of acquiring land is relatively cheap in relation to the amount of capital to set up the business.

**Availability of Auxiliary Services:** Services like bans, insurance, health centers, enough housing in the area tend to attract industries in the area.

**Nearness to other industries**: Some industries depend on each other for some reasons like raw materials, by-products among others and this can make entrepreneurs o locate an industry in a particular area.

**Presence of recreational facilities**: The presence of these facilities attracts many people to stay near them. Therefore their presence may attract entrepreneurs to set up industries in the area.

## LOCALIZATION OF INDUSTRIES:

This is the concentration of an industry or industries in a particular area.

**Factors That Influence Localization Of Industries:**

**Abundance of raw material in the area:** Availability of plenty of raw materials in an area can attract many industries to come up.

**High supply of labour:** If an area has high supply of skilled, semi-skilled and unskilled labour many industries may come up in that area.

**No or few competing industries**: An area with this means that there is a big market and hence industries concentrating in the area for this market.

**Increasing demand for goods**: Availability of increasing demand for commodities or services produced in area by industries may attract many industries in a particular area.

**Availability of infrastructure**: If an area has good infrastructure like good roads, communication networks, schools and hospitals will enable industries to continue to produce in the same area.

**Positive government policy**: Government attitude towards the activities of industries in an area and no or less government interference can attract and keep industries operating in the same area.

**Advantages of Localization:**

- ✓ It attracts highly skilled and specialized labour in an area because of the existence of good social infrastructures.
- ✓ It leads to exploitation of resources that would have remained idol.
- ✓ It is a source of government revenue through taxation of the businesses and people in the area.
- ✓ It leads to the development of infrastructure in the area like schools, hospitals and roads to support further industrial development.
- ✓ It creates more employment for labour people hence improving on the income and standards of living of the people around the industry.
- ✓ It leads to establishment of interdependent industries like sweet industries can be established near sugar industry to use the by-products from the sugar industry.
- ✓ It promotes good security in the area localized as the government may come to tighten security.
- ✓ It may lead to reduced costs of production due to economies of scale.
- ✓ It encourages the growth of centralized markets in the area which can later lead to development of urban centres.

**Disadvantages of Localization:**

- ✓ It may bring about congestion and overcrowding in the area as more people come in search for employments.
- ✓ It leads to rural-urban migration with its associated problems like unemployment due to many people in the area.
- ✓ It leads to displacement of people in the area in the need to set up more industries and also need for industrial expansion.
- ✓ It leads to breakdown in the traditional norms and customs as more people with various culture and social background mix up through inter marriages.
- ✓ It leads to uneven distribution of industries as they concentrate in one area.
- ✓ It may lead to social evils like murder, prostitutions, stealing etc. in the area.
- ✓ It leads to pollution and environmental degradation as chemicals and bad gases are released by the industries in the area.
- ✓ It may lead to over exploitation of resources in the area by the industries.
- ✓ In case of natural calamities like fire outbreak, disease outbreak and war, people in the area are most likely to suffer a lot.

## DELOCALIZATION:

This is the spreading of industries in various parts of the country.

**Advantages of Delocalization:**

- ➢ It reduces on congestion in an area since they are widely spread in various parts of the country.
- ➢ It reduces on the rate of rural –urban migration and its associated problems as it promotes equal development.
- ➢ It reduces on the costs of production as competition level is also reduced.
- ➢ It minimizes the over exploitation of resources in one area as industries are scattered in different parts of the country.

- It leads to creation of employment opportunities in various parts of the country.
- It leads to equal development of infrastructure in equal /different parts of the country.
- It reduces on the social evils like theft, prostitutions in one part area.
- It increases on government tax base since these industries pay taxes where they are now located.
- It leads to full utilization of resources which were abundant in different parts.
- It minimizes the rate of pollution in one area since industries are scattered.

**Disadvantages of Delocalization:**
- It leads to high operational costs like transport of both raw materials and finished goods from and to various parts of the country to the market.
- It does not enhance effective development of tertiary industries like banking, medical centres and insurance services.
- It may lead to production of low quality products due to limited competition in the area.
- It may lead to inadequate security in all parts of the country.
- It may lead to slow development of infrastructure in the country.
- It may make the emerging of industries hard and difficult since they are scattered in various parts of the country.
- It may be difficult for industries to cooperate in areas of research and development to come up with new ideas and technology due to industries being scattered.

## ECONOMIES AND DISECONOMIES OF SCALES:

**Economies of scale** refer to the advantages enjoyed when operating on large scale production. Examples of companies with large scale productions include Mukwano Group of Companies, Kakira Sugar Works, and Bidco Uganda etc.

**Advantages enjoyed when producing on large scale:**
- A producer enjoys a lot of income.
- There is use of modern equipment which increases production.
- It is easy to get financial assistance from financial institutions like from banks.
- It encourages specialization.
- It can enable firms to use aids to trade maximally.
- It can improve workers conditions to motivate them to work hard.

**Diseconomies of Scale** refers to the disadvantages of operating/producing on large scale.

**Disadvantages of Producing on large Scale:**
- It requires large capital to operate.
- It requires a lot of labour.
- It requires a lot of skills to run the business.
- It can lead to social evils.
- Decision making process is difficult as many people are involved.
- It requires much land to start up the business
- It requires a large market for the goods of the producer to survive.
- It may lead to over exploitation of resources.
- Large scale firms are associated with embezzlement of company funds by the workers due to inadequate supervision of the entire production by the owners.
- Business owner lack personal contact withier customers

**QN. Why do small scale businesses exist alongside large scale businesses?**
- ✓ To provide market for the goods produced by the large scale businesses.

- ✓ To get raw materials from larger businesses.
- ✓ To promote the use of skilled labour.
- ✓ To encourage the exchange of skills of production.
- ✓ There is close supervision of small scale businesses compared to large ones.
- ✓ Small scale businesses require little capital to enable them operate.
- ✓ They fear the disadvantages of large scale production.
- ✓ They need a small market for them to survive in their operations.

## CONSUMPTION AND WANTS:

Consumption is the total quantity of goods and services bought and consumed during a given period. A consumer is any person who receives and uses goods or services.

### The Theory of Demand:

Demand refers to the desire backed by the ability and willingness of an individual to consume a given commodity at a given price and time.

**The law of demand** states "The higher the price of a commodity the lower the quantity demanded and the lower the price of a commodity the higher the quantity demanded other factors remaining constant"

### Determinants of Demand:

**The price of the commodity:** When the price for the commodity is high, people will demand less of it and when the price is low people will consume more of it.

**The price of substitute commodities:** When the price for other commodities serving the same purpose increases the demand for other commodities will increase and when their prices decreases people will demand more of the commodity. E.g. butter and margarine, blue band and margarine.

**Income level of the consumer:** When the income of the consumer increases the quantity of the commodity demanded will increase and when the income decreases the demand will also increase.

**Tastes and preferences:** If the taste for a particular commodity by an individual is favorable, its demand will be high but when the taste and preference is not favorable its demand will be low.

**Expected future commodity price change**: If the price of a given commodity is expected to increase in the near future, its demand will tend to increase now but when the future price is expected to decrease, its demand will tend to be low.

**Seasonal Factors:** The demand for certain commodities change according to certain seasons. When the season is favorable the demand of such items increase and when it is unfavorable, less of the commodity shall be demanded. E.g. demand for umbrellas during rainy season.

**Government Policy:** The government can influence the demand for an item through taxation policies, where if the tax is high the price for the item shall also be high and hence reducing the demand for the same item but when the tax is low making the price to be also low, the demand shall be high.

**Size of the population:** When the size of the population is high, the market for the product will be high but when the population is low, the demand for the product will also be low.

**The consumer habits:** Consumers who have a habit of consuming particular commodities regardless of the price will demand more of it even if the price is high like cigarette smokers.

### The Theory of Supply:

Supply refers to the amount of commodities producers are willing to put on the market at a given price and period. **The law of supply** states that "The higher the price for the commodity the higher the quantity supplied and the lower the price, the lower the quantity supplied other factors constant'.

**Determinants of Quantity Supplied:**

**Price of the commodity:** If the price for the commodity is high, more of it will be supplied because higher prices encourages suppliers to supply more but when the prices are low, less of the commodity shall be supplied by the producers.

**The price for other commodities:** When the prices of substitute commodities are higher than the commodity in question, producers will switch to the production of the substitute commodities.

**Cost of the factors of production:** If the prices for the factors required in production are low, the more the quantity of that commodity the producers will be willing to supply but when the prices for these factors are high then the producers will supply less to the market.

**Type of the technology:** When the technology used in production is advanced, more commodities will be supplied but when technology is poor, less will be supplied to the market by producers.

**Gestation period:** If the commodity takes a shot time to mature or be completed, more of it will be supplied and when the gestation period is long, the supply tend to be low.

**Number of producers**: If the commodity has a big number of producers, its supply will be high but if it has few producers, its supply will also be low on the market.

**Goals of the producer:** If the producer aims at sales maximization, supply is likely to be high but when the goal is profit maximization, the supply for commodity will be low to attract high prices.

**Demand for the commodity**: If the demand for the commodity is high more of the same commodity will be high on the market but when the demand is low, there will be low supply.

**Government taxation policy:** High tax rates reduces the profits of the producer and this will also reduce the producer incentive to produce more hence supply less on the market but when the taxes are less more will be supplied to the market.

**Degree of freedom of entry of new firms in production:** When there is free entry of new firms in production, supply is likely to increase but when there are many restrictions of new firms, supply tends to be low.

## CONSUMER PROTECTION:

This is the practice undertaken by the government to safeguard the rights and health of consumers from the exploitation by the suppliers/sellers.

**Importance of Consumers' Protection:**

- ✓ It protects the consumer from buying expired goods.
- ✓ It safeguards the consumers' rights.
- ✓ It protects the consumers from the exploitation by the suppliers
- ✓ It helps the government get revenue in form of taxes charged on sold goods.
- ✓ It prevents suppliers from selling faked goods since they are aware of the rights and health of the consumers.
- ✓ It helps consumers get high quality goods/commodities.
- ✓ It enables consumers to know their rights.
- ✓ It prevents consumers from consuming dangerous to health.

**How / Ways of Protecting Consumers:**

- ✓ **Through health and measurement Acts:** This is responsible for ensuring that consumers get commodities with the right weights/scales which are accurate.
- ✓ **Using the Public Health Act:** This is responsible for inspection of food and drugs which are on market to see that they are of good quality.
- ✓ **Controlling prices:** The government can set a maximum price where producers are not allowed to sell beyond the set price.

- ✓ **Using taxation:** Here, the government can increase taxes of those goods which are less desired or which are harmful to the consumers in a way of discouraging their consumption.
- ✓ **Through the National Bureau of Standards:** This is the government body that checks the standards and quality of the commodities and ensures that they are of the right quality.
- ✓ **Using the trade Description Act:** The government ensures that the commodities consumed have instruction which show clearly how the product is to be used.
- ✓ **Through total Ban:** This is where the government totally stops the importation and use of those goods which may prove to be dangerous to the consumers.
- ✓ **Removing the trade License**: The government can withdraw the license of the producers especially those who are providing commodities which are of poor quality.
- ✓ **Applying the food and Drug Act:** This prevents manufacturers from adding dangerous subsistence in the commodities which may be harmful to the consumers.
- ✓ **Encouraging the formation of business** associations by traders to ensure satisfactory standards of products like KACITA, UMA etc.
- ✓ **By the government directly** engaging in the production and marketing of essential goods and services through setting up state enterprises.

**Problems Faced In Trying To Protect Consumers:**

- ✓ There is smuggling of goods into the country without the notice of the government.
- ✓ People strikes when taxes are high and this leads to civil wars in the country.
- ✓ Producers try to produce harmful products and sell them to people indirectly without the state knowledge.
- ✓ There is shortage of qualified police officers to arrest and take smugglers to courts of law.
- ✓ Inadequate finance to enable the government bodies carryout inspections in the factories to know their operations and how they conduct their businesses.

**Satisfaction Of Human Wants:**

**Satisfaction** is a state of benefiting from a good or services consumed beyond the point of regret.

**Wants** are desires of man backed to the ability to acquire them. Wants can be either basic or secondary.

**Basic wants** are those wants whose satisfaction is necessary to sustain human life.

**Secondary wants** are wants whose failure to satisfy them does not necessary result in death.

## GOODS

These are tangible or physical items that satisfy human desires. The following are the types of goods.

**Free Goods**: These are goods that exist in abundance such that one's desire can be satisfied at zero prices. E.g. oxygen, sunshine, rainfall, wind etc.

**Economic Goods**: These are goods that exist in scarcity such that one's desires can be satisfied at a certain price. E.g. sugar, soap etc.

**Private Goods**: These are goods enjoyed exclusively by an individual. E.g. clothing, pens etc.

**Public Goods:** These are goods owned publically by all people. E.g. public roads, public schools, public hospitals etc.

**Intermediate Goods**: These are goods used in the production process. E.g. raw materials

**Final Goods:** These are the goods ready for consumption. E.g. bread.

**Capital Goods**: These are goods bought for sale.

**Consumer Goods:** These are the goods bought for consumption.

**Durable Goods:** These are the goods that stay for long / take long in existence. E.g. TVs, Cars, Furniture etc.

**Non-Durable Goods**: These are goods that cannot take long in existence. E.g. Pens, Cloths etc.

## SERVICES

These are physical or intangible items that are consumed to satisfy human desires. They include:-

**Personal Services:** These are services which are provided directly to an individual. E.g. medical services, teaching services etc.

**Commercial services:** These are services related to trade and aids to trade. E.g. warehousing, insurance etc.

## WEALTH:

These are physical goods or assets which can be used to create value.

**Features of Wealth:**

- ✓ They provide satisfaction (utility)
- ✓ They are scarce
- ✓ They have monetary value
- ✓ They are capable of being exchanged for either money or other items.

**Classification of Wealth:**

**Personal Wealth:** These are wealth belonging to individuals. E.g. land, houses etc.

**Social Wealth:** These are wealth which is jointly used by the public. E.g. public roads, public schools etc.

**Business Wealth:** These are the wealth owned by the enterprises. E.g. company land, premises, vehicles etc.

## HOME TRADE:

Home Trade is the buying and selling of goods and services within the country. Or It is the trade carried out within a country.

**Types of Home Trade:**

1. Retail Trade
2. Wholesale trade

### RETAIL TRADE:

Is the selling of goods to final consumers in affordable quantities. The process of selling goods to consumers is known as **Retailing**. The trader who is specialized in selling goods to consumers is called a **Retailer.**

**Qualities of a good Retailer:**

- ✓ He should be honest to his customers. He should not over charge them and should give them credit facilities to credit worthy customers.
- ✓ He should be pleasant to his customers. He should always be soft spoken while dealing with the customers.
- ✓ He should be in position to serve his customers for long hours of the day.
- ✓ He should balance and audit his books regularly to avoid bad debts.
- ✓ He should foresee the customers' demand in terms of tastes and fashion and stock that what is required by these customers.
- ✓ He should be a good buyer. He should know when to buy the different commodities, in which quantities, where to buy from and for whom.
- ✓ He should be a reserved trader. He should be in position to keep secretes of his customers.
- ✓ He should limit his expenses. He should not rent expense shops to take much business profits. He should also not use expensive transport.

- ✓ He should be a good administrator. He should be able to control his workers and keep a keen eye on his stock.
- ✓ He should pay his suppliers in time to enable them continue in the production process.
- ✓ He should be quick in his dealings while serving his customers but not to delay them.

**Functions of the Retailer:**

- ✓ He breaks bulk by buying goods from the producer and selling them in small quantities to them consumers.
- ✓ He stores good until they are demanded by the consumers.
- ✓ He always advises the consumers where necessary
- ✓ He stocks the variety of goods thus offering his customers with choice.
- ✓ He offers credit to his trustworthy customers.
- ✓ He provides working capital to the producers or wholesalers by buying in large quantities.
- ✓ He relieves the producer from the burden of transportation by transporting his goods to his premises.
- ✓ He displays goods on behalf of the producer to get market and hence advertising the goods for the producer.

**Factors to Consider Before Setting up a Retail Shop:**

- ✓ **Cost of Rent:** The payment for rent should relatively be cheap to minimize on the costs.
- ✓ **Number of customers:** One must consider the number of customers because they determine the demand for the products.
- ✓ **Capital:** The amount of capital determines the size of the retail shop as large retailers require large amount of capital as compared to small scale retailers.
- ✓ **Level of Competition:** One should put up a retail shop in an area where the level of competition is not high as this can lead to high operational costs for the business.
- ✓ **Source of Supply:** A food retail shop should be located near the supplier to reduce on the transportation costs for goods to the business/retail shop.
- ✓ **Terms of Sale:** The retailer should decide whether to sell his goods on cash basis or on credit basis. In case he buys on credit, he should also be in position to sell on credit.
- ✓ **Type of goods needed:** One should consider the type of goods needed by the people in the area according to their tastes and fashion.
- ✓ **Arrangement of the shop:** A retailer should be in position to arrange goods in the shop attractively to attract more customers to come and buy.
- ✓ **Chances for expansion:** In locating a retail business, one should locate it in an area with a possibility of expanding when the demand increases.
- ✓ **Government Policy:** One should consider the government policy concerning the retail business to be set up as others may not be allowed by the government.

## TYPES OF RETAILERS:

There are basically two types of retailers i.e. Small Scale and Large Scale Retailers:-

### A. Small Scale Retailers:

These are retailers who operate on small scale and uses or employs little capital in their operations.

**Features of small scale retailers:**

- ✓ They hold small stock of goods in the business.
- ✓ They require little capital to start the business.
- ✓ They serve a small market of customers.
- ✓ They occupy little space of operation.

- ✓ There is no specialization as they stock a variety of goods.
- ✓ They operate on a small scale.

**Types of Small Scale Retailers:**

Small scale retailers are categorized into two.

**1. Those without fixed premises:**

**Itinerant Traders:** These are traders who move from place to place, from house to house carrying the goods on bicycles or motor cycles.

**Hawkers:** These are traders similar to the itinerant traders who carry goods from place to place but at a much lower magnitude.

**Road Side Traders:** These are retailers who sell their goods alongside busy road junctions targeting travelers or passer-by.

**Mobile Shops**: These are traders who move from place to place carrying goods on vans / Lorries following a set of time table.

**Barrow Pushers:** These are traders who use wheelbarrows to carry and sell their goods.

**Those with fixed premises:**

**Tied Shops:** These are small scale retailers who sell goods of one producer. E.g. petrol stations, Bata shoe shops etc.

**Single Retail shops**: These are shops operating in permanent buildings selling a variety of goods. They are owned and run by individual traders with the help of family members.

**Kiosks:** These are shops that are common in urban centres particularly in residential and commercial areas populated with low income earners.

**Canteens**: These are found mainly in premises of office buildings, educational institutions, hospitals and other similar places. They may be made from wood or iron sheet selling mainly soft drinks etc.

**Market Stall Operators:** These are stalls in market from where they carry out their businesses. They sell food items, second hand clothes, shoes etc.

**Automated Selling Machines**: These sell goods without employing human labour. They can accept both paper money and coins.

**Features of Traders Without Fixed Premises:**

- They are mobile, they move from place to place selling their goods.
- They employ little capital in their businesses.
- They take goods nearer to their customers.
- They offer personal attention to their customers.

**Advantages of Small Scale Retail Businesses:**

- The business requires little capital to start.
- The business is flexible, a trader can change from one line of business to another.
- The profits of the business are enjoyed by one person who owns the business.
- They pay less tax and sometimes they can easily avoid it.
- They exercise personal selling since they deal with the customers directly.
- They require less legal requirements before they can start. E.g. Trading License etc.
- They require a small room or space for operation.
- They have easy and quick decision making process since they are mostly owned by one person.

**Disadvantages of Small Scale Retail Businesses:**

- The owner enjoys little profits since they operate on small scale.
- They are over worked hence being tired since they do not employ workers to help them.
- They have limited room for business expansion because of limited capital.
- There is lack of continuity as if the owner dies, they also die.
- They have minimal chances of financial assistance from banks due to lack of security.

- Most of them are affected by bad weather conditions like rain, sunshine, poor roads etc.
- They tend to dodge payment of government taxes hence affecting revenue to government.
- They sometimes sell defective commodities to their customers.
- They take the ignorance of the customers to overcharge them on some items.

**FUNCTIONS OF THE RETAILER**:

**To The Consumer:**

- He sells a variety of goods to the consumer in affordable quantities.
- He advertises new products to the consumer.
- He stores the goods which are regularly demanded by the consumers.
- Some retailers give after-sales services to their customers.
- He conveniently locates the business nearer to the customer does brining goods nearer.
- He gives customers long shopping hours by being open from morning to late evening.
- Some retailers give discounts to their customers.
- Retailers give credit facilities to trustworthy consumers.

**To The Manufacturers:**

- He transports the goods bought from the manufacturer to his stores.
- He informs the producer about the consumers' complaints about the goods.
- He advertises the manufacturer's goods through window display.
- He pays the producer cash thereby enabling continuous production of goods.
- He looks for market and sells the goods thereby relieving the producer the burden of having large stores for goods.

**To The Wholesaler:**

- He is the trade link between the wholesaler and the consumers.
- He relieves the wholesaler from the burden of having large stores/warehouse.
- He provides transport for the goods bought from the wholesaler hence relieving him this burden.
- He pays cash promptly enabling the wholesaler to continue with business.

**General Functions of a Retailer:**

- ✓ He gives advice to his customers about the available goods for sale and how to handle the same goods.
- ✓ He stocks a wide range of goods giving the customers a wide range of choice to pick from.
- ✓ Sometimes he extends credit facilities to trustworthy customers hence helping them improve their standard of living.
- ✓ He sells goods to consumers in small affordable quantities.
- ✓ He stores the goods until they are demanded by the customers.
- ✓ He displays the goods in order to give the customers an opportunity to make proper choice.
- ✓ He bridges the gap between the producer, wholesalers and the consumers.
- ✓ He transports goods from the producers/suppliers to his shop/stores and sometimes to his customers especially those who buy in large quantities.
- ✓ He offers after sales services to the customers like free delivery to those who buy in large quantities and also free wrapping of the goods.
- ✓ He conveniently locates the business nearer to the customers and hence bringing the goods nearer to the customers.

**B. Large Scale Retailers:**

These are retailers who operate on a large scale with large capital and large stock of goods. They have the following features/characteristics.
- ✓ They operate from a large floor space / large premises.
- ✓ They employ large capital in the business.
- ✓ They hold large volume of stock of goods.
- ✓ They buy goods in large quantities from the producers.
- ✓ They employ a number of workers in the business.
- ✓ They usually buy their stock directly from the producers or growers.
- ✓ They practice specialization since they employ some workers.
- ✓ They are mainly located in urban places.
- ✓ They are in most cases jointly owned.
- ✓ They operate widely with numerous branches in different parts of the country.

**TYPES OF LARGE SCALE RETAILERS:**

**1. Super Markets:** These are large shops which stock many commodities needed for domestic use. They occupy a floor-space of at least 2,000 square feet. Examples of super markets in Uganda include: - Shoprite, Mega Standard, Quality Super market, Kenjoy super market, Game Super market, Garden city Super market, Woolworth Super market in Nalya etc.

**Features of Super Markets:**
- ✓ There is self-service for customers.
- ✓ Goods bear price tags.
- ✓ They sell high quality goods.
- ✓ They display goods attractively on each side of the shelves.
- ✓ They are normally located in urban centres/areas.
- ✓ They offer many different types of goods at cut down prices.
- ✓ They normally occupy large premises to allow free customer movement.
- ✓ There is a high level of customer care in super markets.
- ✓ The goods are pre-packed, weighed and branded.
- ✓ They sell goods on cash basis only.
- ✓ They carry out price cutting on their goods.

**Advantages of Super Markets:**
- ✓ There is freedom of choice of goods in terms of quality, colour and size since supermarkets deal in a variety of goods.
- ✓ They offer high quality goods to their customers.
- ✓ They relieve customers from unnecessary bargaining since goods bear price tags.
- ✓ They tend to minimize bad debts since goods are sold on cash basis.
- ✓ They tend to sell goods at low prices since they buy directly from the producers/growers.
- ✓ They minimize business expense since they have self-service and hence employing few workers.
- ✓ The act of self-service saves the customers' time.
- ✓ They store a variety of goods for customers allowing them to shop under one roof.
- ✓ They enjoy a lot of profits since they deal in a variety and large quantities of goods.
- ✓ They sell fresh goods like perishable goods since they keep them in freezers.
- ✓ They attractively display the goods and hence attracting many customers to their businesses.

**Disadvantages of Super Markets:**
- ✓ The business requires a lot of capital to start and maintain.
- ✓ The business does not cater for bargaining hence limiting customer's bargaining power.

- ✓ They are normally located in urban centres neglecting the rural areas.
- ✓ They can suffer losses resulting from careless handling of goods and shop lifting.
- ✓ It is expensive to rent buildings since supermarkets require large areas to cater for large purchases.
- ✓ They use shopping baskets and trolleys which increases the operational costs.
- ✓ They do not extend credit facilities to people and therefore those without ready cash may not get goods.
- ✓ They usually incur high overhead costs in terms of electricity and water bills among others.
- ✓ Check-up points may become congested blocking the free movement of customers around the shop.
- ✓ A customer may spend a lot of time visiting the shop unknowingly where the goods he needs are placed in the shop.
- ✓ They pay higher taxes which reduces their profitability.

**2. Department Stores:** These are groups of shops/stores operating under one roof with the central management. Each shop or department specialize in a particular line of business/trade and is headed by its own manager.

**Features of Departmental Stores**:
- ✓ They deal in a wide range of commodities much as each shop deals in different class of goods.
- ✓ They operate under one roof with different rooms.
- ✓ Their purchases are decentralized, each shop buys its own items.
- ✓ Their management and administration is decentralized each with its own manager.
- ✓ They usually occupy large buildings to accommodate a number of shops.
- ✓ They are normally located in urban centres.
- ✓ Goods from one shop cannot be sold by another shop in another area.

**Advantages of Departmental Shops:**
- ✓ They offer a wide range of choice to the customers since they stock/ deal in a variety of goods.
- ✓ Risks and losses are spread to other shops since they are all owned by one person.
- ✓ One shop advertises for another and hence minimizing advertising expenses.
- ✓ They receive discounts from producers since they buy in large quantities.
- ✓ Bad debts are minimized since goods are sold on cash basis.
- ✓ Division of labour is possible which leads to efficiency and proper management.
- ✓ They allow the customers to shop under one roof and hence saving time and other cost which they would have incurred while moving from one store to another.
- ✓ They open for long hours while serving their customers and those who leave work late can have the chance to go for shopping.
- ✓ They usually offer ample parking facilities to their customers.
- ✓ They enjoy a lot of profits since they stock a lot/wide range of goods.

**Disadvantages of Departmental Stores:**
- ✓ They are mainly found in urban areas neglecting the rural areas.
- ✓ They require large capital to start which may not be easy to get.
- ✓ Shortage of goods from one store cannot be solved by transporting goods from other shop since they all sell different type of goods.
- ✓ They sometimes offer delivery services to those who buy in bulk which increase their operational costs.
- ✓ Due to large size, they suffer from organizational problems like co-ordination and control of activities.

- ✓ Departmental stores requires large sales turnover to overcome the large capital expenditures involved.

**3. Multiple Shops (Chain Stores/ Variety Stores):** These are shops selling similar goods having different branches all over the country under one ownership and management. E.g. Bata shoes company, Uganda bookshop, Shell, Total, City oil etc.

**Features of Chain Stores:**

- ✓ They have many branches all over the country or in different countries.
- ✓ All branches are all under one ownership / at the head office.
- ✓ Profits are shared and distributed at the head office.
- ✓ The buying and distribution of goods to all branches is done at the head office.
- ✓ The shops are easy to identify since they have similar design and layout.
- ✓ All branches deal/sell similar goods/products or are in the same line of business/retail.

**Advantages of Chain Stores:**

- ➢ They enjoy discounts as a result of large orders they make when buying from producers.
- ➢ They can cut down the costs of administration since most activities are done from the head office like buying, accounting and advertising.
- ➢ They sell the goods at lower prices than other retailers since they also get discounts.
- ➢ They make and enjoy large profits due to reduced costs of production.
- ➢ They take the goods nearer to the customers since they are scattered all over the country.
- ➢ They spread the business good will from one branch to another since they are similar in design and layout.
- ➢ They can afford expensive advertising which can make them attract more customers hence high sales volume for the business.
- ➢ The shortage of goods from one branch can be solved by transferring goods from one branch to another.
- ➢ Due to many braches, they make more sales for the business

**Disadvantages of Chain Stores:**

- ➢ They are normally located in urban centres neglecting the rural areas.
- ➢ They do not provide a variety of goods since they specialize in one range of product.
- ➢ They are not flexible since they are large and therefore they cannot change from one line of business to another.
- ➢ Mistakes and errors made at the head office may affect all other branches of the business.
- ➢ Overhead expenses are high in terms of rent, electricity, wages and salaries.
- ➢ They mostly suffer from organizational co-ordination and control problems due to large size.
- ➢ They need large turnover to cover their large capital expenditures.

**Comparison between Multiple Shops and Departmental Stores:**

**Similarities:**

- ➢ They both require large capital to set-up
- ➢ They are both located in urban areas and leaving the rural areas.
- ➢ They both provide self-service to their customers.
- ➢ They enjoy high sales volume as they both have many outlets in the country.
- ➢ They both buy direct from the producers since they have large capital.

**Differences:**

- ✓ Departmental stores are under one roof while multiple stores are spread in many towns.

- ✓ Multiple shops can transfer goods from one shop to another since they sell similar goods while in departmental stores it is not possible to transfer goods due to being different.
- ✓ Departmental stores deal in a wide range of goods whereas multiple shops deal in a class of related goods.
- ✓ Buying of goods under multiple shops is done at the head office while in departmental stores goods are bought at the departments (decentralized).
- ✓ Administration in multiple shops is centralized (at the centre) while in departmental stores it is decentralized.

**4. Mail –Order Retail:** These are large businesses that buy and sell goods through the post office.

**Features of Mail-Order Retail:**
- ✓ There is no personal contact with the seller and buyer.
- ✓ Goods are ordered and delivered through the post office.
- ✓ Payment for the goods is made through the post office through COD and CWO.
- ✓ The businesses that use the system always issue catalogues and price list through newspapers and trade journals.
- ✓ The buyer sends his order by post office to the company enclosing payments.

**Advantages of Mail Order Trade:**
- ➢ The system eliminates the costs associated with rent, shop attendants wages/salaries.
- ➢ It is convenient as buying decisions can be made anytime and anywhere even when travelling or in office.
- ➢ It enables making of more profits due to buying in bulk and direct from the manufacturer.
- ➢ The system is good for people who prefer privacy when buying goods for personal nature.
- ➢ It enables people who are far from urban centres to obtain rare goods that are only carried by urban specialty shops.
- ➢ It eliminates the chances of losses from bad debts from the manufacturers since goods are on COD or CWO.
- ➢ The catalogue widely used by mail order firms presents the customer with a wide range of goods attractively displayed.
- ➢ They eliminate the costs associated with shop-space and shop assistants' wages.
- ➢ It eliminates trips to congested stores, parking problems, traffic congestions and lengthy waits at the manufacturer's premises.

**Disadvantages of Mail-Order Retail Trade:**
- ➢ Local firms using the mail order trade suffer from high rates of bad debts than ordinary shops.
- ➢ Mail order firms incur high costs in postage as some goods can be returned in case they are not sold as expected.
- ➢ It is expensive to advertise goods under mail order trade.
- ➢ It is difficult to operate successfully in areas without postal services.
- ➢ The customers' choice is limited as they have no chance to supervise the goods before buying.
- ➢ The system eliminates the issue of personal contact between the seller and buyer of goods.
- ➢ It can lead to delays before delivering the goods and sometimes the goods can be stolen while in transit.

**5. Hypermarkets:** These are very large businesses occupying a selling space of not less than 56,000 square metres usually located outside the towns with an extensive parking area.

**Features of Hypermarkets:**
- ➢ They usually occupy very large trading areas.

- They are usually located outside the towns.
- They sell goods at cut prices therefore no room for bargaining.
- They offer self-services to their customers.
- They provide parking facilities to their customers.
- They allow credit cards selling to their customers.
- They offer almost all kinds of goods ranging from electronics, food stuffs, furniture etc.

**Advantages of Hypermarkets:**
- They offer easy and convenient parking facilities to the customers.
- They stock a large or variety of goods for the customers.
- They charge the customers relatively low prices on the goods bought.
- They offer self-service to the customer and hence saving their time.
- They are usually open for much longer shopping periods than ordinary shops.
- They allow credit facilities to their customers as they allow credit cards.

**Disadvantages of Hypermarkets:**
- They are not good for those people without good means of transport like cars since they are located outside the towns.
- They require large open space which is usually not available within the city centres.
- They cannot do well in areas where the transport system is under developed.
- They require a lot of capital to start up or open.
- They experience high expenses of rent and salaries and wages for their staff and taxes.

**6. Co-Operative Retail Stores:** These are retail outlets owned by a group of members who contribute their capital to operate business.

**Features of Co-Operative Stores:**
- They have voluntary and free membership to those who wish to join.
- They elect the management who run the retail on the basis of one-man-one-vote.
- The capital contributed by a member will be refunded if the member wishes not to continue with the business.
- Profits are shared according to the level of participation but not how much capital one contributed.
- They tend to charge lower prices to their members as compared to non-members.

**Advantages of Co-Operative Stores:**
- They bring goods nearer to the consumers.
- They promote social understanding amongst members.
- They are organized on the basis of democratic principles.
- They pay interest to their members on the capital contributed.
- They sell at lower prices to the members since they buy direct from the producers at lower price.
- They enjoy stability of trade resulting from the loyalty of the members.
- The members advise on what to buy since they are the owners of the business.

**Disadvantages of Co-Operative Stores:**
- Lack of business experience from the elected members may lead to poor business decisions.
- They have little capital which limits their expansion.
- Decision making is not easy as it involves many people/members.
- They may not have collateral security to enable them secure loans from financial institutions.
- They cannot provide a variety of goods to the members due to less capital involved.

**7. Discount Stores:** These are stores known for selling mainly durable goods to the public. They are mainly involved in goods like furniture, refrigerators, cookers, etc.

## RECENT TRENDS IN RETAIL TRADE:

**1. Branding:** This is the giving of a trade mark, design or symbol to a product to distinguish it from other similar goods of other producers.

**Features of branding:**
- ✓ Goods are uniformly packed for customers.
- ✓ Goods are easily identified from other similar goods.
- ✓ The brand name of a product should suggest something about its benefit e.g. Doom suggests death or destructive.
- ✓ It should tell us about the product quality.
- ✓ It should be distinctive i.e. should not easily be confused with another brand e.g. Nest café, Fido dido etc.
- ✓ It should easily be pronounced, recognized and remembered. Short names help e.g. MTN, Shell, Bell, Airtel, NTV and WBS etc.
- ✓ It should be capable of registration and legal protection. A brand name cannot be registered if it infringes on existing brand names.
- ✓ It should have good meaning, i.e. it should not offend other people.

**Advantages of Branding:**

**To The Producer:**
- ✓ It makes advertising easy as he simply recommends a particular item which has a particular name.
- ✓ It increases the sale volume as retailers are able to stock a variety of goods to suit different choices of the consumers.
- ✓ It makes it easier for the producer to introduce new products to the market.
- ✓ It helps him carry out market research easily so as to produce quality products.
- ✓ Goods are standardized with uniformity in size, weight and quality.
- ✓ It is easy for a producer to introduce a new product to the market.
- ✓ Branded goods are usually well packed hence facilitating good handling.
- ✓ Branded goods facilitates self-service which reduces the expenses of shop attendants.

**Disadvantages to the Producer:**
- ✓ Branding increases the cost of production which reduces the profits of the producers.
- ✓ Branding may not make it possible for the suppliers to offer discounts since prices are fixed and uniform for the products.
- ✓ The suppliers have to stock a variety of brands in different quantities so as to attract and satisfy the different demand of customers.

**To The Consumers:**
- ✓ It makes it hard to overcharge the consumer since the prices are uniformly fixed on goods.
- ✓ It enables the consumer to deal directly with the producer since he can easily trace the goods he needs and desires.
- ✓ It makes the consumer well informed about the products through informative advertisement.
- ✓ It helps the consumer make choice over a variety of commodities.
- ✓ It helps to save the consumers' time which he would have spent studying and comparing goods before buying.
- ✓ It helps to safeguard the consumer from product misuse since the goods have instructions of how to use and handle them.

- ✓ It helps make the consumer be assured of the same product in size and quality.

**Disadvantages to the Consumers:**
- ✓ Branded goods increase the final price for the product making it expensive hence less sales.
- ✓ It can make consumers buy poor quality goods by just looking at an attractive brand name.
- ✓ It can make consumers become addicted to particular brands and ignore other good products.

**2. Packaging:** This is the wrapping and sealing of goods in special suitable containers or covers to protect them from atmospheric conditions or damage.

**Methods of Packaging Products:**
1. **Through bottling or Canning:** This is the putting of goods in the bottles or cans. It is common with liquid foods like drinks, drugs etc.
2. **By bagging or putting in bags:** Here products are put or packed in bags. This is common with clothes etc.
3. **By putting in plastic containers:** Here, products are packed in plastic containers and it is common with drinks, powder, perfumes etc.
4. **Through baling or Tying in bales**: This is commonly used in paper trims and waste paper, beverage containers, plastic wraps, fiber such as cotton wool, tobacco etc.
5. **By tinning or putting in Tins**: Here products are packed in tins after production. Examples of products tinned are drinks, powders, tablets etc.
6. **By putting in boxes**: This is the packaging of products in the boxes. This is common for products like flowers, spare parts for cars and bicycles and other tangibles, books etc.

**Advantages of Packaging:**
**To the producer/suppliers:**
- ✓ It attracts consumers' attention and creates the desire to the buy the product.
- ✓ It protects the product against damage or contamination hence minimizing on health hazards.
- ✓ It makes the transportation and storage of goods easy.
- ✓ It makes it easy for the goods to be sold through mail order system as goods are easy to handle.
- ✓ It facilitates self-service since goods are wrapped and weighed in advance.

**To The Consumers:**
- ✓ It makes easy for the consumer to identify the product quickly.
- ✓ It assures the consumers of the same quality of products since they are protected from damage.
- ✓ It facilitates self-service since goods are wrapped and weighed in advance.
- ✓ It protects the consumers from being cheated since the goods are measured and weighed in advance.
- ✓ Some packaging materials can be put to other uses after removing the product like jerricans, tins of Omo and Nomi soap etc.

**Disadvantages of Packaging:**
- ✓ To the producer:
- ✓ It makes the product expensive which reduces the profits earned by the producer.
- ✓ It requires a lot of time to wrap goods in containers of different sizes.

**To the consumers:**
- ✓ Poor quality goods can easily be bought due to attractive containers.
- ✓ Packed goods may appear bigger than the actual size making the consumer pay more.
- ✓ Attractive covers or containers can easily mislead consumers to buy products they never desired.

- ✓ Measurements indicated on the containers may not be correct and hence consumers may be cheated.

**3. Self-Service:** This is the system of selling where the customer goes to the shop and chooses the goods he desires/want from the shelves and make payment at the counter as he moves out.

**Advantages of Self-Service:**
- ✓ The system minimizes bad debts since are taken on cash basis.
- ✓ The system relieves the customers from unnecessary bargaining which saves time.
- ✓ It provides a variety of commodities to cater for customer choice.
- ✓ It eliminates the influence of shop attendants to persuade customers to buy what they do not desire.
- ✓ They system increases the sales volume as customers move around the shop to pick more.
- ✓ The system reduces on operational costs as few shop attendants as are only employed.

**Disadvantages of Self-Service:**
- ✓ It eliminates the issue of personal contact between the seller and the buyer.
- ✓ Untrustworthy customers can easily pick pocket some goods.
- ✓ There is always congestion at the counter in case there are few cashiers hence crowding.
- ✓ They system requires the business to have a large operational space which increases expenses.
- ✓ It is not easy to educate the customers as regards choice and usage of goods.

**4. Blending:** This is the adding or mixing of different types of spices or commodities in order to produce high quality products. E.g. mixing carrots, oranges and passion fruits to get juice.

**Advantages of Blending:**

**To the supplier:**
- ✓ Increases the sales volume of the business since it encourages customers to buy more.
- ✓ It enables the supplier to compete favorably with other suppliers since the product appear to be of high quality.
- ✓ Blended goods are easy to advertise since such goods appear to be of high standard or quality.

**To The Consumer:**
- ✓ The consumer enjoys high quality commodities.
- ✓ It gives a wide choice to consumers since a variety of goods are offered.
- ✓ It makes the product more delicious and nice.
- ✓ Blended goods smell nicely.

**Disadvantages of Blending:**

**To The Supplier/Producer/Seller:**
- ✓ It increases the costs of production hence reducing on the profit margin.
- ✓ Sometimes blending may interfere with quality of the product. E.g. when food colour is added to bread which reduces of the demand of the product.

**To The Consumer**:
- ✓ It leads to increased prices for the product due to costs of added items.
- ✓ The consumer may be forced to consume undesirable commodities due to added spices.
- ✓ It may distort the quality of the product e.g. too much colour may spoil the product taste.

**5. Automatic Selling/Vending:** This is the system of selling goods and services by means of money operated machines. The machine can accept either coins or paper money.

**Advantages of Automatic Selling:**

- ✓ It is a faster means of selling hence saving time.
- ✓ It leads to low operational cost as it requires few or no attendants to customers.
- ✓ There are no bad debts as no credit facilities are offered.
- ✓ It operates 24 hours hence being convenient to most customers.
- ✓ The system is more accurate than human labour hence minimization of losses.
- ✓ More profits are made as no bargaining is possible.
- ✓ Since the method is faster, it solves the problem of congestion or over-crowding.

**Disadvantages of Automatic Selling:**

- ✓ There are no chances of bargaining which is a disadvantage to customers.
- ✓ The system is expensive in terms of installing machines.
- ✓ The system is limited to urban areas leaving the rural areas.
- ✓ It creates unemployment problems as machines replaces human labour.
- ✓ The system may not be able to sell large commodities hence selling few goods only.
- ✓ The method is not suitable for the illiterates because they cannot read what is displayed.
- ✓ There is no personal care offered since there is no personal contact between the seller and buyer.

**6. Installment Selling:** Is the system of selling where the buyer is allowed to take the commodity and pays in small portion or bits until the whole amount is completed. There are mainly two forms of installment selling:-

**Hire Purchase:** This is the type of installment where the product remains the property of the seller until the last installment is paid.

**Deferred Payment:** Is the system of installment selling where the item becomes the property of the buyer after paying the first installment.

**Advantages of Installment Selling:**

**To The Consumer/Buyer:**

- ✓ It enables the low income earners to acquire expensive goods as payments are spread over a long period of time.
- ✓ The item bought can be used as a collateral security to get bank loans.
- ✓ It is a form of saving as after sometime the buyer acquires durable commodities after clearing all the installments.
- ✓ The item acquired under the system can be used to help the buyer generate income to help in clearing the installments.
- ✓ It enables the buyer to acquire more goods and improve on his standard of living due to ease of payment

**To The Seller:**

- ✓ It increases on sales and profits since customers are tempted to buy more due to ease payment.
- ✓ It makes the seller repossess the item in case the buyer fails to complete the payments.
- ✓ It brings in more profits since items are always sold at a higher price.
- ✓ It promotes a good relationship between the buyer and the seller.
- ✓ It is a convenient system of selling expensive and durable goods.

**Disadvantages to the Seller:**

- ✓ It may be difficult for the seller to resale the repossessed item under hire purchase as appear to be a second hand item.
- ✓ It ties up capital in commodities taken by customers after down payment in deferred system.
- ✓ The system can lead to bad debts or losses since some buyers may not be traced after taking the goods.

**Disadvantages to the Buyer:**

- ✓ Goods are always expensive as customers are charged higher prices.
- ✓ It may make the buyer loss both money and property in case he fails to complete payments.
- ✓ The buyer may be induced into buying goods they cannot afford or they intended not to buy.
- ✓ The buyers are always charged high interest on goods being purchased.

**7. Price Discount:** Is the money deducted from the original price of the commodity. There are two types of price Discounts:-

**Cash Discount**: This is a price deduction made by the supplier to induce customers pay promptly.

**Trade discount**: This is the amount deducted by the supplier to induce the customer to buy in large quantities.

**8. After-Sale Service:** This is where the seller provides free services to the buyer after buying the goods. The service may be repairs to the item, installment of the item etc.

**9. Auctioning:** This is where goods are displayed in front of the potential buyers and the highest bidder takes the goods. The system is common in churches and fundraising activities.

**10. Tender:** This is an offer to supply specified goods or service. It is made in response to an advertisement inviting willing suppliers of particular goods or services.

**11. Loss Leader Policy:** This is where the seller decides to charge the price of fast moving items at the price below the cost price.

**12. Resale Price Maintenance:** This is where the manufacturer fixes the price at which the goods are to be sold to the final consumer by the retailer.

**13. Good Will:** This is the loyalty of the outgoing owner of the business he already established with the older customers. It may be due to good location, good customer care and services etc.

**14. Bar Coding:** This is the system where the computer is used to read the price for the product and send back feed back to the sales assistant to reduce the stock level in the business. It is used in the modern retail business like supermarket and book stores for pricing and stock updating of goods. Bar codes are printed on each item normally to the back case of the book or on the side of the container having the goods.

**15. Customer Request**: This is a recent move taken by retailers to get to know what customers require to be stocked in the business. It is a form of a book placed in the shelves together with goods and the customers write down what they wish the retailer to stock.

**Problems Faced By Retailers in Home Trade:**

- ✓ Price fluctuations which can lead to loss or less profits to the business.
- ✓ Inadequate market for the goods and services hence low sales.
- ✓ Increased uncertainties and risks in the business like fire outbreak etc.
- ✓ Unfavorable seasonal changes which lead to scarcity of some goods such as agricultural produce.
- ✓ Poor state of infrastructure like roads and communication networks.
- ✓ Political instability in some areas which leave the businesses burnt, stoned etc.
- ✓ Inadequate capital to expand the businesses.
- ✓ Stiff competition in the market from the retailers selling the similar type of goods.
- ✓ Unfavorable government policies like high taxation on businesses leading to high prices.
- ✓ Changes in customer tastes and fashions leaving most goods out dated though still in good conditions.
- ✓ Language barriers which hinders effective communication between the buyers and sellers.

## WHOLESALE TRADE:

Wholesale Trade is the buying of goods from producers in large quantities and selling them to the retailers in affordable quantities. **Whole selling** is the act of selling goods mainly to retailers in reduced quantities. A trader who carries out wholesale trade is called a **Retailer.**

### Characteristics of Wholesale Trade:

- ✓ It involves buying from the producers in large quantities
- ✓ The business requires large amount of capital to enable buying in large quantities.
- ✓ It links the producers to the retailers and finally to the consumers.
- ✓ It involves advertising of the goods.
- ✓ It involves the sale of goods usually in large quantities.
- ✓ It involves the storage of goods in large quantities.
- ✓ It involves transportation of goods from the producer to the wholesalers' warehouse/store.
- ✓ He sometimes sells to both the retailers and final consumers.

### Qualities of a Good Wholesaler:

- ✓ He should be a good buyer i.e. he should know when to stock the different types of goods.
- ✓ He should be pleasant to his customers.
- ✓ He should be a reserved trader and keep his customers' secrets than exposing them.
- ✓ He should be a good administrator.
- ✓ He should limit his expenses in the business.
- ✓ He should be quick while serving his customers.
- ✓ He should be able to record, summarize and interpret the business transaction at all times.

### General Functions of the Wholesaler:

- ✓ He links the gap between the producer and the consumers.
- ✓ He breaks bulk of goods as he buys in large quantities from the producer and sells them to the retailer in reduced quantities.
- ✓ He packs, brands and blends the goods to prepare them for sale.
- ✓ He stores goods until they are demanded by the retailers and sometimes the consumers.
- ✓ He transports the goods from the producer to his stores and sometimes from his stores to the retailers' premises.
- ✓ He keeps the prices of the goods stable they by stocking a lot of them when they are in plenty and steadily sell them during the scarce seasons.
- ✓ He is the financial to both the producer and the retailer as he buys in large quantities and pay in cash.
- ✓ He markets the products of the producer and his own to different customers.
- ✓ He provides specialized services as he the expert in the buying and selling of goods.

### SERVICES OF WHOLESALERS:

#### To The Producer:

- ✓ He links the producer to the consumers.
- ✓ He stores the goods bought from the producer and hence relieving the producer the burden of storage.
- ✓ He relieves the producer the risks associated with fall in demand, fall in prices due to high supply.
- ✓ He relieves the producer from the trouble of finding the market for the goods.

- ✓ He finances the producer by paying promptly cash for the goods bought from him.
- ✓ He prepares goods for sale usually by packing, branding and blending goods on behalf of the producer.
- ✓ He advertises the goods on behalf of the producer through media, window display etc.
- ✓ He feeds the producer with information from the retailers concerning the commodities.
- ✓ He advises the producer on what to produce and in what quantities in line with the prevailing market conditions.
- ✓ He provides transport for the goods bought from the producer to his warehouse.
- ✓ He helps in keeping prices for certain goods stable by stocking them during plenty and selling them when there is scarcity.
- ✓ He helps in market research by collecting useful information about the demand of the products.

**To The Retailer:**

- ✓ He breaks bulk into small affordable quantities to the retailers.
- ✓ He provides a variety of goods to a retailer through stocking goods from different producers.
- ✓ He extends credit facilities to trustworthy retailers enabling them to operate with small capital.
- ✓ He brings goods nearer to the retailers enabling them to obtain goods more conveniently.
- ✓ He offers transport facilities there by reducing transportation costs for a retailer.
- ✓ He advises the retailer on the new commodities, their contents and how to use them.
- ✓ He advertises the brands or goods which directly benefits the retailers.
- ✓ He ensures steady supply of goods to retailers by stocking a number of goods.
- ✓ He sells goods to retailers at discounts hence enabling them to sell a profit.
- ✓ He provides a link between the retailer and the producer.
- ✓ He provides storage facilities thereby making it unnecessary for the retailer to have a big store for the goods.

**To The Consumer:**

- ✓ He helps in keeping prices of certain goods stable by releasing them to the market steadily.
- ✓ He helps in the smooth distribution of goods within the reach of the customers by bringing them nearer.
- ✓ He provides a variety of goods to the consumer enabling him to exercise his choice.
- ✓ He brands, blends and pack goods for easy handling on the side of the consumer.
- ✓ He gives advice to the consumers concerning storage and how to use the products.
- ✓ He meets the changing demands of the consumer by storing the goods demanded for a particular season.
- ✓ He conveniently locates the business nearer to the consumers enabling them to get goods when they need them.

**Types of Wholesalers:**

- ✓ **General Wholesaler**: These are wholesalers who sell a variety of goods and employ large capital in their businesses. They deal in a number of commodities.
- ✓ **Regional Wholesalers:** These are wholesalers who operate in a large specific geographic area. They mainly deal in manufactured, semi-processed and durable goods.
- ✓ **Specialized Wholesalers:** These are wholesalers who deal in only one class of goods. E.g. Hardware products, drinks like sodas or beers.
- ✓ **Cash and Carry Wholesalers:** These are wholesalers who sell to retailers on cash basis and after delivery services. They break bulk to smaller units that are convenient to retailers.
- ✓ **National Wide Wholesalers:** These are wholesalers who operate in almost every part/region of the country.

- ✓ **Rack Jobbers:** These are wholesalers who specialize in a certain line of goods to specific retailers. E.g. suppliers of stationery and Airtime cards.
- ✓ **Track /Wagon Jobber Wholesalers:** These are wholesalers who sell, deliver a limited range of commodities (specializes) and collect the damaged containers or empty containers in one route.

**Elimination of Wholesalers from the Line of Distribution:**

This is a situation where wholesalers may be ignored in the chain of distribution of goods or services. This may be due to the following reasons:-

- ✓ When the producer has his own outlets, shops or agents.
- ✓ Where the commodity requires special handling for example vegetables, fruits and natural flowers.
- ✓ Where demand for a commodity is seasonal and the rate of turnover (Sales) is low e.g. furniture.
- ✓ Where there is need for after sales services e.g. office machinery like computers, photocopies.
- ✓ Where a retailer is operating on a large scale like a supermarket and can buy directly from the producer.
- ✓ Where the consumer or organization buys in large quantities such as schools and hospitals.
- ✓ If the producer is providing direct services e.g. doctors, teachers and lawyers etc.
- ✓ In case of mail order shops where goods are sold through the post office.

**General Problems Faced In Home Trade:**

- ✓ Price fluctuations which can lead to loss or less profits to the business.
- ✓ Inadequate market for the goods and services hence low sales.
- ✓ Increased uncertainties and risks in the business like fire outbreak etc.
- ✓ Unfavourable seasonal changes which lead to scarcity of some goods such as agricultural produce.
- ✓ Poor state of infrastructure like roads and communication networks.
- ✓ Political instability in some areas which leave the businesses burnt, stone etc.
- ✓ Inadequate capital to expand the businesses.
- ✓ Stiff competition in the market from the retailers selling the similar type of goods.
- ✓ Unfavourable government policies like high taxation on businesses leading to high prices.
- ✓ Changes in customer tastes and fashions which leave most goods out dated though still in good conditions.
- ✓ Language barriers which hinders effective communication between the buyers and sellers.

## MIDDLEMEN:

These are people who connect/links a producer to a consumer.

**TYPES OF MIDDLEMEN:**

1) **Broker:** Is a middleman who acts on behalf of the seller to look for market for the products but does not hold or own the goods physically. He earns a commission called **Brokerage.**
2) **Factors:** These are middlemen who sell goods in their own possession on behalf of the producer. They normally sell goods under their own names and at the price they feel like.
3) **Del Credere Agents:** These grantee to pay for the goods they sell on behalf of the suppliers. The producer is assured of payment whether goods are sold or not. These get a higher commission called De Credere Commission.
4) **The Merchants:** These are home based middlemen who collect orders for the goods from abroad on behalf of the producers.
5) **Forwarding Agents**: These transport and deliver goods on behalf of the owners e.g. Transocean Uganda Limited.

**Functions of Middlemen:**

- They transport goods nearer to the consumer.
- They advertise goods in order to get more customers.
- They provide a link between producers and consumers.
- They advise consumers on how to store and use different customers.
- They give credit facilities to trustworthy customers.
- They inform producers about the prevailing market conditions.
- They brand, pack and blend products.

**Disadvantages of Middlemen:**

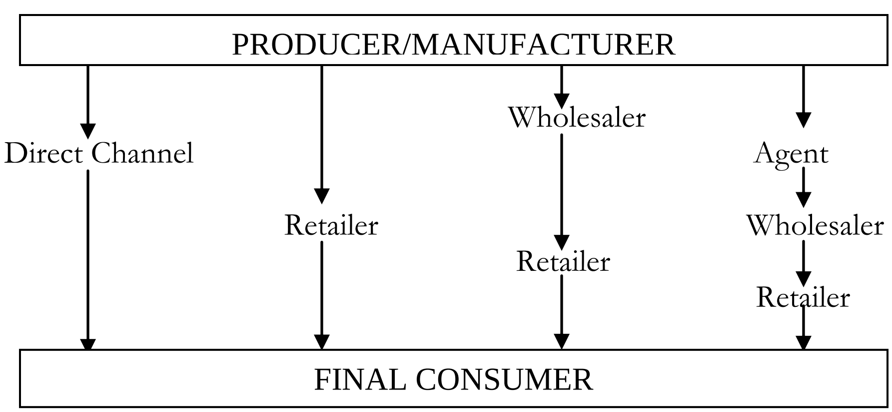
- They tend to overcharge customers because they want to get large profits.
- They tend to dilute some goods so as to get large quantities of goods like juice, perfumes, milk
- Some middlemen hide goods to create artificial shortage so that customers pay higher prices.
- Some middlemen sell expired or defective goods to consumers and this is common with drugs and food stuffs.

## CHANNELS OF DISTRIBUTION:

A channel of distribution refers to the path/route taken or followed in the moving of goods from the producer to the final consumer. There are four channels of distribution of goods:-

1) **Producer-Consumer (Direct Channel):** This involves the producer selling goods directly to the consumer.
2) **Producer-Retailer -Consumer:** Here, the producer sells goods to retailers who then sell them to the final consumers.
3) **Producer-Wholesaler -Retailer-Consumer Channel:** Under this channel, the producer sells to the wholesaler who also sells to the retailers and the retailers selling to the final consumers.
4) **Producer-Agents-Wholesaler-Retailer Channel:** Here, the producer sells goods to the agents who sell to the wholesalers and the then this also sells to the retailer who will finally sell to the final consumers.

**Structure Showing a Chain of Distribution Channel:**




**Factors Considered When Choosing Distributional Channels:**

1) **Nature of the goods**: If the products to be distributed go bad quickly or are perishable, the direct channel can be used to enable the products reach the final consumer when they are still in good conditions.

2) **Market Risks**: Some producers may sell the goods using middlemen so as to avoid the risks involved in transportation, falling prices for goods etc.

3) **Nature of the customers**: Different customers have different requirements. If they need large purchase and also on credit, they can deal directly with the producers.

4) **Availability of storage facilities**: The producer should use a middle man who has enough storage facilities o as store enough goods for the customers and get them whenever they need them.

5) **Size of the business /Scale of production**: Due to small amount of capital used in business, some producer may use middlemen in the distribution of the goods to their customers.

6) **Cost of distribution/ Marketing:** The producer should use the channel which is not costly to take most of the business profits made.

7) **Level of competition:** If the competition is high, the producer can use the agents to help distribute goods to a large market and if it is low direct or retailers' channels can be used.

8) **Nature and size of the market:** If the market of the products is near, the producer should sell directly to them but when the market is far, then selling agents can be sued to distribute goods.

9) **Availability of middlemen:** If the desired types of middlemen are available and willing to supply goods, the entrepreneur should use them but where the required middlemen are not available, the entrepreneur can use direct channel of distribution to make goods available to the final consumers.

10) **Government Regulations:** Certain products are directed to follow a given channel of distribution by the government like coffee and cotton.

11) **Reputation of the middlemen:** A firm should choose a channel of distribution whose reputation and image in the eyes of the public is good and can be trusted by many people.

12) **Producer's desire:** In case the producer desires control over the distribution of his or her products, he will sell direct to consumer.

## Commercial Documents Used In Home Trade:

**1. An Inquiry**: This is prepared asking/ requesting people who have specified goods for sale to quote their prices.

**KAMPI HOLDINGS LTD.**
**P.O BOX 4544**
**KAMPALA**
**TEL: 0752 833909**

**AN INQUIRY**

Kampala Stationers Ltd
P.o Box 3004
Kampala

Inquiry No. **P/2094**
Date:21st/March, 2020

**Dear sir/ madam,**

Please quote us your prices, terms of payment and terms of delivery for the items below.

| QUANTITY | DESCRIPTION |
|---|---|
| Exercise Books | Pick Fare |
| Chalk | Coloured |
| Dictionaries | Long man |

Your faithfully
…………………
Kinene Dogo
Purchasing Manager

**2. Quotation:** This is a reply to an inquiry by the producer/ supplier to intending buyer that shows clearly state the price, product specification, lead-time, terms and condition of payment and warranties if any.

**KAMPALA STATIONERS LTD**
**P.O BOX 3004, KAMPALA**
**TEL: 0703086780**

**QUOTATION**

**Kampi Holdings** **No. 309**
**P.o Box 4544, Kampala** **Date: 22nd/03/2020**

**Dear sir,**

In response to your letter of inquiry No. P/2094, dated 21st MARCH, 2020, the details are below.

| Quantity | Description | Unit Price (Shs) | Total Price (Shs) |
|---|---|---|---|
| 50 Copies | English Long Man Dictionary | 40,000 | 2,000,000 |
| 10 Boxes | Coloured chalk | 8,000 | 80,000 |
| 10 Exercise Books | Pick fare (120 pages) | 4,000 | 40,000 |

**Delivery/ Payments**: Three days from receipt of your order and 50% down payment and the balance within 30 days after delivery

**Discount:** 2% on cash balance if paid within the specified time. We look forward to receiving your order.

Yours faithfully
………………
Gaali Enkoseeko
Sales Manager

**Note:** Other documents that can be sent to the buyer by the seller to serve as a quotation are:

**(a) Catalogue:** This is a book let that contains a brief description and illustration and the goods available for sale.

**(b) Price List:** this is a document that a seller may use to reply a letter of inquiry showing the list of goods available for sale with their respective prices.

**3. Purchases Order:** This is a document that authorizes the selected supplier to go ahead and supply the specified items.

**KAMPI HOLDINGS LTD**
**P.O BOX 4544 KAMPALA**
**TEL: 0752 833909**

LOCAL PURCHASE ORDER

Kampala Stationers Ltd Date: 30th/03/2020
P.O Box 3004, Kampala Oder No. 507
Delivery Date: 12th/04/2020

**Dear Sir,**

Please supply and deliver the following items

| Quantity | Description | Unit Price (Shs) | Total Amount (Shs) |
|---|---|---|---|
| 50 Copies | Longman dictionary | 40,000 | 2,000,000 |
| 10 Boxes | Coloured chalk | 8,000 | 80,000 |
| | | | **2,080,000** |

Enclosed is a cheque for Shs. 1,100,000, initial deposit. Delivery and discount terms are as per your Quotation No.021 dated 22nd March, 2019.

Your faithfully : Authorized by:
………………. …………………….
Kinene Dogo Kabotoongo John
Purchasing Manager Director Managing

**4. Dispatch Note:** This is a document issued by the seller informing the buyer that goods ordered have been sent (Dispatched).

**KAMPALA STATIONERS LTD**
**P.O BOX 3004, KAMPALA**
**TEL: 0703086780**

Date: 12th/04/2020
Note No.: B3/8

Kampi Holdings Ltd,
P.O BOX 4544,
KAMPALA.

**DISPATCH NOTE**

Dear Sir (s)

We have this day dispatched to you by Link Bus Transporters the following items as per your order No.507 dated 30th/03/ 2020

| Quantity | Description |
|---|---|
| 50 Copies | Longman dictionary |
| 10 Boxes | Coloured chalk |

Yours faithfully
………………..
Gaali Enkoseeko
Sales Manager

**5. Package Sheet**: This is a document that shows the number/amount of goods packed in each box/container with their serial numbers. If the goods are packed in three containers, three package sheets will also be prepared.

**KAMPALA STATIONERS LTD**
**PO BOX 3004 KAMPALA**
**TEL: 0703086780**

To:………………………………
P.o
Date:…………..
Tel:............................

**PACKAGE SHEET**

PS No: 3902
Box:…………..

This package contains the following goods / items

| No. | Description | Quantity |
|---|---|---|
| | | |

Packed by: Signature:…………….
Name:…………
Title:…………….

Checked by: Signature:……………
Name:………………
Title:………………...

**6. Advice Note:** Is a document issued by the seller to the buyer informing him that goods are in transit / have been dispatched and the mode of transport being used.

**7. An Invoice:** This is a document prepared and sent by the seller to the buyer to inform him of the amount he has to pay for the goods supplied to him on credit.

**Contents of an Invoice:**

1) The name and address of the seller.
2) The name and address of the buyer.
3) The date on which the invoice was made.

4) The order number if any.
5) Quantity and description of each item bought.
6) Net amount to be paid by the buyer
7) Any discount allowed to the buyer.
8) Length of credit period allowed.
9) Errors and Omissions Expected i.e., the seller retains the right to correct any error on the invoice.
10) The stamp of the seller if any and signature.

**Steps Taken When You Receive an Invoice:**

1) Verifying it with the copy of the Local Purchase Order to ensure that the goods delivered are the ones ordered for.
2) Varying it against the package sheet and delivery note to make sure that goods received are the ones invoiced.
3) Checking the prices and trade discounts allowed to ensure that there is no overcharge and due discount has been allowed.
4) Checking the calculations to see that there is no overcharge.

**8. Goods Delivery Note:** This is a document sent to the buyer alongside with the goods. On receiving this document with the goods, the goods should be checked properly to ensure that quantity specifications tally with the physical goods received.

<table>
<tr><td colspan="2">

**KAMPALA STATIONERS LTD**<br>**P.O BOX 3004, KAMPALA**<br>**TEL: 0703086780**

Note No. 37907<br>Date:……………

To:……………………….<br>M/S:……………………..

**DELIVERY NOTE**

Please receive the following goods / items in their good condition.
</td></tr>
<tr><td>Quantity</td><td>Description</td></tr>
<tr><td></td><td></td></tr>
<tr><td colspan="2">I have received the above goods in their good conditions.</td></tr>
<tr><td colspan="2">Received By: Signature:…………………..<br>Name:…………………….<br>Title:………………………</td></tr>
</table>

**9. Consignment Note**: This is a document issued by the carrier of the goods when goods are to be dispatched from one place to another. It gives the details of the goods, number of packages and their weight.

**10. Damage /Goods Returned Note:** Is the document that shows the details of damaged goods returned to the supplier with the reason for the return. Goods may be returned due to poor type, wrong colour, wrong size, damaged in transit etc.

**KAMPALA STATIONERS LTD**
**P.O BOX 3004 KAMPALA**
**TEL: 0703086760**

**GOODS RETURNED NOTE**

To:………………………..
…………………………
…………………………

Note No. 0092
Date:…………….

Please accept the following goods as returned

| Quantity | Description | Reason |
|---|---|---|
| | | |

Please issue us with a Credit Note.

**Signature:………………….**
***For:* Kampala Stationers Ltd**

**11. Credit Note:** This is a document prepared by the seller informing the buyer about a reduction in the amount he owes to the seller. The correction may be due to overcharge made on the invoice or a packaging sheet returned by the buyer.

**12. Debit Note:** This is a document used by the seller to correct an undercharge made on the invoice to the customer.

**13. Statement of Account:** This is a document showing a summary of all transactions which have taken place between the buyer and the seller in a given period. It is used to demand for payment for goods supplied to the buyer. It acts as a reminder to the buyer to pay the balance due.

**Contents of the Statement of Account:**
1) Name and address of the seller.
2) Name and address of the buyer.
3) The balance due at the beginning of the period/month.
4) Total amount paid and received during the month.
5) The amount due at the end of the month.

**Steps/Procedures Taken On Receiving the Statement of Account:**
1) Checking it against previous statement to ensure that the opening balance is correct.
2) Verifying it with invoice received during the month.
3) Verifying it with the credit notes received during the month
4) Making the necessary arrangements to effect payments if found correct.

**HATUBA ENTERPRISES LIMITED**
**P.O BOX 350, KAMPALA**
**TEL: 0752 833909** **Date:** 30/06/2020

**STATEMENT OF ACCOUNT**

**To:……………………..**
**P.o box………………...**
**Tel:...............................**

| Date | Details/Description | Debit (Shs) | Credit (Shs) | Balance (Shs) |
|---|---|---|---|---|
| 1/12/2019 | Balance brought forward | 400,000 | | 400,000 |
| 4/12/2019 | Invoice No.240 | 200,000 | | 600,000 |
| 5/12/2019 | Credit Note 34 | | 60,000 | 540,000 |
| 15/12/2019 | Invoice No. 252 | 170,000 | | 710,000 |
| 17/12/2019 | Debit Note 5/8 | 100,000 | | 810,000 |
| 29/12/2019 | Invoice No.276 | 40,000 | | 850,000 |

**Note:** You are requested to clear your account within four days on receipt of this statement.

Your faithfully : Approved by:
……………….. ……………………..
Kinene Dogo Kabotoongo John
Purchasing Manager Director Managing

**14. Receipt:** This is a document prepared by the seller issued to the buyer in acknowledgment of payment made against the goods supplied to it.

**KHC**

**KAMPI HOLDINGS LTD**
**P.O BOX 4544 KAMPALA**
**TEL: 0752 833909** **Receipt No**: 6012
Date:…………

**RECEIPT**

Received from:………………………………………………………………………

The sum of shillings:…………………………………………………………………..

………………………………………………………………………………………..

Being payment of:……………………………………………………………………

Cash / Cheque No. Balance: Shs.

Signature:………………
***For:*** Kampi Holdings Ltd

***WITH THANKS***

**Importance of Business Documents:**

- ✓ They provide detailed information about the goods for sale in terms of their prices, quality, quantity, colour size etc.
- ✓ They enable buyers convey complaints about the goods sold like when they are expired, wrong quality, quality etc.

- ✓ They provide necessary information for accounting system like receipts used in preparing the cash book.
- ✓ They enable the supplier to know the amount of goods sold in a particular period.
- ✓ They enable the buyer to acknowledge payment especially when a receipt is issued.
- ✓ They offer safe payment methods for goods and services especially when a cheque is used.
- ✓ They are used for record purpose or reference.
- ✓ They provide evidence that a transaction has occurred.
- ✓ They signify ownership of goods i.e. bill of lading
- ✓ They are used as evidence for payment (Receipts)
- ✓ They show accountability and systematic follow-up of transactions i.e. audit purpose.
- ✓ They are a basis for borrowing funds from financial institutions i.e. Proforma invoice
- ✓ They are used for tax assessment i.e. sales invoice
- ✓ They are used as a tool of control i.e. stock cards , delivery notes
- ✓ They enable traders keep track of customers/suppliers.

## INTERNATIONAL TRADE:

This refers to the buying and selling of goods between two or more countries. It is divided into Export Trade and Import Trade. **Export Trade** is the selling of goods or services to outside countries. **Import Trade** is the buying of goods or services from outside countries.
The trade that involves buying and selling of goods is called **Visible Trade**. The Trade that involves buying and selling of services is called **Invisible Trade**. The trade between countries is called Bi-lateral Trade while trade among countries is called Multi-lateral Trade.

### Reasons Why Countries Engage In International Trade:

**Difference in climatic conditions:** Different countries are able to produce different goods due to favourable conditions and fertile soils which other areas may not have and hence need for exchange.
**Difference in natural endowments and gifts:** These may include lakes, forests, mineral deposits which different countries have leaving others without and hence need for international trade.
**Need to sell off surplus goods:** Some countries produce some goods in excess of what their people are able to consume and therefore the balance has to be sold off to other countries.
**Difference in technology:** Different countries have different technologies which they use to produce goods for their people and some countries may not be having these technologies and hence leading to international trade.
**Due to comparative advantage theory**: This theory allows countries to specialize in the production of goods where they meet low costs during production and import those goods they cannot produce and hence foreign trade.
**Due to political ties**: A country may involve in international trade in order to promote political friendship with other countries.
**To earn foreign exchange**: Countries may participate in international trade so as to earn foreign exchange like dollars, pounds etc.
**Due to insufficient quantities:** A country may produce fewer goods than what is required by her people which may necessitate it to import the difference from other countries for her citizens.
**To get revenue:** A country may get involved in foreign trade so as to get revenue from imports and export taxes to help in developing the country.

### Difference Between Home and International Trade:

- ✓ Home trade is carried out within the country while international trade is carried out beyond the boundaries of the country.
- ✓ Goods in home trade may not require much standardization while in international trade goods need to be standardized.
- ✓ Local currency is used in home trade while foreign currencies are used in international trade.
- ✓ There are few legal requirements required to start home trade while there are a number of legal requirements needed in international trade.
- ✓ Goods in home trade may not be insured whereas in international trade goods must be insured due to the many risks involved.

### Common Terms Used In International Trade:

**1) Terms of Trade (T.O.T):** It is the relationship between the prices of imports to the prices of exports. It is the value of imports in relation to the value of exports. Terms of trade may be favourable or unfavourable terms. A favourable term of trade is where the value of exports is higher than the value of imports. An unfavourable term of trade is where the value of imports is higher than the value of exports.
**2) Balance of Trade (B.O.T):** This is the difference between the visible imports and visible exports. A favourable balance of trade is where the value of visible exports exceeds the value of

imports. An unfavourable balance of trade is where the value of imports exceeds the value of visible exports.

**3) Balance of Payment (B.O.P):** Is the difference between the country's total foreign exchange receipts from both visible and invisible exports and payment of both visible and invisible import of a country. A favourable balance of payment is where receipt from visible and invisible exports exceeds the payments for visible and invisible exports. An unfavourable balance of payment is where payment of visible and invisible imports exceeds receipts from visible and invisible exports.

**4) Customs Draw Back:** Is the value refunded to the manufacturers by the tax authority that was initially paid as duty of imported raw materials when the final goods have been exported.

**5) Entre-Pot Trade:** Is the re-exportation of goods previously imported by a trade to a given country.

**6) Dumping**: Is the sale of goods on a foreign market at the price lower than that in a home market.

**Advantages of International Trade:**

- ✓ It enables countries to get what they cannot produce due to lack of required technology.
- ✓ It enables countries to meet the local demand of the nations. A country may be producing a commodity but in insufficient quantities.
- ✓ It enables a country to sell off its surplus produce than throwing it.
- ✓ It encourages specialization which leads to increased output.
- ✓ It enables domestic industries to compete with foreign industries which lead to efficiency and improved quantities.
- ✓ It encourages countries to exploit their resources appropriately because of specialization.
- ✓ It strengthens political ties between or among countries engaged in international trade.
- ✓ It enables the country to enjoy the benefits of comparative cost advantage, i.e. specializing in production of a product where it incurs less costs.
- ✓ It enables national/citizens to enjoy a wide range of commodities produced by different countries.
- ✓ It enables the country earn revenue through import and export taxes.
- ✓ It helps to create employment opportunities to citizens like clearing agents, tax collectors etc.

**Disadvantages of International Trade:**

- ✓ It encourages dumping where goods are sold in a foreign country at a price lower than the home market price.
- ✓ It discourages development and expansion of home industries because of competition from foreign goods.
- ✓ It may lead to a country to suffer from imported inflation as a result of importing goods from a country experiencing inflation.
- ✓ It may lead to domination by other countries in political, economical and social affairs.
- ✓ It may lead to the importation of harmful good which may affect the citizens morally and in terms of health.
- ✓ It may lead to exhaustion/exploitation of resources like minerals and fish from lakes due to continuous exploitation.
- ✓ It may lead to unfavourable balance of payment especially when a country depends heavily on export of a commodity and the demand lowers/becomes low.
- ✓ It may lead to decrease in home employment due to increase in import trade.
- ✓ It may lead worst terms of trade especially when the value of imports exceeds the value of exports.

- ✓ It may also worsen the balance of payment due to payment of imports exceeding the receipts from exports.

**Ways/Measures The Government Is Taking To Promote Foreign Trade:**
- ✓ By promoting peace, security and stability in the region.
- ✓ By exchanging trade delegates between different countries.
- ✓ By forming export promotion board/agencies to promote international trade like Uganda Export Promotion Council, NCCI.
- ✓ Through easing of foreign exchange restrictions.
- ✓ Through liberalization of forex bureaus and opening up many international banks like Bank of India, Kenya Commercial Bank etc.
- ✓ By improving on both international transport and communication networks.
- ✓ By encouraging exportation of many non-traditional cash crops like flowers, vanilla etc.
- ✓ By easing movement of people and other factors of production across borders like provision of East African Passport.
- ✓ By forming economic grouping like East African Community, Common Market for East and Southern Africa etc.
- ✓ By removing of trade barriers and restrictions through making agreements.
- ✓ By encouraging international trade show and exhibitions.

**Reasons Why Countries Restrict Foreign Trade (Free Trade).**
- ✓ To protect infant home industries against competition from developed foreign industries.
- ✓ To collect revenue through changing export and import duties.
- ✓ To develop the industries or basic industries such as oil, iron, steel industries so as to avoid depending on foreign supplies.
- ✓ To prevent importation of harmful or expired commodities which lower the standards of living of citizens.
- ✓ To avoid dumping of foreign goods on the home market which are sometimes of low quantity.
- ✓ To correct the of payment deficit by reducing on the volume of imports and exports.
- ✓ To create a self-sustaining economy which leads to economics and political independence
- ✓ To widen employment opportunities through promoting expansion of local industries
- ✓ To retaliate against the country which has imposed restrictions on imports from other countries "beg my neighbor policy"
- ✓ To discourage the exportation of a given commodity in order to boost its supply at home e.g. cotton for home textile industry
- ✓ To promote import substation strategy. A country may restrict import trade so as it can begin to produce the goods that it has been importing
- ✓ Countries may restrict international trade as a policy of regional economic integration e.g. COMESA and EAC
- ✓ To reduce on the rate of unemployment. When imports are restricted, the demand for local products increase leading to expansion of industries and hence creating more employments.

**Ways of Controlling or Restricting International Trade:**
**Qn. Explain the ways of carrying out protectionism in international trade**

1) **Quotas:** This is the fixing of physical quantities or value of commodities to be imported and exported by trade of a country at a given period of time.
2) **Tariffs:** This is the imposing of taxes on imports or exports. High taxes reduce on imports and exports and low taxes increase on exports and imports.

3) **Total ban:** This refers to the total refusal by law the importation or exportation of some goods e.g. cocaine, Cuba, marijuana.
4) **Foreign exchange control:** The country can reduce foreign exchange allocated on the importation of certain commodities.
5) **Subsidization:** This where the country reduces taxes on locally produced goods making them cheaper than the imported ones.
6) **Devaluation:** This is the reduction of the valued of the country's currency in relation to the foreign country. Devaluation makes imports more expensive and exports cheaper.
7) **Export and import licenses:** The government can establish a complicated and lengthy system of procedure in foreign trade which discourages some traders to engage in international trade.
8) **Deflationary policy**: This where the government reduces the money in circulation, which reduces on domestic demand hence discouraging the importation of more goods
9) **Prepayments**: Here importers and exporters are requested to pay tax in advance which discourages many traders.
10) **Transport discrimination**: For instance, airplanes may charge business persons more fares than ordinary passengers as a way of discouraging international trade.
11) Quality control measures
12) Import substitutions

**LIMITATIONS OF TOO MUCH RESTRICTIONS OF INTERNATIONAL TRADE:**

- ✓ The citizens may go without the consumptions of some commodities e.g. heavy machinery, drugs, computers, vehicles among others
- ✓ The relationship with other countries may decline i.e. beg my neighbor policy
- ✓ There will be a decline in foreign exchange earnings due to limited imports and exports
- ✓ The tax base will also decline as tariffs on imports and exports will be reduced
- ✓ The quality of locally produced goods will decline due to lack competition from foreign goods
- ✓ The consumers will no longer exercise their choice as they will be restricted mainly to locally produced goods
- ✓ It enables inefficient industries to remain in business. This leads to resource misallocations
- ✓ If the country imposes restrictions on goods which are demanded by many people, the prices of such commodities will always increase causing inflation

**PROBLEMS FACED BY INTERNATIONAL TRADE:**

- ✓ **Administrative barriers and documentation.** It involves many bureaucratic procedures to obtain the necessary legal documents
- ✓ **Diversity of language.** Different people use different languages causing language barrier
- ✓ **High tariffs.** High taxes limit the volume of goods to be exported/imported
- ✓ **Exchange rate** fluctuation which sometime cause loses to traders in international trade
- ✓ **High freight** costs which make the final prices of goods to be high
- ✓ **Different tastes and preferences.** Different people have different tastes and preferences which affect the demand of certain gods on the international market
- ✓ **Political differences or ideologies**. Countries with different political ideologies limit the level of international trade among themselves
- ✓ **Large capital required**. International trade requires large capital which many traders lack
- ✓ **Diversity of currency.** To carryout international trade, one needs foreign currencies which is sometimes hard to acquire
- ✓ **Market location.** Location of markets in international trade means extra expenses because of market research and sales promotion

- ✓ **Lack of adequate** and accurate information on what different countries produces or is capable of producing.
- ✓ Inadequacy in transport and communication caused partly by physical distances that separate some nations from others which is also increased by existence of forests, mountains, deserts etc.
- ✓ Policies aimed at protecting domestic manufacturers or producer leading to heavy customs duty and other tariffs on imported goods.
- ✓ Government control of foreign exchange allocation where more foreign exchange is allocated for importation of goods that are perceived to be important for the country with little to others.
- ✓ Existence of cartels such as the Organization of Petroleum Exporting Countries that set up monopolistic types of prices and levels of production placing restrictions on the flow of goods and services among countries.

**DOCUMENTS USED IN INTERNATIONAL TRADE:**

**1. Bill of lading:** This is a document which contains the details of goods loaded into a ship, the and conditions under which they have been accepted by the shipper

**Functions of the bill of lading:**

- ✓ It is a receipt for the goods by the shipper
- ✓ It is a document of title of goods
- ✓ It is a contract of carriage

**2. Certificate of origin:** This is the document prepared by the exporter stating where the goods are manufactured from.

**3. Indent:** This is a document used by an importer requesting his agent to place an order with an appropriate exporter. There are two types of indent

(a) **Open indent:** This is an indent which does not name the manufacturer from where the goods should be bought. It is not conditional indent as it does not name the producer from whom to import.

(b) **Closed indent:** This is an indent which names the manufacturer from where the goods should be bought. It is conditional indent as it name the producer from whom to import the goods.

**4. Freight note:** This is a document drawn by shipping company indicating the charges for shipping the goods.

**5. An Invoice:** This is the document that gives the complete details of the transactions involving the sale of good. It shows the goods bought, their quantity, the prices, means of transport to be used, terms of delivery and means of payment.

**6. Proforma Invoice:** This is a document that is sent when payment is expected before the delivery of goods to the buyer. This serves the same purpose as an invoice. It is a polite request to the buyer to pay before the goods are sent/dispatched.

**7. Letter of Hypothecation**: This is a letter drawn and issued by the exporter to his bank authorizing the sale of goods in a foreign market at the best suitable price. It is an authorization for the goods to be sold for the best price available if the price shown in the bill of exchange is not accepted.

**8. Consular Invoice:** Is an invoice that has been seen and issued by the consulate o embassy official of a country to which the goods have been exported. It helps the consular to sort out undesirable goods and certify that the goods are reasonably priced.

**9. Dock Warrant:** Is a document of title for goods kept in the warehouse for a long period of time.

**10. Advice Note:** This is a document sent by the seller to the buyer informing him that goods have been shipped and are on the way.

**11. Ship Manifest:** This is a document that shows a list of various goods carried by the ship. It contains the following

- ✓ Name of the shipper and consignees
- ✓ A packaging list showing the number of containers for the goods.
- ✓ The specialization of the goods carried in each container.

**12. Calling forward Note:** This is a document sent by a shipping company to the exporter stating the date when goods must be at the dock ready to be shipped.
**13. Consignment Note:** This is a document given to the person collecting the goods from the warehouse instructing him to deliver the goods at the address shown on it.
**14. Airway Bill:** This is a document used instead of a bill of lading when goods are sent by air rather than by sea.
**15. Delivery Note:** This is sent along with the goods for the buyer to check and sign to confirm that all goods have been received in good conditions.
**16. Credit Note:** This is sent by the seller to buyer asking him to correct any errors made on the invoice.

**Intermediaries in International Trade (Middlemen):**

These are traders or organizations that are involved in the distribution of goods and services between the manufacturers and consumers. They include the following:-

1) **Export Merchants:** These are traders who buy goods locally and then sell them abroad in his own name.
2) **Import Merchants:** These are people who buy goods from other countries and sell them locally in their own names. They act on their own but not for others.
3) **Export Agent:** This is a trader who maintains offices in other countries for purposes of assisting local manufacturers who do not have export offices of their own.
4) **Import Agent:** This is a person who acts on behalf of another person or firm to obtain good goods from other countries. He is always paid a commission for this work.
5) **Broker:** This is a person who acts on behalf of another person to look for market for the goods of his boss. He does not buy or sell goods on his own behalf but for another one.
6) **Factor:** These are agents who sell goods in their names and send it to the principal. They are mainly in a foreign country and sell goods in that country and send the money to the principal after deducting his commission. He is different from a broker in that for him, he sells the goods but a broker does not sell the goods.
7) **Packing and forwarding Agent:** This is a firm that specializes in packing of goods, arranging for their shipping and attending to their delivery in return for a commission.
8) **Forwarding Agents:** These collect and deliver goods on behalf of others.
9) **Commission Agents:** These are agents who buy and sell goods on behalf of the owners. They earn a commission for the services rendered.
10) **Jobbers:** These deals or buy and sell shares on their own.
11) **Del-Credere Agents**: These are employed to sell goods for his principal who guarantee to pay the amount due whether goods are sold or not.

**Advantages of middlemen:**

- They transport goods from producer or supplier to the consumers.
- They break bulk making the goods to be available in small affordable quantities to consumers.
- They store the goods purchased from the producers until they are demanded by the consumers.
- They facilitate the flow of information from the producers to the consumers and hence linking the gap between the producers and the consumers.
- They finance the producers by paying them promptly.
- They advertise the goods on behalf of the producers hence being able to get market quickly.
- Some middlemen prepare goods for sale by branding and packaging these goods.

**Disadvantages of Middlemen:**

- Some middlemen dilute goods sold to consumers like milk, honey plus other drinks.
- Some middlemen use wrong measures and weights hence cheating the consumers.
- They sometimes mislead the consumers through persuasive advertising.
- Some middlemen hoard (hide) goods to create scarcity with an aim of hiking the prices.
- Some middlemen sell defective and expired goods to consumers like drugs, fish etc.
- They sometimes avoid paying import and export duties and smuggle goods leading to loss of revenue to the government.

## Delivery /Terms of Sale Used In International Trade:

**1. Ex-works/Loco:** The prices quoted include only the cost of commodities at the factory and the rest of the expenses are to be cleared by the importer.
**2. Free on Railway (FOR):** This includes cost of carriage charges up to the nearest railway station from the factory without including the railway charges.
**3. Delivery Docks (DD):** The price charged includes all the charges for transporting the goods up to the dock but excludes the handling charges.
**Note**: **Docks** are places from where ships wait for cargo.
**4. Free on Board (FOB):** The prices quoted include all the expenses in FAS and loading costs.
**5. Cost and Freight(C&F):** This includes all charges up to the nearest port of the importer plus the shipping freight charges but excludes insurance charges.
**6. Cost Insurance and Freight (CIF):** Under this term, apart from all charges in C&F, the prices quoted also include insurance charges against risks of goods in transit. **Or** the prices quoted will cover all the items under C&F including insurance charges.
**7. Loaded:** This means that the cost met by the seller includes all the costs of buying the goods and all other expenses to the port of destination plus the offloading charges for goods.
**8. In Bond:** This includes the cost of handling and storing the goods in bonded warehouse.
**9. Duty Paid:** In addition to all previous charges, the prices quoted include payment to customs duty.
**10. Free Alongside Ship (FAS):** This means that the costs to be incurred by the seller include carriage charges to the docks, handling charges at the dock and the dock dues but not lording charges.
**10. Franco (Free of Expenses):** The prices quoted cover all the expenses involved in delivery of goods up to the importer's premises/stores.
**11. Or Nearest Offer (O.N.O):** This means that the seller is prepared to sell his commodities at any price offered by the buyers which is closer to the one he quoted. It is mainly used in advertising.

## Forms of Payment for Goods:

**1. Spot Cash:** This is where the buyer pays cash across the counter as the goods are given to him.
**2. Cash on Delivery:** This is where the payment for goods is made as the seller delivers the goods to the buyer.
**3. Prompt cash:** This is where the money is paid to the supplier within seven days for the goods bought on credit. The seven days is the period the seller allows the buyer to pay for the goods bought on credit.
**4. Advance Payment:** This is where payments are made before the goods are delivered.
**5. Personal Cheques:** This is where the importer writes a cheque payable at his own bank and sends it to the seller (exporter) to obtain cash against it.
**6. Bank draft:** This is a written order by the account holder requesting his bank to pay a specified sum of money to a specified person or organization.

**7. Promissory Note:** This is a document prepared by the debtor (buyer) to the seller (Creditor) promising to pay him the amount of money due at a given date.
**8. Letter of Credit**: This is a document issued by one bank authorizing another bank to pay the person named on it specified sum of money. Payment by this means involves actions between two bank, one in the importer's country (the issuing bank) and one in the exporter's country (the responding bank). With this method of payment, it is the importer who asks his bank to issue the letter of credit in favour of his supplier and the bank responds to it.
**9.Unsecured or Open credit**: This method is based on the gentleman's agreement where the supplier ships the goods and sends all the necessary documents for clearing without any advance payment. The supplier hopes that the importer shall act in good faith and will pay him for goods as soon as the credit period reaches/expires.
**10. Bill of Exchange:** This is a document prepared by the seller to the buyer requesting him to pay on demand or at a future date a stated sum of money at a specified period.

**Parties to the Bill of Exchange:**
**Drawer/Payee:** This is the person supposed to be paid.
**Drawee:** Is the person supposed to pay the amount stated on the bill.

**Types of Bill of Exchange:**
**1. Sight Bill:** Is a bill payable on demand. The drawee is supposed to pay for the debt as soon as he receives the bill of exchange.
**2. Usance Bill:** This is a bill payable at a future date. It gives the debtor (buyer) some days of grace to clear the debt.
**3. Trade Bill:** Is a bill resulting from a trade transaction.
**4. Inland Bill:** This is a bill of exchange used in home trade. Both the seller and buyer should be living in the same country for them to use this bill.
**5. Foreign Bill:** Is a bill used in international trade.
**6. Retired Bill:** Is a bill which is cleared by the buyer before its maturity date.

**Note:**
**1. Honouring the bill of exchange:** This is when the amount against the bill has been paid by the drawee (Buyer).
**2. Dishonouring the bill of exchange:** This is when the drawee (buyer) fails to pay the amount stated on the bill on its maturity date.

**Reasons for Dishonouring the Bill of Exchange:**
1. When the drawee has no or less money at the date of its maturity.
2. When the drawer has stated an over charge.
3. When the drawee is dead.

**Regional Trade/Integration/Co-operation:**
This is where countries in a given region join together and form one trading block. E.g. East African Community, Common Markets for East and Southern Africa (COMESA) etc.

**Forms of Regional Co-operation/International Trade Agreements:**
- ✓ **Customs Union:** This is whereby each member country allows free entry of goods from other member countries. Countries maintain a common or similar rate of duty/tariff on goods from non-member countries.
- ✓ **Free Trade Area:** This is where member countries are allowed to impose different rates of customs duty on goods from non-member countries.

- ✓ **Preferential Trade Area (PTA):** This is where countries decide to give preferential (special) treatment to member countries.
- ✓ **Common Markets:** This involves free movement of goods and labours among member countries and restricts the movement of the same from non-member countries.
- ✓ **Economic Union:** This is the highest degree of economic co-operation and its basic features are of a common market i.e. join planning of institutions, common economic policies, common monetary system and common currency etc.

**Advantages of Regional Co-Operation**:

1) Large market is created since exporters are free to sell their goods in member countries.
2) It reduces the costs of duplication as if one industry is established in one member country, it is not necessary to establish it in another country.
3) It encourages competition among the producers of member countries leading to improved quality of goods and services for their people.
4) It leads to peaceful relationship and political co-operation because of a sense of belonging together.
5) The citizens of the member countries share common services at cheaper prices like medical services, educational services etc.
6) It allows member countries to share research and collect information jointly at cheaper cost.
7) It encourages specialization for a member country to concentrate in areas it can produce best.

**Disadvantages of Regional Co-Operation:**

1) Loss of customs revenue which would have been collected if there was not co-operation.
2) Most low developing countries produce almost similar products which make trade between them minimal.
3) Member countries may have poor quality goods because of trade restrictions against the goods from non-member states.
4) There is likely to be un-even distribution of industries and general development among the member countries due to over dependency.
5) Political differences usually affect the smooth running of regional co-operation.
6) The poor system of communication and transport in developing countries affect the efforts of integration.

## BUSINESS UNITS AND ORGANIZATIONS:

These are businesses both owned and operated by the state or private individuals both with different objectives.

## SOLE PROPRIETORSHIP:

This is a form of business owned by only one person who contributes capital towards the business and undertakes all the risks and responsibilities of the business. A sole proprietor carries on business by himself and sometimes with the family members.

### Features of Sole Proprietorships:

1. Business is owned by one person. .
2. It is controlled by one man.
3. There is no separate entity between the business and the owner.
4. No or less government interventions.
5. All risks fall on one person
6. There is unlimited liability.

### Advantages of Sole Proprietorship Business:

- ✓ Less/ little capital is required to start the business.
- ✓ The business is flexible as one can easily change from one line of business to another without asking anybody.
- ✓ There is high secrecy kept since he is alone and he does not publish the accounts of the business in the media.
- ✓ A sole trader has direct and personal contact with his customers and therefore he knows what his customers need.
- ✓ The entrepreneur enjoys all the profits and other benefits of the business alone with the family members.
- ✓ The sole trader enjoys all the profits alone.
- ✓ It requires less or no legal formalities to set it up.
- ✓ Self-interest, since the sole trader enjoys all the profits alone, he develops self-interest in the business which motivates him to work harder.
- ✓ A sole trader is his own boss since he is not controlled or answerable to anyone.
- ✓ A sole trader enjoys maximum freedom as he can open the business and close it any time.
- ✓ The business requires little space to set be set up enabling it to be set up in every part of the country.
- ✓ A sole trade is not accountable to anyone and therefore the books of accounts are kept at his own will.
- ✓ A sole trader provides employment opportunities to his family members
- ✓ There is quick decision making in the business since the sole trader need not to consult anybody for decisions concerning the business.

### Disadvantages of Sole Proprietorship Businesses:

- ✓ A sole trader bears all the risks or losses of the business alone including bad debts.
- ✓ There is lack of continuity as if the owner dies the business may come to an end as the relatives may lack interest to continue with the business.
- ✓ There is unlimited liability in the business as private assets of the proprietor can be sold off to pay the business debts.
- ✓ Lack of business expansion because of limited capital.
- ✓ The sole trader has less or no time for rest and holidays as he works for long hours of the day.
- ✓ Due to little capital in the business, he may not afford a variety of goods for his customers.

- ✓ A sole trader may not easily carry out advertising and market research to increase sales due to limited capital in the business.
- ✓ Most sole proprietors lack managerial skills and in the end employ family members who also have no skills and experience hence worsening the situation.
- ✓ Sole proprietors lack separate legal entity/existence from the owners and the businesses.
- ✓ Most sole proprietorship businesses lack proper accounting systems in their businesses which make it hard to prepare financial statements.
- ✓ There is limited knowledge/ideas and talents as the business is run by one person.

## PARTNERSHIP BUSINESS:

This is a legal form of business between two or more people who come together and contribute capital with the aim of making profits. Each member who contributes capital is called a Partners and the partnership may be either be permanent or temporary.

**A Permanent Partnership:** This is a partnership formed to carry out business indefinitely (without any time limit). The time for winding out the business is not disclosed at the time of starting the business.

**A Temporary Partnership:** This is a partnership formed to operate for a specified period of time say two or six years. This form of partnership can also end on completion of the contract.

**Membership in a Partnership:**

By the laws governing partnerships, the minimum number for partnerships is two with 20 members as maximum. However, in some cases like lawyers and doctors the maximum number can go up to fifty.

**Formation of Partnership Business:**

This form of business can be formed by an agreement between the persons who have agreed to come together and run business. The agreement can be in writing or oral though putting it in writing is the most desired for future reference in case of any disputes. Partnership Deed or Partnership Act of 1890 guides the members of the firm.

**Contents of Partnership Deed:**

The Deed will have the following clauses.

1. Name of the firm and its location
2. Names and address of all partners
3. Interest payable to the loans to the firm by the partners.
4. The beginning and duration of the business.
5. Amount of capital contributed by each partner.
6. How drawings will be made
7. Ratios of sharing profits and losses
8. Procedures in case of disputes amongst the members.
9. Salary to active partner if any
10. Duties and rights of each partner
11. Procedures of retiring by any partner
12. The line of business.
13. How to elect the management committee
14. Procedures for dissolution of the firm
15. Preparation of books of accounts

**Partnership Act of 1890:**

In the absence of the partnership Deed, the partnership Act 1890 shall guide the members and this has the following provisions:-

- ✓ All profits and losses are shared equally.
- ✓ No interest is allowed on capital and drawings by partners.
- ✓ No salary is allowed to any partners.
- ✓ 5% p.a interest is paid on loans to the business by any partner.
- ✓ Every partner has the right to take part in the running of the business.
- ✓ The wrangles in the business may be dissolved according to the voice of the majority.
- ✓ A change in the nature of the business should be decided by all the partners.

## Types of Partnership

**Ordinary Partnership:** This is where all members have unlimited liability i.e. they are all answerable to the debts of the firm up to the extent of selling of their personal property.
**Limited Partnership:** This is where the liability of members is limited to their capital contribution except at least one partner who has un-limited liability
**Temporary Partnership:** This is formed for either a specified period or a specified purpose at the expiry of which a partnership is dissolved.
**Permanent Partnership:** This is intended to continue indefinitely i.e. the continuity is everlasting and there is no set time for it to be dissolved

### Types of Partners:

1) **Active Partners:** These are partners who contribute capital, share profits, losses and are involved in the daily activities of the business.
2) **Dormant/Sleeping/Silent Partners:** These are partners who contribute capital, share profits or losses of the business but are not involved in the daily activities of the business.
3) **General/Unlimited Partners:** These are partners whose liabilities in the business in unlimited. In case of any financial crises in the business, they are called to contribute extra money to solve the business problems.
4) **Limited Partners:** These are partners whose liabilities towards the business debts are limited to the amount of capital they contributed as share capital.
5) **Major Partners:** These are partners who join the partnership when they are 18 years and above.
6) **Minor Partners:** These are partners who join the partnership business when they are below the age of 18 years. In most cases these are not allowed to join partnerships.
7) **Real Partners:** These are partners who are part and partial of the business. All the above partners are therefore real partners in the business.
8) **Quasi Partners:** These are partners who do not contribute any capital to the business and don not take part in the day-to –day activities of the business. There are not held responsible for the business debts. They only allow other partners to use their names in the business and they usually receive a commission for using their names in the business.

### General Rights and Duties of Partners:

1) All partners are equally responsible for the business debts with the exception of limited, quasi and minor partners.
2) No partner may be admitted without the consent of all partners.
3) The firm must compensate the any partner for liabilities incurred by him in the course of running the business.
4) No partner may be expelled without dissolving the partnership.
5) No partner is allowed to engage in a private business that competes with that of the partnership.
6) Every partner is responsible for the firm's funds and is required to be trusted and keep proper records of the business.
7) No partner is allowed to sell his shares to the outsiders without the agreement of the other partners.
8) Every partner has the right to act on behalf of the business.

### Advantages of Partnership Businesses:

1) The business does not require many legal documents hence being easy to start.
2) The burden of losses is distributed amongst the partners unlike in sole proprietorship where he takes all the losses alone.

3) There is always time for leisure and holiday as there are many partners involved in running the business.
4) There is better combination of talents from partners which leads to the business success.
5) More capital is raised than in a sole trade business.
6) Specialization is possible as different people with different skills can be acquired and this facilitates the smooth operation of the firm.
7) The minorities' interest is protected as no basic changes can be made without consulting all the members.
8) Good decisions and resolutions are made as a result of many partners unlike in a sole business.
9) The capacity for the firm to survive is high in case a partner dies as compared to sole trade.
10) New partners can or may be invited in case there is need to get more money for business expansion and this is not possible under sole trade.
11) The absence of dormant partner cannot stop the running and operations of the business.
12) Business stands more chances of getting bank loans as compared to sole trade as partnerships are a bit organized.

**Demerits of Partnerships:**

1) There is unlimited liability to the partners as the partners are all liable to the debts of the firm.
2) The death or retirement of an active partner may lead to the collapse of the business
3) Profits are shared by the partners, which reduce the amount of dividends earned by each partner.
4) Decision-making is more difficult due to the number of members involved which may affect the operation of the business.
5) Disagreement amongst partners due to difference in options may slow the firm's progress.
6) Most partners do not want to risk their property for security in the bank to get loans on behalf of the business as they may lose the property in case the firm fails to pay the loan.
7) There is imbalance in profit sharing as when there is not a partnership deed all profits are shared equally whether active or dormant partner.
8) In situation where a partner makes a poor deal, all partners shall suffer the outcome.

**Dissolution of a Partnership:**

This refers to the ending/closing the partnership business. This business can be closed due to the following reasons.

1) When the expiry period has come especially in case of temporary partnership.
2) When there is notification of partners about one's intension to dissolve the partnership.
3) In case one of the partners dies or becomes insane or bankrupt.
4) In case the partnership wishes to change its name.
5) When a new partner is joining the firm or when one partner is retiring from the partnership.
6) If there is an event that makes the partnership unlawful like dealing in illegal activities.
7) In case of continued disagreement amongst the partners.
8) In case one of partner's acts against the partnership deed or agreement.
9) In case the partnership operates on losses for a long time.

## CO-OPERATIVE SOCIETIES:

A co-operative society is a business unit formed by a group of people who have agreed to come together to carry out activities to benefit themselves or attain a common objective.

**Features of Co-Operative Societies:**

1) They are registered under the industrial Act
2) The services of these societies are mainly for its members.
3) Membership is open to all people irrespective of religion, education, sex, tribe, economic status

4) The members are sometime customers of the society
5) They are controlled by management committees.
6) The minimum number required is 10 with no maximum number.

**Aims of Co-Operatives:**
1) To avoid exploitation of members by the business people.
2) To earn revenue for the members by distributing surplus profits.
3) To mobilize savings and provide loans to members at their interest rates.
4) To help improve on the living conditions of their members by providing essential services at a fair price.
5) To acquire a combined membership contribution to carry out business and to have a strong bargaining power for their services.

**Principles of Co-Operative Societies:**

**Open Membership:** A co-operative society is open to all who wish to join and have the requirements set out. They are also free to join and leave at their own time.

**Democratic Administration:** Co-operative societies elect their management on the basis of one-vote -one-man regardless of the number of share held by any member.

**Equal or Neutrality:** All members of the co-operative societies are equal to each other without any one being above or have senior authority.

**Share of Profits:** Every member of the society is to share the profits of the society according to the amount of produce sold to the society by each member. This profit may be at the end of the trading period like after one year.

**Separate Legal Entity:** Co-operative societies enjoy separate and independence existence from its members.

**Service Motive:** Although a co-operative society has profits as one of its objectives, it is established primarily with a view of rendering services to its members and to the public at general.

**Cash Payment:** All sales and purchases made to the society are made at the prevailing market prices.

**Types of Co-Operatives Societies:**

**1. Consumer Co-operative Societies:** These are formed by people with the main purpose of buying and distributing goods amongst the members at low prices. They buy goods from producers at cheap prices and sell them to members at relatively low prices. The members in these co-operatives pay membership fees and buy shares from the society. There are two types of consumer co-operative societies:-

**(a) Retail Co-operative Societies:** These are societies owned by and operated by small groups of consumers who purchase and distribute goods amongst themselves. They are in most cases located in remote areas.

**(b) Whole sale Co-operative Societies**: These are a collection of retail co-operative societies who come together and form their own wholesale terminals from where they buy and redistribute goods to the respective members of the retail co-operative societies.

**Functions of Consumer Co-Operatives:**
- ✓ They buy from different producers and sell to their members at relatively low prices.
- ✓ They promote savings amongst the members and encourage them to buy valuable items.
- ✓ They share surplus profits to members as dividends according to each member's purchases from the society.
- ✓ They reduce on exploitation of the public by traders who hike the prices aimed at making super normal profits.

**2. Producer Co-operative Societies:** These are societies involved in the production, processing, transporting, collecting and marketing of the agricultural produce. These are very important for the development of low developed countries. Members earn dividends according to how much produce one has sold to the society.

**Functions of Produce Co-operative Societies:**
- ✓ They collect and grade the farmers' produce.
- ✓ They help to finance members by advancing them credit facilities.
- ✓ They provide extension services to members by educating them on better farming methods.
- ✓ They sometimes provide members with equipment like spraying pumps, tractors and other farm inputs like fertilizers.

**4. Savings and Credit Co-operative Societies:** These are financial institutions aimed at encouraging their members to save. These co-operatives mobilize savings and provide credit to their members.

**Functions of Savings and Credit Co-operative Societies:**
- ✓ They advance credit facilities to members on reduced interest rates.
- ✓ They help to educate members on financial matters.
- ✓ They help and encourage members to save for the future.

**5. Transport Co-operative Societies:** These are rare co-operative societies that deal in transportation e.g. Uganda Co-operative Transport Union (UCTU).

## MARKETING BOARDS:

A marketing board is a trading business established by the government to control and market agricultural commodities.

**Types of Marketing Boards:**

**Commodity Marketing Boards:** These handle the production, purchase and marketing of only one type of agricultural commodity. E.g. Uganda Coffee Marketing Board, Uganda Lint Marketing Board.

**Produce marketing boards**: These are involved in handling production, purchase and marketing of various agricultural produce. The produce may include maize, beans, soya beans, simsim, beans ground nuts etc.

**Export Marketing Boards:** These are set up to market various agricultural products to foreign markets.

**Advisory Boards:** These are set up to carry out research and give advice the produce and marketing boards.

**Functions of Marketing Boards:**
- ✓ To buy and market the farmers produce.
- ✓ To collect and transport the farmers produce to their warehouses in various parts.
- ✓ To carry out research on behalf of the farmers in agricultural and marketing problems.
- ✓ To store the farmers produce until they are demanded by the consumers.
- ✓ To create employment opportunities to the nationals like accountant, drivers etc.
- ✓ To control production by buying from farmers in bulk and selling to consumers steadily.
- ✓ To stabilize prices by operating buffer stock though buying the excess supply and releasing them during the shortage period.
- ✓ To educate the farmers on better farming methods and when and for whom to produce.
- ✓ They earn foreign exchange for the government by selling the produce abroad.

- ✓ To assist the farmers by giving short term loans, fertilizers plus other equipment.
- ✓ To sell the producer on behalf of farmers abroad and locally.

**Problems of Marketing Boards:**

- ✓ Poor quality produces from some farmers who supply to the boards making it hard for them to market them.
- ✓ Political interference from the government on how they have to operate and also election of the management committees.
- ✓ Political instabilities in some areas make their activities hard as farmers may not practice agriculture.
- ✓ Storage problems as they may not have good storage facilities for perishable produce.
- ✓ Price fluctuation as in most cases farmers produce excess produce and supply all lowering the prices,
- ✓ Poor infrastructure/transport means for their produce as in most parts of the country the roads are in bad state during the rainy seasons.
- ✓ Competition from other countries dealing in the same produce which also may lead to lowering of prices.
- ✓ Over production in favourable seasons affects the operations of marketing boards.

**Solution to the Above Problems:**

- ✓ Finding new markets in addition to the already existing ones in other countries.
- ✓ Selling the surplus at a lower price.
- ✓ Finding new uses for the products like fertilizers from coffee to reduce storage problems.
- ✓ Giving the surplus to other countries as aid like beans, maize etc.
- ✓ Giving of quotas to their farmers and ensure that they produce as per the quotas to avoid over production.

## JOINT STOCK COMPANIES:

A joint stock company is a corporate association of people formed to carry out specific function. They can own property, enter into contracts, incur losses, be sued and also sue for damages and therefore they are artificial persons. They are called "Joint" companies because people join their capital to form business organizations for profit motive.

### Types of Companies:

**1. Statutory Companies:** These are companies formed under the Act of parliament and therefore they are owned by the government. Examples are the government parastatals and public corporations.

**2. Registered Companies:** These are companies formed under the companies Act of 1962 and 1985 and are owned by the private sector.

### Types of Registered Companies:

Registered companies can be classified according to the members of shareholders i.e. public and private companies or according to the liability of the members i.e. limited and unlimited companies.

**1. Public Companies:** These are companies that allow the public to buy shares in the company and have a minimum number of two with no maximum. Before the company Act 1980, the minimum number was seven.

**Features Public Company:**

1. The minimum number is two with no maximum.
2. Shares are freely transferable to any member of the public.
3. Members of the public are free to buy shares from the stock exchange.

4. It is owned by individuals and the government cannot influence membership.
5. It must publish its annual accounts /books to enable the public know its financial stand.
6. Members' liability is limited to their capital contributions

**Advantages of public Limited Companies:**

1. **Large finance:** Companies are associated with large finance due to the large numbers of shareholders and this makes it possible for them to expand.
2. **Continuity:** Companies have uninterrupted business life whereby they continue to exist even if the entire shareholders die.
3. **It is a separate legal entity:** Companies are separate from the owners and therefore they can be sued and they can also sue for damages or loss.
4. **Limited liability:** In case of any liabilities or debts, shareholders of companies are only liable to the amount contributed to the business.
5. **Transfer of shares:** In case of public companies, shares can freely be transferred from one person to another without the consent of other members.
6. **Employment of Professional:** With their large finance, companies can manage the services of expert with the required skills to run companies profitably.
7. **Public Confidence**: Companies can acquire or get public confidence since their activities are regulated by the government under the company Act.
8. **People with small capital** who cannot start business alone can subscribe capital to a company and become shareholders hence earning dividends at the end of the financial year.
9. **Shareholders of companies** are safeguarded by the legal regulations underlying these companies and therefore their interests in the companies being safe.
10. They can easily borrow money from financial institutions since they are registered and large.
11. They can operate on large scale thereby enjoying economies of scale in their production.

**Disadvantages of Public Liability Companies:**

1. These companies are characterized by lack of secrecy since they are required by law to publish their information of final accounts in the media.
2. These companies are difficult and expensive to form as they require a lot of documents to be prepared and presented to the Registrar of Companies.
3. Shareholders of the company have little control as regards the normal running of the company as only few administrators' influence the daily running of these companies.
4. There is excessive government influence and control in companies' form of rules and regulations which reduces the efficiency of these companies.
5. Most companies are characterized by corruption and embezzlement of funds by the administrators.
6. Decision-making process is slow characterized by red tape and a lot of bureaucracy due to many people and levels of management.
7. Companies are usually interfered with political situation especially during the election of top management where the ruling government may interfere for own benefit.
8. They cannot change from one line of business to another like the case in sole trade.
9. Some directors may have no personal interest in the business which may slow the company progress.

**2. Private Companies:** These usually develop from partners and have a minimum of two and maximum of fifty members.

**Features of Private Limited Companies:**

1. It is a separate legal entity from the owners.
2. Its capital is divided into various shares.

3. Members' liability is limited to their capital contributions
4. They are formed with the aim of making profits.
5. It is a voluntary organization.

**Advantages of Private Limited Companies:**

1. More capital can be raised due to the large number of shareholders.
2. The death, bankruptcy, insanity or withdraw of any member cannot affect the operations and existence of the company.
3. Employment of Professional: With their large finance, companies can manage the services of expert with the required skills to run companies profitably.
4. They can easily borrow money from financial institutions since they are registered and large.
5. Market research and marketing can easily be carried out to promote the company sales.

**Disadvantages of private limited companies:**

1. Shares cannot free freely be transferred as it is the case with public companies.
2. Capital contributed in form of share is limited to 50 shareholders.
3. Formation of private limited companies requires a lot of time, money and documentations.
4. They may face the diseconomies of scales due to the fact that they are big.
5. There is high tax imposed on these companies which reduces on the amount of profits earned by these companies
6. Decision making in these companies take long time as this is done by the directors.

**Difference Between Private and Public Limited Companies:**

1. Number of shareholders in private company range between 2-50 and in public company range between 7 to infinity.
2. Shares in private limited company are not freely transferable whereas in public limited company shares are freely transferable.
3. Books of account in public limited company are published to the general public while in private limited company books of accounts are not published to the public.
4. Employees in public limited company can freely buy shares in the company whereas in private limited company employees cannot buyer shares.
5. More capital can be raised under public limited company because of unlimited number of shareholder whereas in private limited company the number of shareholders is restricted to 50 maximum.
6. Public limited company can call the public to fund it through selling of shares while in private limited company cannot call the public to fund it.

**Difference between a co-operative society and a joint stock company:**

- ✓ Companies are registered under the company's Act while co-operatives are registered under the co-operative societies' Act
- ✓ Entry in a co-operative society is open to anyone who want to join and can fulfill the by-laws while a company entry is not open to all.
- ✓ Co-operatives serve mainly their own members while companies give services to the general public
- ✓ Dividends in co-operatives are paid according to the member participation (Purchase from and sale to the co-operatives) while in a company, dividends are paid according to the share capital contributed.
- ✓ A co-operative is given a certificate of registration to start operation while a company is issued with a certificate of incorporation to make it legal.

- ✓ There is democratic administration of management in co-operatives while in companies, the majority shareholders control the company.

**Formation of Companies:**

Before a company is formed, there must be an initiator who is called a Promoter. He has to register the company with the Registrar of companies with the following documents**:-**

**1. Memorandum of Association**: This is the most important document that shows the company relationship with the general public (outsiders). It must show the following contents:-

- ✓ **Name Clause:** This shows the name of the company and the last word should be Limited.
- ✓ **Location Clause**: The clause says that every company must have a registered office where it operates from. The documents of the company should be in/at this office and the public can be able to get all information from this office concerning the company.
- ✓ **Objective Clause:** This requires the company to declare the aims and objective for starting the company.
- ✓ **Capital Clause:** This indicates the amount of capital the company wishes to raise and how this capital shall be raised plus the value of each share.
- ✓ **Declaration Clause:** This requires the promoters to undertake a particular business and it is illegal to carry out any business they did not register with the Registrar. The declaration should be signed by at least two members usually the founders and the promoters.

**2. Article of Association**. This shows the internal working rules of the company. It will indicate things like, how to elect management committees, powers and responsibilities of the members and manger, when and how to hold meetings etc.

**3. Certificate of Incorporation:** This gives the company legal existence and it is issued to the promoters of the company. It allows the private company to start operating. For the case of public company, this certificate only allows them to start selling shares to the general public to raise capital.

**4. Certificate of Trading:** This gives the right to public limited company to start operating.

**5. A prospectus:** This is drawn by the directors in public limited company to invite people of the public to buy shares of the company.

**6. Directors' List:** This shows the directors names and their written promises to take up shares in the company.

**7. Statement of Understanding:** This is a signed statement by the company directors showing that they have agreed to carryout business operations and as per the stated objectives and aims.

**8. Declaration:** This just states that the company directors have fulfilled the required requirements for them to start the company and agree to abide by the set rules and regulations to run the company so as to achieve the stated objectives.

**Winding-Up of a Company:**

This is a situation when the operations of the company come to an end. This may be due:

- ✓ When the company does not carry out its business operation because of lack of funds.
- ✓ When the shareholders pass a resolution in the meeting to end/wind up the company
- ✓ In case the company fails to start business within a year after getting certificate of Incorporation.
- ✓ If the activities of the company deemed to be illegal.
- ✓ If the company creditors apply to court for the company to end after it failed to pay their money.
- ✓ In case the company was formed on temporary basis and the time has ended/elapsed.
- ✓ When the company is bankruptcy and it can no longer carry out business.

## SHARES:

A share is a unity of capital for a joint stock company. The people who own these shares are called **Shareholder.**

**Types of shares:**
Shares are of two types i.e. Ordinary shares and Preference shares.

**1. Ordinary Shares**: These are share which do not carry a fixed rate of return or dividends. Dividends are amount of money earned by shareholders on their shares to the company when it makes profits. These dividends shall depend on the amount of profits made by the company where if the profits are high the dividends shall also be high but when they are low they shall also be low.

**2. Preference Shares:** These are shares with a fixed rate of dividends. The dividends shall be paid whether the company makes or does not make any profit at the end of the trading period/year. Preference share are further divided into:-

- ✓ **Cumulative preference shares**: These are shares entitled to fixed rate of dividends until they are paid. In case they are not paid in the current year as result of the company not making profits, they are carried to the following year.
- ✓ **Non-cumulative:** These are shares entitled to dividend only when the company makes profits. They shall not be paid in case not profits are made by the company and cannot be carried forward to the next year.
- ✓ **Redeemable preference shares:** These are shares that can be bought back by the company from their holders after a stated period of time.
- ✓ **Irredeemable preference shares**: These are shares which cannot be bought back by the company. The holders become permanent shareholders in the company.

**3. Share Capital:** This is the initial amount of money a company invests in the business. This amount can be got by selling shares to the public. Share capital has various types as seen below:

- ✓ **Nominal/Authorized/Registered Share Capital:** This is the maximum amount of shares that the company is allowed to raise by selling shares to the public. If the company wishes to sell 150,000 ordinary shares each at Shs.10/= its nominal share capital would be Shs.1,500,000/=
- ✓ **Called Up Share Capital:** Is the actual amount of money the company shareholders have been asked to pay. If the above company sold 100,000 of its ordinary shares and called the shareholders to only pay Shs.7 per share, then called up capital is Shs. 700,000/=
- ✓ **Un Called-up Share Capital:** It is the capital which the directors have not yet called for from the public. It is not yet needed. Then the uncalled up shares is Shs. 300,000 i.e. 3x100,00
- ✓ **Paid-Up Share Capital:** This is the actual amount that has been received from the shareholders.
- ✓ **Issued Share Capital:** This is the total value of shares that have been issued whether full amount against them have been paid or not.
- ✓ **Minimum Share Capital:** This is the amount stated by the promoters when applying to register the company as the minimum amount of money required to start business.
- ✓ **Un Issued Share Capital:** This is part of the called-up capital which is not yet paid by the shareholders. It can also be called Call in Arrears.

**Steps Involved In Selling Share to the Public:**

1. Placing an advertisement in the media inviting people to come and buy shares and where to get them from.
2. Visiting the broker, insurer or selling agent to get the necessary information on which securities to buy.

3. Getting a Share Application Form (SAF) from a participating broker/ dealer and authorized selling agent and filled/completed by the prospective investor.
4. Obtaining prospectus from the participating bank or broker to get more information about the company selling shares.
5. Opening a Securities Central Depository account through a licensed dealer.
6. Filling in a share application form and making payments for the shares applied for.
7. Receiving the share through securities Central Depository after allotment period or receiving a share certificate.
8. Refunding the money on the applicants account in the bank in case any refund made when less share are given that money deposited.

**4. Debentures:** This is a document that evidences that a company has borrowed specific amount of money from a named company or persons and undertakes to it back with a fixed interest. It is not money itself but a document against a loan.

**Types of Debentures:**
**Naked Debentures:** These are debentures that do not have any property pledged against them. They are not secured.
**Mortgaged Debentures**: These are debentures that have some property pledged against them. They are secured and in case of failure to pay them, the property can be sold to recover the money.
**Redeemed Debentures**: These are debentures that can be bought back by the company after a specified period of time.
**Irredeemable Debentures:** These are debentures that cannot be bought back until the company ends/winds up. They can never be refunded unless the company ceases to operate.

**Difference Between Shares and Debentures:**
- ✓ A share is a unit of capital while a debenture is a unit of loan.
- ✓ Shareholders are members of the company whereas debenture holders are creditors to the company.
- ✓ Shares are usually irredeemable while debentures are redeemable.
- ✓ Shareholders earn dividends whereas debentures holders earn interest on their loan.
- ✓ A shareholder suffers losses of the company while debenture holders are not party to the company losses.
- ✓ When the company winds up the debenture holders get only the face value plus interest but shareholders get much more than the face value of the share especially when the company assets as sold are much money is got.
- ✓ A shareholder has the right to vote in the company affairs while debentures holders have not say as regards the company decisions and affairs.

## GROWTH OF BUSINESS:

Business organizations may grow either internally or externally.
**1. Internal Growth:** This arises as a result of natural growth after injecting back the profits made by the business and hence growing.
**2. External Growth:** This involves two or more firms pooling their resources to form one big business. This is also call amalgamation or mergering. Mergering can be either voluntary or compulsory.
✓ **Voluntary Merging** is where two or more firms agree to come together to form one big firm which may be temporary or permanent.
✓ **Compulsory merging** is where firms are forced to come together to form one big company.

**Types of Mergers/Expansion/Amalgamation:**

1. **Horizontal merger:** This is where businesses producing similar goods come together to form one large firm. For example Coca-Cola merging with Pepsi Cola.
2. **Vertical Merger:** This takes place when two or more firms at different stages of production come together. E.g. wheat growers combining with bead makers.
3. **Lateral Merger:** This takes place when two firms producing related goods but do not compete with one another decides to combine. E.g. whisky producer merging with beer producers.
4. **Conglomerate Merger:** This is when two or more firms producing totally unrelated goods decide to come together. E.g. a school merging with a restaurant.
5. **Absorption:** This is where one company takes over the business of another company or businesses.
6. **Holding Company:** This is an arrangement where the merging companies retain their entities but one of them controls the large part of shares of others by at least 51%.
7. **Cartel:** This is an arrangement where companies agree to sell their products through one central selling agency. It is not a combination or merging.

**Reasons for Merging:**

- ✓ To enable them raise more and large capital
- ✓ To enable them with stand both internal and international competition.
- ✓ To capture a big market share for their products in the market place.
- ✓ To help them use better and modern technology as a result of combined resources/capital\
- ✓ To promote specialization as different skills and experiences is got as a result of combination.
- ✓ To help reduce of expenses and have better administration of the businesses.
- ✓ To improve on the staff welfare as a result of increased resources in the business.

## CO-OPERATIVE UNION:

A union is a secondary society which consists of a number of primary co-operative societies. These societies deal in similar commodities like Masaka Co-operative Union and Banyankole Kweterana Co-operative Union.

**National Co-operative Union:** These are co-operative unions formed at National level. Various co-operative unions in a particular field come together and form a national co-operative union.

**Uganda Co-operative Alliance:** This is the head of the co-operative movement in Uganda which controls all the activities of co-operative societies.

**Functions of Uganda Co-operative Alliance:**

- ✓ It encourages and promotes the growth and development of co-operative societies in the country.
- ✓ It promotes the co-operative awareness to the public through the mass media.
- ✓ It helps co-operative and Unions and primary societies in legal matters/affairs.

**Role of Co-Operative Movement in Economic Development:**

- ✓ They provide financial assistance to the farmers by advancing them with short term loans.
- ✓ They provide tractors hire services to farmers at subsidized rates.
- ✓ They help in the marketing of the farmers' produce at favourable prices.
- ✓ They educate the farmers on better farming methods through seminars and workshops.
- ✓ They transport the farmers produce to market and processing centres.
- ✓ They create jobs for the nationals directly and indirectly
- ✓ They provide storage facilities to the farmers produce until it is processed or sold to consumers.

**Problems Faced By Co-Operatives:**

- ✓ Co-operatives lack enough finance as members sometimes do not pay their membership fees, funds are embezzled by the employees and sometimes the borrowed money is never paid back.
- ✓ They lack modern storage facilities like refrigeration to store the perishable goods like fruits.
- ✓ Poor transportation facilities as they do not have motor vans to transport their goods, at the same time roads in the rural areas are in bad state making transportation almost impossible.
- ✓ Farmers are too conservative and reluctant to learn and change to new methods of production and hence limited output and poor quality of products.
- ✓ Most governments in LDCs interfere very much in the management and running of the co-operatives and this limits their effective operations.
- ✓ They lack spare parts for the machinery due to high foreign exchange for buying these spares.
- ✓ Co-operatives lack securities that they can present to financial institutions to get loans.
- ✓ There is reluctance of some members to pay their subscription fees to facilitate society's activities.
- ✓ There is price fluctuations which make it had for the farmers to estimate their annual incomes.
- ✓ Political instabilities in some areas affect the activities of these co-operatives
- ✓ Pests and diseases affect the quality and quantities of the farmers' produce.
- ✓ Poor leadership in some cases like in rural areas has led to the retardation of these co-operatives.

**How The Government Can Improve On The Private Sector:**

- ✓ By ensuring and promoting security and political stability so as to give investors confidences to encourage them expend their businesses.
- ✓ By providing free interest loans to people and equipment to people who wish to set up businesses. This can be in form of youth loan scheme, Etandikwa.
- ✓ By improving on the infrastructure like roads and the telecommunication network to enable people move freely their goods to the markets.
- ✓ By subsidizing on the private sector like giving a hand through cost sharing on the costs of setting up businesses.
- ✓ By having favourable legal procedures in accessing the documents of setting up businesses like easing the procedures of getting trading license.
- ✓ By helping in setting up education and advisory services to help in educating people on how to conduct and operate businesses.

## TRADE UNIONS:

These are associations of workers in a particular firm or industry formed to protect the members' interest and fight for their rights while at work. Examples of trade unions in Uganda include: Uganda Hotel, Tourism and Allied Workers' union, Uganda National Teachers union, Uganda Medical Workers Union, Uganda Mine, Metal and Allied Workers Union etc.

**Aims of trade Unions:**

- ✓ To protect the workers against unfair dismissal.
- ✓ To secure the workers natural rights and provide effective means of expression.
- ✓ To improve the workers conditions of work through collective negotiation with the employers.
- ✓ To fight for workers pay raise on their work.

**Methods Used In Trade Unions:**

**1. Collective Bargaining:** this involves negotiation between union members and employers about wages, fringe benefits and other working conditions. The members of a particular union express their need to their employer for better working condition which the employer may agree later and works about it for the good of the company and the employees.

**2. Strike method:** This involves the employees threatening the employer to withdraw their labour from work if the employer does not fulfill certain conditions say salary increase or any other demand. It may involve the employer laying off some workers in the end which is not good for the same laid off employees.

**3. Go Slow Method:** This involves the workers reducing on their effort and concentration effort in the work which may reduce on their productivity. The general performance of the workers will reduce and hence affecting the company as a whole.

**Why Trade Unions Demand For Higher Wages:**

- ✓ **Increase in the cost of living:** When the cost of living increases, the trade unions shall also demand for an increase in the wages to match with the changes in cost of living as the wages previously being given may not meet their needs.
- ✓ **The profit argument:** The increase in the profits made by the company may make it possible for the workers and trade unions to also demand for an increase in their salaries and wages.
- ✓ **Comparative argument:** This claims that people doing similar jobs should be paid the same amount of salaries and wages and hence making the trade unions also to demand for the same.
- ✓ **Productivity argument:** Incase the productivity of the company increase, the trade unions and workers shall also demand for higher wages and salaries from their employers.

**Benefits of Trade Unions:**

- ✓ They can improve on the social welfare of the workers in terms of medical and housing facilities.
- ✓ They help in reducing the exploitation of the workers by the employers as they react to excessive profits earned by the companies demanding for higher wages and salaries.
- ✓ Trade unions tend to increase the general efficiency of the worker especially when they achieve favourable terms of service.

**Demerits of Trade Unions:**

- ✓ Trade unions can cause wage push inflation especially when they demand for higher wages for their members.
- ✓ They can lead to delay in the government and private company programmes especially when they decide to use strikes in their actions and hence retarding the economic growth and development.
- ✓ Higher wages may lead to higher prices for goods and services which also lead to low demand for goods and services of the concerned companies.
- ✓ Higher wages and salaries can lead to increase in the cost of production which also has a negative effect on the investments.
- ✓ They may lead to unemployment as some employers may decide to use capital intensive technology and also reduce of the number of workers.
- ✓ They can also induce the workers to offer less effort and reduce output and hence affecting the company concerned.

**Challenges of Trade Unions in East Africa:**

- ✓ Fear to go for strikes due to high level of unemployment as they fear to be replaced by the waiting labour outside for jobs.
- ✓ Reluctant to pay subscription by members which affects the operations of the unions.
- ✓ Poor management and leadership as same members are illiterate and this makes it hard for these leaders to convince management for better terms of services.
- ✓ Few people joining trade unions hence making them weak in their bargaining position.
- ✓ High level of migrants within the workforce resulting from constant changing composition which makes the organization of the unions hard.

- ✓ Interference by the government in the activities of the trade unions threatening to dismiss the members involved in the strikes.
- ✓ Challenge of lack of interest in the trade union activities by most workers in East Africa
- ✓ Differences in political affiliations, tribes and religions affects the operations of trade unions as some members do not want to associate with others hence causing disunity among members.

## MULTINATIONAL COMPANIES:

These are companies that operate in a number of countries or continents. E.g. includes Airtel, MTN, Total petrol, Shell etc.

**Features of Multinational Companies:**
- ✓ They employ large amounts of capital
- ✓ They have branches in many countries and continents.
- ✓ They have large market share.
- ✓ They carry out intensive advertising of their products/businesses.
- ✓ They deal in high quality products or services.

**Advantages of Multinational Companies:**
- ✓ They used advanced technology in their production leading to mass output and quality products.
- ✓ They have large market as a result of operating in different countries.
- ✓ They create employment opportunities in the countries they operate in.
- ✓ They lead to the development of infrastructure like transport, banking in the countries they operate.
- ✓ They lead to capital inflow into the county of their operations as a result of large sales.
- ✓ They share losses incurred in different branches with profits made from other branches.
- ✓ They help in the utilization of local resources as a result for demand for raw materials.

**Advantages of Multinational Companies:**
- ✓ They lead to the retardation of local industries making them to collapse sometimes.
- ✓ They in most case repatriate profits to their home countries and hence not developing the countries they are operating in.
- ✓ They over exploit the local resources leading to resources exhaustion.
- ✓ They may lead to political influence in the country as they have big financial muscles.
- ✓ They may sometimes become monopolies and hence exploiting the nationals in their own countries.
- ✓ They sometimes make the local people over depend on their products/ services as result of being monopolists.

**Problems faced by Multinational Companies:**
- ✓ They are faced with a lot of competition in the countries they operate
- ✓ Most of these companies are highly taxed by the government and hence reducing their profits.
- ✓ Poor infrastructure in low developing countries hinders their work and services.
- ✓ They face the problem of inadequate power supply in most low developing countries which affects their operations.
- ✓ They face the problem of skilled personnel to work in their companies from the countries they operate especially low developing countries.
- ✓ There are inadequate markets in some countries due to poverty of the people in those countries and hence less markets for their products.

**Solution to the Above Problems:**

- ✓ Carrying out market research so as to find out the needs of the people in the countries they have to open their businesses and products goods as per their needs.
- ✓ Finding market in other countries for their products and hence exporting their products.
- ✓ Training of the local people so as to acquire the skills required to operate in their businesses.
- ✓ Setting up businesses in the countries where there are good infrastructure so as to incur less expense on their infrastructure to increase their operational costs.
- ✓ Asking the governments for tax holidays and exception to enable them set up their business and be able to pay taxes at an appropriate time.

## STATE CORPORATION:

These are organizations set-up and owned by the government. The government finances and controls these enterprises. State corporations are divided into three categories.

**Parastatals Bodies:** These consist of statutory organizations setup mainly to perform developmental functions. They do not aim at making profits but to assist the public in different ways. The examples include produce marketing boards and lint marketing boards.

**Public Corporation:** These are corporations that aim at providing of services and goods to the public at a reduced cost they reduce exploitation to the public by the private sector. Examples include Uganda post and Telecommunications, Uganda Railways etc.

**Local Authorities:** These are controlled by the local government to provide certain essential services to people where the private sector is reluctant to invest in due to not being profitable. Example include: road maintenance, street cleaning, drainage cleaning etc.

**Why Government Gets Involved In Commercial Activities:**

- ✓ To set up some expensive industries which may not be set up by private individuals and can only be set up by the government?
- ✓ To provide essential goods and services but are not profitable to the private sectors.
- ✓ To save the public from being exploited by the private sector by over charging the citizen.
- ✓ To avoid leaving some commodities which are too risky in the hands of the private sectors like guns and gun powder.
- ✓ To avoid wastage and duplication of services by the private sector.
- ✓ To stimulate competition between the government and the private sector which can lead to production of quality goods and services?
- ✓ To create employment opportunities for her people/citizens.
- ✓ To raise revenue inform of taxes that can be used to support government activities.
- ✓ To bring up businesses that may have been in the hands of the private sector and failed or collapsed.
- ✓ To provide projects which require a lot of money which the private individual cannot set up.

**Disadvantages of Government Involvement:**

- ✓ Some ventures are too large that the government may also lack funds to maintain them like railway.
- ✓ There is government interference in the management and running of these enterprises which affect their performance.
- ✓ There is high level of corruption and embezzlement of funds in these enterprises as the workers are not the owners.
- ✓ Some enterprises face competition from the private sectors hence reducing private investment.
- ✓ There is sometime lack of interest and initiation in the state enterprises leading into provision of poor goods and services to the people.

- ✓ Some enterprises are uneconomical and the costs of their operations are passed to the people through increased taxes.
- ✓ Management of these state enterprises is normally politically influenced and may lack skills to run them.
- ✓ Government takes long to take decisions to establish enterprises and yet the goods may be urgently required by the citizens.

## PRIVATIZATION:

This is the transfer of part or full ownership and management of state enterprises to the private sector.

### Methods of Privatization in Uganda:

**Denationalization:** This is the return of the nationalized enterprises to the private ownership.
**Divestiture:** This is the selling of the government enterprises to the private individuals or companies.
**Operating Joint Venture**: This is where the government remains with some shares in a company but allows other companies to buy shares in these companies.
**Sale of Management**: Is where the government remains the owner of the enterprise but privatize the management.
**Demonetization**: This is where the government allows other private companies to come up and compete with its enterprises.

**Advantages of Privatization:**

- ✓ It helps to reduce pressure on government budget and expenditure.
- ✓ It promotes efficiency in the performance of the business enterprises.
- ✓ It reduces on government interference in the enterprises since the private sector is much encouraged.
- ✓ It increases on domestic output and quality services since the private sector is initiative and innovative.
- ✓ It reduces on corruption and embezzlement of funds in these enterprises.
- ✓ It encourages foreign investment which also encourages competition hence quality services and goods.
- ✓ It improves on the balance of payment position due to reduce government expenditures.
- ✓ It leads to creation of more employment opportunities for the citizens.
- ✓ It leads to proper management as skilled people with the required experience are employed.

**Disadvantages of Privatization:**

- ✓ Some resources are available to people by nature therefore it would be bad to personalize them.
- ✓ Privatization does not cater for even distribution of enterprises in all parts of the country as private investors locate their enterprises in areas with high demand.
- ✓ It leads to profit repatriation as foreigners take profits to their home countries.
- ✓ Private people may not have adequate bargaining power for funds from international financial institutions like IMF and World Bank.
- ✓ The privatized businesses may leave out goods which are not profitable and yet the goods are essential and required by the people hence affecting people's standard of living.
- ✓ It may lead to the exploitation of the people in form of high prices for goods and services.
- ✓ It may lead to unemployment in case the buyers change the line of business and even sometime lay of some workers.
- ✓ Some enterprises may be too expensive for the private sector and may collapse anytime.

- ✓ It may bring difficulties in implementing government plans and programmes since it does not have control over the privatized enterprises.

**Problems Faced By the Government during Privatization Process:**

- ✓ Resistance from the public not to sell the enterprises
- ✓ Undervaluation of the assets to be privatized leading to loss of the tax payers' money.
- ✓ Little capital by Ugandans and hence they cannot buy these enterprises but only sold mainly to foreigners.
- ✓ Inadequate sensitization of the public on the importance of the privatization process.
- ✓ Unemployment to some people who were employed in these enterprises.
- ✓ External pressure from development partners like World bank and International Monetary fund

## NATIONALIZATION:

This is the transfer of part or full ownership and management of private enterprises to the government.

**Advantages of Nationalization:**

- ✓ It helps in the provision of utilities that are essential to the public like electricity and water.
- ✓ It helps in protecting the consumers against exploitation through high prices by the private sector.
- ✓ It discourages business monopoly since it promotes competition with the private sector.
- ✓ It enables the government to plan and implementation of its programmes and policies since it is in control of certain commodities.
- ✓ It increases government revenue and incomes through profits made by the state enterprises.
- ✓ It leads to the creation of employment opportunities as these firms employ people from different areas and parts of the country.
- ✓ It enables the government to avoid wastage and duplication of services and resources through unhealthy competition.
- ✓ It helps to reduce regional imbalance as the state can establish enterprises in different parts of the country unlike the private sector.

**Disadvantages of Nationalization:**

- ✓ It is most like to lead to inefficiency in the management and governing of these enterprises.
- ✓ It may reduce of the tax base to the government as state enterprises do not pay taxes.
- ✓ Government interference in their management may slow down the service delivery to the people.
- ✓ Nationalized enterprises faces a lot of competition from the private sector.
- ✓ It may in the long run turn to monopolies and hence reducing the quality of goods or services to people.
- ✓ Maintenance of these enterprises may lead to increasing the tax on the citizens hence affecting their stand of living.

## AIDS TO TRADE:

**TRANSPORT:**

This is the movement of passengers, goods and services from one place to another. It makes it possible to provide goods to consumers at the right place and time.

**Elements of transport:**

There are basically four elements of transport as discussed below:

**1. The Way:** This is the means by which goods are transported from one place to another. It can be on water, in air or on railway.

**2. Unit of Carriage:** This is the means by which goods or passengers are moved. It can be by trains, bicycles, vehicles, aeroplanes, motor cycles or by ship.

3. **Method of Propulsion**: This is the force that drives the unit of carriage such as petrol engine, diesel engine etc.

**4. Terminals:** This is the place where goods are loaded and off loaded. It can be a railway station, Taxi Park or a seaport. The place/terminal where goods are good is called the destination.

## Forms of Transport:

### ROAD TRANSPORT:

This is the carriage of passengers and goods from one place to another on land. It is sometimes called land transport. It is divided into two: - Human and Animal transport.

1) **Human Transport:** This is the carriage of goods or passengers by human beings on their shoulders, hands or heads from one place to another.
2) **Animal Transport:** This is the carriage of passengers and goods by animals like donkeys, horses camels etc.

**Advantages of Road Transport:**

- ✓ It is flexible as it can reach in areas where other means cannot reach and switching from one route to another
- ✓ It is cheap over short distances and can be affordable by most people.
- ✓ It is a faster means of transport as compared to railway and water transport.
- ✓ It is cheap to establish a road as compared to air, railway and water in terms of setting up a unit of carriage.
- ✓ Goods transported under road transport may not need special handling as it is with air and water transport.
- ✓ Roads can be constructed in areas inaccessible to other forms of transport like railway and air.
- ✓ There are low maintenance costs of the roads as compared to air port and railway stations.
- ✓ It does not have to follow specific timetable like the case with air transport and railway transport.
- ✓ There are less insurance charges on road transport as compared to air and railway transport.
- ✓ Goods transported under road transport can reach the final destination unlike in air and railway transport.
- ✓ Goods under road transport can be sold while on the way unlike in air and railway transports.
- ✓ The size of the vehicle can be arranged to suit any size of the load to be transported by road.

**Disadvantages of Road Transport:**

- ✓ Road transport is characterized by a number of accidents which may lead to loosing of goods and the traders life.
- ✓ There is air pollution by vehicles which is a health problem.
- ✓ Road transport is expensive over long distances as compared to railway transport.
- ✓ Road transport is associated with high way robbers sometime lead to loss of life and goods.

- ✓ It is affected by bad weather conditions making some roads impassable during rainy seasons.
- ✓ It is associated with traffic jams in some areas which in the end cause delay to deliver goods.
- ✓ It is difficult to arrange the return goods as no time table is followed and goods arranged for the return journey.
- ✓ Road maintenance may not easy in some parts like in swampy areas.
- ✓ It is not good for carrying fragile goods like glasses.

**RAILWAY TRANSPORT:**

This is the carriage of goods and passengers by trains.

**Advantages of Railway Transport:**

- ✓ It is cheap over long distances as compared to road transport.
- ✓ It does not involve traffic jams as with road transport.
- ✓ It has a low rate of accidents as compared to road transport.
- ✓ Return cargo (goods) can be arranged since trains follow time table in their movements.
- ✓ It is good for carrying heavy and bulk goods over long distances.
- ✓ It is less affected by extreme bad weather conditions as compared to road and air transport.
- ✓ It requires fewer workers to transport large quantities of goods as one person can operate a train of over 30 wagons.
- ✓ Special wagons can be arranged to carry special goods like petroleum products, animals and humans.
- ✓ It is convenient for travelers as sleeping facilities and canteens are available for use in trains.

**Disadvantages of Railway Transport:**

- ✓ It is a slow means of transport as compared to air and road.
- ✓ It is expensive to setup a railway line/station as it requires a lot of materials and engineers.
- ✓ It inconveniences passengers as it follows a regular timetable.
- ✓ It is not flexible as it cannot reach places beyond the railway lines.
- ✓ It is associated with a lot of delays as trains make stop-overs on major stations.
- ✓ It is expensive over and on short distances.
- ✓ It is not suitable for carrying perishable and urgently needed goods like flowers and fish.

**AIR TRANSPORT:**

This is the carriage of goods and passengers from one place to another by use of air.

**Advantages of Air Transport:**

- ✓ It is the quickest means of transport and therefore suitable for carrying perishable goods.
- ✓ It is a high class and a comfortable means of moving people as compared to other means.
- ✓ It involves fewer accidents as compared to road transport.
- ✓ High way robbers are not common like the case with road transport.
- ✓ It is suitable for carrying highly valuable goods like gold and diamond.
- ✓ It is suitable for fragile goods like glasses since there is good handling.
- ✓ Air transport is free as it does not need money to construct the way.

**Disadvantages of Air Transport:**

- ✓ It is expensive to construct and maintain the unit of carriage.
- ✓ It is not suitable for carrying heavy and bulk goods like vehicles and machinery.
- ✓ It is affected by weather conditions like fog and heavy storms which can cause accidents.
- ✓ It is not flexible as aeroplanes cannot change their routes while in space.
- ✓ It is expensive in terms fares for passengers.

- ✓ In case of an accident happening, many passengers can die and property destroyed.
- ✓ It is affected and attached by pirates who may hijack aeroplanes while in space or at airport.

## PIPELINE TRANSPORT:

This is the form of transport where goods are transported or moved by means of pipes. It is common in carrying liquids and gases like water and petroleum products.

**Advantages of Pipeline Transport:**

- ✓ It reduces accidents that are common with roads as most pipes pass underground in the soil.
- ✓ It is not affected by the traffic congestion as pipes pas underground as compared to road transport.
- ✓ The running cost for pipes is relatively low as compared to other forms of transport.
- ✓ It is not affected by weather conditions such as heavy rains, storms and fog.
- ✓ It is safe and convenient for carrying risk goods like gas and petroleum products.
- ✓ It can carry and transport much or more liquids and gases over long distances.
- ✓ It can allow extension to serve other areas.
- ✓ It is a faster means of transport as compared to railway and water transport.
- ✓ It has fewer risks of pilferage (losing of the products) when fixed well.

**Disadvantages of Pipeline Transport:**

- ✓ It is expensive to construct and install pipe lines.
- ✓ It is limited to carry only liquid goods and gases but not living things and solid goods.
- ✓ It may be difficult to locate pipes in case of damage and hence causing big losses.
- ✓ It leads to environmental degradation and pollution as grounds are dung to install pipes.
- ✓ Thieves can easily tap the liquids in case of isolated areas.

## WATER /SEA TRANSPORT:

This is the carriage of goods and passengers by water. It is characterized by lakes, rivers, oceans, sea, canals etc.

**Means of Carrying People and Cargos underwater Transport:**

**Passenger Liners:** These are specific ships which carry human beings and move on fixed routes at regular intervals.
**Cargo Liners:** These are specific ships which carry goods.
**Tramps:** These are ship with no particular timetable or routes to follow. They go to any place as longer as goods are there for them to carry.
**Oil Tankers:** These are ships that carry petroleum products from the producing countries to other countries or places may be for refining or export.
**Lash Ships:** These are ships that operate from one river-mouth to another carrying barge (long flat-bottomed cargo boat on a canal or river).
**Roll-On Roll-Off:** These are ferries used in the carrying of vehicles over the water bodies.

**Terms Used Under Water Transport:**

**1. Charter Party:** This is an agreement between the ship owner and the person or organization hiring the ship to carry the cargo. A charter party is classified under:-
a) **Voyage:** This is where the ship is hired for a particular journey.
b) **Time Charter:** This is when the ship is hired for a particular period of time only.
**2. Actual Total Loss:** This is where the ship or cargo is destroyed and nothing can be recovered.
**3. Constructive Total Loss:** This is where the ship or cargo is destroyed beyond repair but the scrap can be recognized.

**4. Average Loss:** This is where the ship or cargo is partially damaged and the scrap has some value.
**5. Demurrage:** This is a fine charged on the businessman due to delayed removal of his cargo from the transporting company / warehouse.
**6. Linear Conference**: These are associations formed by liner companies that help to regulate the rate of transporting their regular customer's goods, allocate routes taken and sometimes the timetables to be followed.

**Advantages of Water Transport:**

- ✓ The way if always free as no cost is required for construction and maintenance.
- ✓ It is suitable for carrying heavy and bulk goods like timber and machinery.
- ✓ Water transport involves less and fewer accidents as compared to road transport.
- ✓ It is a convenient means of carrying and transporting fragile goods.
- ✓ Special ships can be designed to carry special goods like petroleum products.
- ✓ It is cheap over long distances as compared to other means of transport.
- ✓ Economies of scale can be attained by using large vessels since additional power required is minimal.
- ✓ Water transport is relatively free from interruptions from heavy rainfall unlike in road transport.
- ✓ The use of containers in sea transport increases the cargo capacity of ships and reduces the risks of damage.

**Disadvantages of Sea Transport:**

- ✓ It is a relatively slow means of transport and therefore not good for urgently required goods.
- ✓ It is expensive establish ports, harbors and making of ships.
- ✓ It is limited to areas with adequate waterways.
- ✓ It is not flexible as goods cannot easily be delivered to remote areas of the country.
- ✓ Congestions at the ports may lead to delays in the delivery of goods.
- ✓ It may lead to damage of goods as it involves too much loading and offloading of the same goods.
- ✓ It involves payment of much insurance premiums due to marine risks.
- ✓ Some water bodies freeze during extreme cold seasons making the movement on seas hard.
- ✓ Pilfering of cargo is more common with water transport.

## CONTAINERIZATION:

This is a means of transporting goods in special standard metallic, wooden or plastic containers sealed by the exporter and sent to the importer.

**Advantages of Containerization:**

- ✓ It helps to protect goods from damages and contamination as containers are always sealed.
- ✓ It enables the carriage of large volume of goods within the container.
- ✓ It facilitates easy and quick weighing of goods.
- ✓ It takes small space as compared to space taken by small packages of different size.
- ✓ Special containers can be made to carry particular goods like chemicals etc.
- ✓ It minimizes the costs of constructing a warehouse as goods are kept safely in the containers.
- ✓ It makes loading and off-loading easy as automatic cranes are used.
- ✓ Containers can be used for other purposes like kiosks, canteens after removing the goods.
- ✓ It eliminates the issue of theft since the goods are sealed in the containers.
- ✓ It makes movement of containers in the sea port comparatively simple and easy as containers are fitted with devices that assist in their movement.
- ✓ It makes transporting of containers by road after they have reached the port of destination simpler than handling a mass of irregularly shaped goods.

**Disadvantages of Containerization.**

- ✓ It requires special handling machines which are expensive to buy
- ✓ It is not suitable for transporting living things and perishable goods
- ✓ It is not suitable for carrying small quantities of goods which cannot fill the container
- ✓ It requires large space and hence not suitable for small harbours and ports
- ✓ It leads to unemployment as machines the goods or containers
- ✓ It increases the costs of goods to the importer due to expenses of containerization
- ✓ It brings bout congestion and delays in parking at harbours and ports at the customs

**Forms of Containerization:**

**Full Container Load (FCL**): This is where the shipper loads the container with his own destined for one the receipt of the shipment. The ship is later delivered intact to the importer.

**Less than Container Load (LCL):** This is where the shipper delivers his cargo which is insufficient to fill a whole container to a shipping agent who then puts it in a container along with cargo from other shippers. While at the port, the container is then opened by an authorized person to deconsolidate and deliver the cargo to various consignees (one responsible for receiving the consignment).

**Types of Ports for Ships:**

A port is a harbor or an area that is able to provide shelter to many boats and vessels and also allow constant transaction of shipment. Or It is a strategic geographical location which is situated at the edge of the ocean, sea, rivers or lakes. It also means a marine time commercial facility where ships may dock to load and discharge passengers or cargo. Terminal on the other hand, is a set of facilities at a port where loading and unloading of cargo or containers take place.

**Sea Ports:** These are ports built on a sea location and enable the accommodation of both small and large vessels. They are located along the coastline and actively handle the ongoing cargo transactions.

**Dry Port**: Is an inland intermodal terminal directly connected by road or rail to a sea port and operating as a centre for the transshipment of sea cargo to inland destination.

**Inland Ports:** These are ports built comparatively on small water bodies such as rivers and lakes. They can be for either cargo or passenger purposes or both.

**Fishing ports:** These are mainly for commercial purpose participating in fishing activities.

**Warm Water Ports:** These are ports free to operate all year round without a temporary shutdown due to freezing time/period.

**Cruise Home Ports:** These are ports that specialize in dealing with activities of cruise ships and provides platform for passengers to entre and disembark the cruise at the beginning and end of the journey.

**Port of Call:** This is a port which is paid a brief visit by a ship on voyage. This may be due to carrying out cargo discharge or carrying out essential necessary repairs works on the ship.

**Cargo Ports:** These are ports that act according to the cargo they manage and amenities available differ from one port to another. They are also called Bulk ports or Break Bulk Ports.

**Deep Water Ports:** These are ports used along with cargo ports which do not have sufficient deep water to allow big ships.

**Role of Transport in Trade or Commerce:**

- ✓ It promotes specialization leading to production of quality goods.
- ✓ It encourages and supports the growth of agriculture since farm products can be transported to the market places.

- ✓ It leads to the exploitation of natural resources like minerals.
- ✓ It is one of the factors considered when locating an industry to ease movement of raw materials and finished goods.
- ✓ It widens the market for goods and services in distant places.
- ✓ T leads to the growth of agro-based industries by transporting of raw materials to industries.
- ✓ It facilitates mobility of labour and minimizes exploitation of workers.
- ✓ It facilitates a fair distribution of the scarce natural resources since raw materials can be transported to places where they are scarce.
- ✓ It avails customers with a wide range of goods and services within and outside the country and hence improving on the people's standards of living.
- ✓ It is a source of government revenue which can be used in the development of state programmes.
- ✓ It is a source employment and incomes to the transporting companies.
- ✓ It promotes tourism industry which increases the country's exchange earnings.

**Factors That Influence the Choice of Means of Transport:**

- ✓ **Cost of transport:** The cost of the transport means chosen should be cheap compared to the value of the goods to be transported so as not to take the business profits.
- ✓ **Distance to cover:** If the distances to cover are long, railway and water transport can be used but if the distance is short road transport is the best means.
- ✓ **Speed and Urgency:** For goods which are needed in the shortest time possible, air transport can be used and if they are not needed urgently water or road transport can be used to transport them.
- ✓ **Nature/type of the goods:** If the goods to be transported are perishable one can use air transport to reach in time but if they are not perishable water or railway transport can be used.
- ✓ **Flexibility of the system:** ne should also choose a flexible transport to easy transport in different places and in case of difficulties in one route, he can easily change but reach his final destination.
- ✓ **Bulkiness/weight of the goods:** If the goods to be moved are bulk one can use road, railway, water or containerization but if they are not then one can use air transport.
- ✓ **Terminal:** One should also choose the transport means putting in mind the terminal for easy loading and off-loading of the goods.
- ✓ **Security involved:** One should choose the transport means when considering the safety of the goods and the people to transport the same goods as if there is no security on the route life and goods may be lost.
- ✓ **Risks involved:** One should choose a means of transport which involves few risks so as to safe guard the goods from damaging or getting lost before reaching.
- ✓ **Availability of the transport means:** One should choose the transport means that is available as one cannot choose say railway when the area does not have a railway line.
- ✓ **Packaging requirements:** Certain goods may require that goods be packed in special packaging materials and this may increase the cost of the goods so one should be careful.

## SALES PROMOTION AND ADVERTISING:

1. Sales promotion is the process by which a manufacturer or supplier can use to increase the amount of goods sold in the business in a given time.
2. It is the system used by the producers or suppliers to increase the market for the goods.
3. It is the system used to capture a new market, retain the existing one and expand it.

**NB:** Promotional mix refers to the producers combines the elements of promotion (personal selling, advertising, sales promotion and publicity) to promote a product so as to attract the customers.

### Forms/Methods of Sales Promotion:

**Price reduction:** Businesses can reduce prices for their products mainly to attract and retain customers to buy the products.

**Sponsoring of social activities:** Companies sponsor social activities or tournament like sports as this can encourage more people to buy the company goods and services.

**Giving promotional offers:** Businesses or companies tend to organize promotions and sell their products to people at giveaway price like one phone selling at Shs.100,000 but if you buy two you pay Shs.150,000 only.

**Installment selling:** This is common in hire purchase arrangement which attracts a number of people without ready cash to enjoy the products of a company and pay at a later time.

**Organizing competitions**: Some businesses arrange competitions and give out prizes to lucky winners all aimed at attracting more customers to buy their goods/services.

**Offering after sales service:** Some companies provide services to their customers after buying their products all aimed at encouraging customers to go back for more than going to their competitors like free delivery of goods or repair to the product for certain period.

**Giving credit facilities:** Trustworthy customers of the business can be offered credit facilities to enable them take the goods on credit and then pay later after getting the money.

**Using of attractive packaging:** A product which is well and nicely packed or designed will attract customers as a beautiful or handsome and well-dressed person may attract the opposite sex than a person walking naked shabbily dressed.

**Giving of free sample or gifts:** Some businesses can give away free samples of their products to people and at the end this may attract people to have more of the same for money in case the sample worked well for them.

**Through persuasive advertising:** Most of the products with many competitors carry out persuasive advertising as a sales promotional activity to attract people to their products.

**Improving on the product quality:** A slight change in the quality of the product may attract many customers to the product e.g. New Improved Omo.

**Being polite / good customer care:** Handling customers with care and in a friendly manner is very important for any business as it can make the same customer to come back again and also bring others.

**Using appealing brand names:** An appealing and attractive brand name attracts customers to the product and hence increasing on the business sales. E.g. Shell, Toyota, etc.

**Window display and proper arrangement of goods:** Goods should be properly displayed and arranged to attract the attention of the customers to come and buy them.

**Renovating the firm's premises**: The renovating and painting of the factory premises can also help to attract the attention of the customers.

**Attending trade shows**: This can help the customers to see and know that these goods do exist and therefore whenever they get the money they may buy them anywhere they get them.

**Using personal selling:** The firm can also employ sales people to sell the company products directly to customers. This will increase on the company sales and also profits.
**Showing excellent knowledge of the products**: This can increase the company sales in that whenever the customer asks any question about the product, the salesperson is able to answer it well and to the expectations of the customers and hence possibly buying.
**Using exchange scheme:** This involves returning an old product in exchange for a new one and some small amount of money is paid (added). The money is given together with the old item returned for a new one and this encourages more purchase.

## PERSONAL SELLING:

This is a process where a team of sales people is employed to sell the company's products directly to the customers. The act is aimed at increasing the sales volume of the business.

### Importance of Personal Selling:

- ✓ It helps in increasing the sales of the products of the business by attracting new customers and retain the old ones
- ✓ It enables the business to meet the needs of the customers
- ✓ It helps the business to educate the customers by effectively demonstrating how the products functions.
- ✓ It helps to win the customers; confidence through good negotiation with them.
- ✓ It helps in building a good relationship between the sellers and the customers through frequent interactions.
- ✓ It helps the business to establish and estimate its market share.
- ✓ It helps in out-competing the rivals in the market place.
- ✓ It helps to establish how effective face-to-face selling of products is under marketing
- ✓ It helps to promote effective communication between the business and the customers.
- ✓ It helps the business in collecting market research information and see where to adjust.
- ✓ It helps the business in making proper decisions in relations to sales.
- ✓ It helps the business to establish and know where the business customers are located.

## ADVERTISEMENT:

It is the spreading of information about the availability of one's products to customers. Or it is the process of informing the public about the availability of goods on the market. It can be done by means of a number of mediums like television, newspapers, wall paintings, billboards, magazines, Internet, by the word-of-mouth and in many other ways.

### Types of Advertisement:

**Informative advertising:** This is the type that brings to the knowledge of the consumers, the presence of the new product, where it can be found, its uses and sometimes price.
**Persuasive /competitive advertising:** This form is aimed at encouraging, convincing and attracting consumers to buy the product or service irrespective of the alternative products. Very attractive and appealing words, phases, pictures and slogans are used in the advertising.

### Importance of Advertising:

- ✓ It creates awareness to the general public about the availability of certain goods on the market.
- ✓ It helps to retain the market for the product as it reminds the customers of the existing goods.
- ✓ It creates market for goods and services and increasing of the brand recognition.
- ✓ It provides competition which benefits the customers inform of improved quality.
- ✓ It creates and provides employment to the people involved in the advertising industry

- ✓ It bridges the gap between the producers and the consumers as consumers are informed of the available goods on the market.
- ✓ It helps finance other media e. TV, Radio, newspapers etc. as they are paid to air out advertisements.
- ✓ It helps the economy in terms of revenue contribution through taxation of advertising media.
- ✓ It helps in attracting huge number of potential customers and makes positive impact about their products and services for the advertisers.
- ✓ It leads to direct feedback from customers regarding certain products as a lot of opinions are received by producers on their product/service, which helps in improving the product/service.
- ✓ It creates a brand name for the product being advertised as people can recognize the products from the advertisements they see and thus sales are also improved.

**Advertising Media/Medium:**
These are the channels or means through which information concerning the products available for sale reaches the public. Or It is the ways through which an advertisement can be presented to the public. These media includes the following:-

**1. RADIO:**
This is the most common channel of advertising and it involves sending information through radios.

**Advantages of Radio:**
- ✓ It is the cheapest medium of advertising compared to television.
- ✓ It is fast therefore good where urgency is needed.
- ✓ It is caters for the illiterates as it can be in different languages.
- ✓ It is suitable for the blind people.
- ✓ Different languages are used and hence catering for different people.
- ✓ It can be presented several times and hence enabling many people to listen to the advert.
- ✓ It is received freely by listeners without paying for the advertisements.
- ✓ It attracts many customers because of the dramatic programmes involved.

**Disadvantages of Radio:**
- ✓ Not all people can afford radios in their homes.
- ✓ It is not goods for the deaf people as they cannot hear.
- ✓ The message on radios is of short life and if not on radio one may not hear it.
- ✓ It cannot allow goods to be seen visually.
- ✓ It does not allow customers to know the real nature of the goods as pictures are not used.
- ✓ There is no physical contact between the advertiser and the audience.
- ✓ There is no immediate feedback or reply on the advertisement.

**2. TELEVISION:**
This is the channel of advertising where messages are conveyed to people on television. Illustration of the nature of goods in form of their colour, shape and size can be shown.

**Advantages of Television:**
- ✓ Goods can be seen visually showing their colour and shape etc.
- ✓ It covers a wide area or coverage as seen like NTV, UBC etc.
- ✓ It is direct and messages can reach people in a short period.
- ✓ It combines sight, sound, motion and demonstration hence catering for all people.
- ✓ Television adverts arouse the interest of viewers.

**Disadvantages of Television:**
- ✓ Television advertisements are expensive than radios.
- ✓ Television services are limited to some areas as they cannot reach many places.
- ✓ It covers few people as some people do not have television sets.
- ✓ The adverts over television are of short life though they can be repeated at some intervals.

**3. THE PRESS:**

This is the media of advertising where information is sent through the new papers, journals, magazines, reports, catalogue etc.

**Advantages of the Press:**
- ✓ It is relatively cheap media of advertising as compared to television.
- ✓ It gives detailed information of the product available for sale.
- ✓ It gives future reference as they can be read and kept for next time in the future.
- ✓ Newspapers can be bought by one person and read by many people in the locality.
- ✓ It cares for different languages like Runyankole, Luganda, Rupiny, English, French, etc.
- ✓ It can allow illustration and pictures of the goods being sold or advertised.

**Disadvantages of the Press:**
- ✓ It is limited to people who can write and read only but not illiterates.
- ✓ It is expensive media as one need to advertise in all popular newspapers to be effective.
- ✓ Newspapers are normally found in urban areas leaving the rural areas.
- ✓ Newspapers do not cater for the blind people.
- ✓ Most people do not want to read adverts in the newspapers.
- ✓ Advertisements in magazines can be out dated too early.

**4. OUTDOOR:**

This is the type of advertising media which is along the road, street or in public places like stadiums. It involves the use of posters, banners, sign posts, bill boards and neon signs.

**Advantages of Outdoor:**
- ✓ It is a cheap form of advertising goods or events.
- ✓ It covers a wide area especially if it is put along the main road.
- ✓ It is available to all passers at a free cost.
- ✓ It covers a long life as it can stay in an area for reasonable long period.

**Disadvantages of Outdoor:**
- ✓ It is not suitable for the illiterate people.
- ✓ In case of errors in the printing there is lack of editorial and entertainment value.
- ✓ It can be affected by weather conditions (rain) especially posters and banners.
- ✓ It is not suitable for the blind people.

**5. WINDOW DISPLAY:**

This is the arrangement and putting of sample goods available for sale in glass windows in order to allow passers to view them and where possible stop to buy.

**Advantages of Window Display:**
- ✓ It attracts many customers as goods are well displayed which late can make them buy.
- ✓ It is available to passers at a free cost.
- ✓ It is cheap as it does not require extra personnel to do the display.
- ✓ It facilitates the buyer to make an informed decision whether to buy the product or not quickly.

**Disadvantages of Window Display:**
- ✓ It can easily attract thieves and robbers.
- ✓ It is not suitable for the blind people.
- ✓ Glasses are a bit expensive to buy.

## 6. TRADE FAIRS AND EXHIBITIONS:
This is a place where producer or traders come to look for market and display their goods to the potential customers. The main aim of trade fairs is to create market for the goods while a trade exhibition is aimed at displaying the goods to potential customers.

**Advantages:**
- ✓ It attracts many potential buyers both locally and internationally i.e. it creates market for the products.
- ✓ It allows physical contact between the producer and the potential buyer.
- ✓ It allows the demonstration of how the product works to the customer.
- ✓ It allows the producer to carry out market research on how to improve on quality and sales.

**Disadvantages:**
- ✓ It only last for a few period like one or two weeks.
- ✓ It is expensive to organize the exhibition in terms of transport and hiring of the press.

## 7. MAIL ORDER:
This is where suppliers use written documents to inform the general public about the availability of goods for sale when applying the letter of inquiry.

**Advantages of Mail Order:**
It is received freely by the target market.

**Disadvantages:**
Illustrations can be used to show the goods being sold.

## 8. INTERNET:
This is one of the newly used advertising media. It is common among all social class and age group of people. It is used by producer to advertise their goods to the public. Goods can be advertised on the face book, Instagram, company web site etc.

**Advantages of internet:**
- ✓ It can reach a wide area to catch many customers/viewers.
- ✓ Goods can be sold on the internet without the buyer going to the buyer

**Disadvantages:**
- ✓ It is expensive to advertise on the internet.
- ✓ It is expensive to host a company web site.
- ✓ It does not favour those who cannot read and write.
- ✓ During the period of no network, the viewers cannot see the adverts.

## 9. SPECIALTY ADVERTISING:
This is where a given firm/business offers items to customers with an aim of attracting them to buy their products/goods.

**Advantages of Advertising:**
**To the consumers:**
- ✓ It creates awareness to the consumers about the goods.
- ✓ It enables the consumers to know the prices for the goods available for sale to avoid exploitation.

- ✓ It enables the consumers to buy high quality goods due to competition from different producers.
- ✓ It enables the consumer to have a choice of variety of goods to pick from.
- ✓ It enables the consumers to buy goods at low prices due to high competition from many producers.
- ✓ It enables the consumer to know where to find the goods or services in their locality.
- ✓ It informs the consumers about the product details inform of price, shape, colour, quality etc.
- ✓ It helps to inform the consumer how certain goods are handled and used.
- ✓ It creates desire and interest in the product among the customers.
- ✓ It stimulates buying of the product from the customers.

**To The Manufacturer:**

- ✓ It enables him carry out market research for him to improve on the product quality.
- ✓ It creates a large market for the product leading to increased sales and profits.
- ✓ It is used to build the company and brand image.
- ✓ It is used in offsetting competitors advertising as many defend market share by responding to competitors' campaign with their own advertising.
- ✓ It leads to higher profits due to much sales of the business.
- ✓ It enables the producer retain his market for the goods due to repetitive advertising.
- ✓ It leads to frequent use of the product by the consumers and hence increased sales.
- ✓ It is used boast public standing of companies with advertisements that link them with approved campaign such as care for the environment.
- ✓ It enables producer to inform their customers about the new prices for the products.
- ✓ It helps in reminding and re-assuring the customers of the company's commitment to serving them more and better.
- ✓ It helps in building and maintaining brand royalty at an existing level in the market.
- ✓ It helps to out-compete the rivals, through carrying out intensive advertisement.

**Disadvantages to the Consumers:**

- ✓ A consumer may be induced to buy a product he did not need
- ✓ It misleads consumers to the extent of influencing them to buying inferior goods.
- ✓ It may lead to over charging the consumers as the costs of advertising are passed to them.
- ✓ It may force consumers to over spend their money due to excessive advertising.
- ✓ It creates social discontents among the people as some people feel inferior when they do not buy the advertised goods.
- ✓ Some goods are advertised when they are of poor quality and hence consumers buying them.

**To The Producer:**

- ✓ It is very expensive as it increases the costs of production to the producer.
- ✓ It reduces the amount of profits earned due to unnecessary competition.
- ✓ It may sometimes make companies to collapse due to excessive competition.

## FACTORS CONSIDERED WHEN CHOOSING THE ADVERTISING MEDIA:

**Cost of the media:** The cost of the media should be low as compared to the goods being advertised. If the goods to be advertised are expensive, an expensive media can be used and if they are cheap, a cheap media can be used.

**Age Group:** The age group to which the media appeals should be considered as video films and magazines are suitable for advertising goods desired by the youth while newspapers are suitable for adults.

**Area of Coverage:** One should choose the media that can reach a wide area and range of people than the one that does not reach many people.
**Social Class:** The social class to which the media appeals should be considered like newspapers, radios and posters appeal most to the ordinary people while television appeals to people in town.
**Economic Group:** One should consider the economic status of the people where the advertising on television and in magazines can cater for the rich and posters plus radios can work for the poor.
**Nature of the Goods:** Goods which are durable like motor vehicles, photocopiers, machinery can be advertised in newspapers and on television while music shows can be on radios and televisions.
**Degree of Urgency:** If goods are urgently required, a faster medium like radios should be used but if they are not urgently required newspaper can be used.
**Interest:** it is better for one to choose the medium that attracts more customers while advertising the goods as televisions arouse more interest than radios.

## ADVERTISING AGENCIES:

These are independent advertising firms in the field of advertisement. They design and choose the appropriate method of advertising on behalf of the producers.

**Role Played By Advertising Agencies:**

- ✓ They give advice on the medium of advertising to use to advertise the goods.
- ✓ They have contacts with printers so they can arrange the printing of posters, magazines within a short period of time.
- ✓ They have contacts with the press and media and therefore can arrange for broad casting at a short time at relatively low costs.
- ✓ They handle all the arrangement for the sales promotion campaigns like issuing of prizes.
- ✓ They can design and arrange for installation of neon signs, bill boards etc.
- ✓ They have their own section that can design advertising materials and messages.
- ✓ They design and make television slides or tapes showing the goods available for sale on behalf of the producer.

### INFORMATION TO BE GIVEN TO THE ADVERTISING AGENCIES TO DESIGN AN ADVERTISEMENT:

1. Name of the business that wishes to advertise.
2. Location of the business.
3. Name of the products to advertise.
4. Uses of the products.
5. The prices of the products.
6. The strength of the products.
7. Weaknesses of the products.
8. Targeted market for which the product appeals.
9. The brand name of the products.
10. The amount the advertiser is prepared to spend on advertising.

## ADVERTISING APPEAL:

This refers to the motivative words which are meant to persuade the customer to buy a particular good or services. Or It refers to the ability of an advertisement to arouse the desire in a particular customer to buy the advertised goods. The advertising appeal may include the following:-

**Appeal for cheapness:** This is where the producer informs the public that his products are cheap in relation to other similar goods on the market. E.g. Coca cola soda costing Shs. 1,000/=and Riham cola costing Shs 800/= and they put "**Why pay More**"

**Appeal for Responsibility:** The producer tries to show people who buy their products that they are responsible and care about their customers and know what they are doing. E.g. Kiwa Industries the manufacturer of "**Tiles of Difference**"

**Appeal of comfort:** The producer informs the people that his goods are of high class and creates comfort to those who uses them. E.g. Life Guard Condoms "**Studded for extra pleasure**"

**Appeal for beauty and age:** Here, the producer tries to inform the public that his products can make older people look younger.

**Appeal for durability of the product:** The producer tries to inform the public that his products are durable or have a long life. E.g. Roofings Sheet "**The Strength of the Nation**"

**Appeal for perfect services / product:** Here, the producer tries to convince the customers that his products or services are more perfect than those of his competitors on the market. E.g. Close-up, the Best Tooth paste.

## MARKET RESEARCH/ SURVEY:

This refers to the selection of statistical data from various sources that may be used in determining future market and policies. This is the process of determining the market for the products of a business. It refers to the process of collecting and analyzing market information which leads to establishment of opportunities and problems in the market.

### Methods of Market Research:

**Internal Research:** This involves obtaining information and figures from the past periods and compares them with the current period to determine the price or market for the product.

**Area Retail Tests**: This involves selecting a small area from a large one to represent the whole market and the outcome can be taken as the final result from the entire market. A sales promotion can be carried in a particular area and customers given some questionnaires to fill where the result is taken to cover the entire market as the customers' choice.

**Experimental Method:** This involves producing a small amount of the product and put it on the market as samples to see the customers' response towards it. In case the outcome is positive, the producers can then go ahead and produce more to march the market

**Consumer Surveys:** This form is intended to find out the way how consumers feel about a particular product. A selection of customers is made from various categories of customers and afterwards recommendations made to determine the market for the products.

**Observation Method:** This involves watching what people are doing and recording / writing down the outcome of the observation. The researcher goes back and analysis the data collected to take a decision on the price customers need and the market available for the products.

**Statistical Data:** This may require the producer approaching a research organization with some statistical information relating to the particular products. This information can help the company carrying out research to determine the market and price for the product.

**Interviewing Method:** This method involves having a person or group of persons facing panel of interviewers who will ask some questions to the interviewees. These questions may be answered and the penal gets the required answers or information for their use.

**Questionnaires method:** Here, prepared questions are set and given to selected people to fill them and the then the researcher analyzes the data collected for his use.

**Internet Method:** This involves asking people different questions about the company products using the web or internet and the same people providing the required answers.

### Importance of Market Research:

- ✓ It helps in finding out the real and potential market for the products of the business.
- ✓ It helps to determine the nature and size of his customers, their needs and various ways of increasing the market share and maintain it.
- ✓ It helps in identification of customer complaints or needs about the business product and hence finds ways of working upon them.
- ✓ It provides information concerning many various aspects of the business like how effective the marketing strategies are i.e. advertising, sales promotion etc.
- ✓ It helps in the assessment of the effective marketing and promotional strategies
- ✓ It helps in the identification of market trends i.e. whether more people are coming in the area or leaving the area for other parts, coming in leads to more market and leaving less market.
- ✓ It helps in finding out the prices the customers are willing and able to offer for the products.
- ✓ It helps in finding out the products attributes / features that need or require some improvement to catch a bigger market share on the side of the entrepreneur.
- ✓ It helps to assess the further feasibility and viability of the entrepreneur's products.

- ✓ It facilitates in the making of good decisions on the side of the entrepreneur to establish as to when the product should be launched and how.
- ✓ It helps in the educating of the customers about the product like how to handle and use them.
- ✓ It helps in the establishment of the customers' income level and see what price they can afford.
- ✓ It helps in the establishment and finding out the quantities affordable by the customers of the business in the market.

**Challenges Faced When Carrying Out Market Research:**

1. Resistance from respondents: There is always resistance from the people as they are not willing to give information.
2. False information: Sometimes the information given by respondents to the researchers is false.
3. Wrong choice of sample target group of customers or people from where to get information.
4. Lack of records: Most people do not keep records of their sales or purchases and therefore not being able to get accurate information from them.
5. Low levels of education of the respondents make them give irrelevant market information.
6. Poor infrastructure: They are also faced with the problem of poor infrastructure in terms of bad roads which become impassable due their bad state especially during rain etc.
7. Lack or shortage of qualified and skilled personnel to carry out the research.
8. Political instabilities limit researchers to be able to go to the areas of their choice.
9. Unpredictability of the consumers whether they will give the information required.
10. There is a possibility of getting information from a biased source or biased people.
11. Differences in language hinder communication between the researchers and respondents.
12. Competitors in the field and hence malice or sabotages from these competitors.

## WARE HOUSING:

This is one of the aids to trade which involves the storing of goods and raw materials against theft, bad weather, and atmospheric conditions as they wait for demand/ clearance or processing.

**Types of Warehousing:**

1) **Bonded Ware House:** These are ware houses owned by the government to keep the imported goods which have not cleared the import or custom duty. They are used to store imports until import duty is paid.
2) **Public Ware House:** These are ware houses owned by the private sectors or individuals and used to be rent to the public to keep their goods. They are normally located at the terminal such as air ports, sea ports, rail stations, bus parks etc.
3) **Whole Sale Ware House:** These are ware houses owned by wholesalers and used to store goods from the producers until retailers or consumers demand for them. They are normally large in size and may be rented out to other wholesalers.
4) **Manufacturer's Ware House:** These are owned by producers and normally keep raw materials and finished goods until they are demanded or processed.

**Importance of Bonded Ware Houses:**

**To The Importers:**

- ✓ They help the importer to look for market for the goods as they are still in the bonded ware house.
- ✓ They help the importer to prepare his goods in terms of packaging, branding and blending for sale while in bonded warehouse.
- ✓ Bonded ware house provide for security of the goods of the importer while they are still being kept.
- ✓ They may enable the importer pay less tax on the goods while in the ware house as when they stay long they lose weight on which to be taxed.
- ✓ They can enable taxes to be shifted to another buyer in case the goods are sold while still in the ware house.
- ✓ They can enable the importer to re-export the goods in case he does not have money to pay for the taxes required and only pay the storage fees for the goods.
- ✓ They enable the importer to have enough time to arrange for payments of the import duty.

**To The Government:**

**Source of revenue to the government.** It is easy for the government to get revenue by imposing a tax/ duty on goods imported.

**Checking on smuggled goods:** The government can easily check on the goods which enter the country without proper document/smuggled goods.

**Checking on undesirable goods:** Bonded warehouse assist the government to check on unwanted/inferior goods entering the country.

**Checking on tax evaders:** Bonded warehouses enable the government to check on tax evaders especially those who dodge the import duty of their goods.

**Checking on dumped goods:** It assists government to stop/in prohibiting the importers from dumping goods.

**Characteristics of Warehousing:**

**Large enough:** A good warehouse should be large enough or have a large space to accommodate large quantities of goods.

**Tight security:** An efficient warehouse should have a tight security to protect goods from thieves and robbers e.g. askaris, dogs etc. all aimed at protecting the goods.

**Qualified staff:** A good warehouse should have skilled and committed personnel in all departments of a warehouse.
**Free from pests:** It should be free from pests and rodents such as rats to safe guard goods and raw materials from damage.
**Not leaking:** It should be well constructed, ventilated and should not be leaking so that goods are safe from damage.
**Properly planned:** A good warehouse should be properly planned. It should be set up with all departments for effective operation and movement of goods.
**Strategically located:** A good warehouse should be strategically located near the buyers, terminals like air and seaports, bus parks etc.
**It should have preservative measures:** A good warehouse should have preservative equipment for handling perishable goods, bulky goods and fire equipment e.g. refrigerators, cranes and fire extinguishers etc.
**Proper means of transport:** It should have adequate means of transport and communications facilities for easy movement of goods.
**Store goods:** It should store goods according to peoples demand i.e. forecast the demand of the customer/consumer.

**Importance of Warehouses**

- ✓ It stabilizes the prices of the goods by checking supply of goods excess supply may lead to prices to fall or go down.
- ✓ It provides storage facilities for goods and raw materials i.e. it protects goods against damage, lose and atmospheric conditions.
- ✓ It gives room for more production as producers are given chance to produce more goods thus creating space for other goods.
- ✓ It reduces congestion at the terminal e.g. goods are easily moved from terminal to stores to create space.
- ✓ Provide security for goods i.e. it protects goods against thieves and robbers.
- ✓ It ensures steady supply of goods throughout the year because if all goods are sold off, within a short time, traders would be out of business i.e. continuous flow of goods.
- ✓ It enables one to prepare his goods for sale like packaging, branding, blending while goods are still in the warehouse.
- ✓ Warehousing allows the smooth flow of international trade by availing storage facilities to traders
- ✓ It helps to check on undesirable goods/ prohibited goods/ smuggled goods especially with bonded warehouse.
- ✓ Warehousing facilities free re-exportation/ entreport i.e. the importer can re-export the goods to another country.
- ✓ It provides employment opportunities to the public i.e. many people are employed in different department's e.g. sales department.
- ✓ It is a source of government revenue through taxes imposed or private warehouses as well as imports and exports.
- ✓ Warehousing allows stocking goods in anticipation of future demand.

## ORGANIZATION OF WAREHOUSES:

A modern large warehouse should have the following departments:

**Administration:** This department is headed by a board of directors. There is one managing director who heads all departments. Its main role is to ensure that there is smooth running of activities in all departments

**Purchases' Department:** This department is headed by a purchases manager or a chief buyer and major roles are:
- ✓ Buying goods required in a warehouse
- ✓ Placing orders with suppliers
- ✓ Maintaining lists of the suppliers
- ✓ Receiving goods from the suppliers
- ✓ Maintaining records for all purchases
- ✓ Looking for cheap sources of supply.

**Sales Department:** This department is under the sales manager or a marketing officer and his major roles are:
- ✓ Receive orders from the customers
- ✓ Delivery goods from the customers
- ✓ Receive complaints from the customers
- ✓ Prepare goods for and arranges transport facilities when possible
- ✓ Maintains lists of all goods sold in a warehouse
- ✓ Carries out sale promotion.
- ✓ Ensures that the required goods are available

**Secretary's Department:** This is also the legal department for the company and is headed by the Company Secretary:
- ✓ It maintains staff records.
- ✓ It advices and participates in staff appointment
- ✓ Advices the management on legal matters
- ✓ Keeps and maintains the necessary files.
- ✓ It ensures that there is a good relationship between the warehouses and the general public.

**Accounts/ Finance Departments:** This department is under the finance manager or the chief accountant and its main functions are:
- ✓ Keeping financial records of a warehouse e.g. balance sheet
- ✓ Preparing invoices and statements of accounts
- ✓ Preparing budget for the business.
- ✓ Receiving and effecting payment on behalf of the business.
- ✓ Controls the availability and use of money in the warehouse.

**Publicity Department:** This department is under a publicity manager and it's within conjunction with the sales department and carries out sales promotion e.g. advertising
- ✓ Participating in trade fair and exhibition
- ✓ Printing catalogues and price lists.
- ✓ Providing customer care to the customers

**Transport Department:** This department is under transport officer who is responsible for transporting goods to warehouses and to customers:
- ✓ He ensures the availability of the necessary vehicles.
- ✓ Delivers goods to customers who buy in large quantities
- ✓ Moves goods from the supplier to the warehouse.

## COMMUNICATION:

This is the transfer of information/messages from one place to another. It is a two-way process of conveying information or instructions from one person to another. It has to move from the sender to the receiver.

### Types of Communication:

This refers to the ways through which people or organizations can exchange ideas, messages, and information among others and enable each other to understand properly. The types include;

1. **Oral communication:** This is the commonest form of communication which involves the use of word of mouth when communicating either face- face, by telephone, radio calls or walkie-talkies.
2. **Written communication:** This involves writing of business letters, memoranda, notice, circulars, telegram, reports, business manual, etc. to send information to the intended receivers.
3. **Non-verbal communication**: This is basically anything that conveys a message without using words or symbols. This includes facial expressions, tones of voice, gesture, eye contacts, spatial arrangement and patterns of touch, expressive movement etc.

**Importance of Communication in Business**:

- ✓ It enables the acquisition of information about goods and services available for sale like prices etc
- ✓ It acts as a link between the suppliers and the business community.
- ✓ It facilitates contacts without the actual movement hence saving time and money.
- ✓ It enables instructions about delivery, packing of goods to be sent easily to the buyers.
- ✓ It enables permanent records about transaction especially with written communication.
- ✓ It enables providers to cope up with competition as they become aware of the market conditions.
- ✓ It provides employment opportunities to the public like the case with Airtel, UTL companies etc.
- ✓ It is a source of government revenue through taxation of the communication companies etc.
- ✓ It facilitates a good relationship between the employer and employees.
- ✓ It acts as evidence of contract between the buyer and seller especially written communication.
- ✓ It facilitates the making of inquiries, orders, quotations to enable sell of goods.
- ✓ It saves live and property from being damaged when accident occur as rescuers are called in time.
- ✓ It enables constant supply of goods in the market as goods are made to be moved from one place to areas of shortage after communicating with the suppliers.
- ✓ It facilitates the laying down of rules and regulations governing the organization.
- ✓ It enables consumers to enjoy their freedom of choice over a variety of goods advertised.
- ✓ It breaks the ignorance of consumers which reduces exploitation from the sellers.
- ✓ It aids in the recruitment and selection of human resource for the business by advertising jobs for people with the required qualifications to send in their applications for consideration.
- ✓ It facilitates the laying down of regulations, rules, instructions and orders by the entrepreneur to be followed by the employees and others for easy running of the business.
- ✓ It helps in increasing on the sales volume of the business and widens the market share through carrying out advertisements in or through the media like press, radios etc.
- ✓ It helps the producer to know the complaints and needs of his customers by carrying out market research and work upon them and also produce according to needs of his customers.
- ✓ It helps the producer to know how much, what and when to produce for his customers through a letter of inquiry, market research etc.
- ✓ It helps in coordinating operations of his business that take place from different departments by receiving reports from those sections and departments.
- ✓ It facilitates in negotiating prices for the goods with his customers so as to reach the best bargain in his transactions.

- ✓ It helps the government and other regulatory bodies like National bureau of standards to monitor business operations to ensure that these companies comply with the set standards.

**Features of Effective Communication:**

This is where the message sent is effectively and clearly understood by the receiver as sent / communicated by the sender.

1. **Clear**: The message sent should be as clear as possible to enable the receiver understand it. The language chosen should be familiar with the receiver.
2. **Complete:** The message should include all the information and facts the receiver needs to know about the subject matter of communication.
3. **Concrete:** The message sent should be specific but not vague or too general to confuse the receiver. For example going to a class and say they are calling you is vague and too general as who is calling who and where is he / she?
4. **Courteous:** The sender has to be sincere when giving the message and should avoid hurting the receiver though he should not shy away from the issues under concern.
5. **Correct:** The information sent should be correct as possible as it was given without the sender including other massages of his or her own to the receiver.
6. **Concise:** The sender of the message should use few words as possible. The information should not be too wordy to confuse the receiver.
7. **Considerate:** The sender of the message should consider the receiver as he delivers the message. In case the receiver does not understand the language you are using, adjust accordingly.
8. **Timing**: The message should be delivered at a time when the receiver is able to receive it.
9. **Media**: The sender should use the medium that the target recipient uses. If the recipient uses a radio in communicating, then it is better to sue the same for him/her get the message well and in time.

9**. Environment:** The environment within which communication is being made should be free from noise to enable the receiver get it without any interference to distort it.

**Barriers to Effective Communication:**

A barrier to effective communication is anything that stops or hinders a person from receiving and understanding the message as it was sent from the sender. These barriers include among others.

- ✓ Lack of interest by the receiver of the information.
- ✓ Distractions where any upsetting factor like light, hearing, smell or others.
- ✓ If the information sent is incomplete.
- ✓ Language barrier/ differences or use of funny language to the receiver.
- ✓ Destruction of the information by noise.
- ✓ Lack of adequate communication equipment needed for communication.
- ✓ High costs of communicating with people in different areas.
- ✓ Differences in culture and signs used in communication.
- ✓ Unattractive message to the receiver can make the information not being effective.
- ✓ Poor listening skills as many people want to talk and never want to listen.
- ✓ Wide spread of illiteracy where different people cannot use different forms of communication.
- ✓ Lack of planning is also another common source of communication breakdown.
- ✓ The appearance of a person can be another critical factor.
- ✓ Information overload, too much information to a person may result into communication overload with consequences of impeding communication.
- ✓ Emotionalties like anger, love, jealousy, hate, fear, embarrassment.
- ✓ Allowing a boring person to talk after a powerful and interesting speaker.

**Factors Influencing the Choice of Communication Media**:

**Urgency of the message**: Where the information is required urgently, the sender can use telephone to send the required massage than letters.
**Costs involved:** The sender should choice a media which is not costly while sending the information.
**Feedback**: In case the sender needs immediate reply for the information, he should use telephone or face-to-face communication.
**Reference**: Messages that requires future records as proof can be sent using letters or telegrams.
**Detailed Information**: In case the sender in interested in sending much information with details, he can use letter and emails.
**Confidentiality of the information**: Confidential information can be sent using letters or email but not letters.
**Need for accuracy**: When sending information to someone about an important issue to be done, letters can be used as they can be re-read to edit the information to ensure no mistakes are made.
**Target person:** in case the sender is dealing with a person who cannot read or write, he can use a telephone as he will talk directly without reading to him the message.

## FORMS OF COMMUNICATION:

**LETTERS**: This is written information sent by one person (Addressor) to another (addressee) through the post office or an agent.

**Advantages of Letters**:
- ✓ They are less costly compared to other means of communication like telephone and telegram.
- ✓ They convey detailed information as many pages and paragraphs are involved.
- ✓ Many copies can be got/duplicated from the original to enable many people get copies.
- ✓ They enable illustrations and pictures plus instructions to be included during letter writing.
- ✓ They provide a high degree of confidentiality and secrecy when sealed well.
- ✓ They can act as record for future reference especially when kept well and in a safe place.
- ✓ They can act as evidence of contract between the buyer and the seller of goods/services.

**Disadvantages of Letters:**
- ✓ Letters may be lost hence hindering the delivery of the message to rightful person.
- ✓ Letters are not suitable for people who cannot read e.g. the blind and the illiterate people
- ✓ Immediate feedback cannot easily be obtained as it is with the case of telephones
- ✓ Letters may not be suitable for sending urgently required messages since they take long before they are delivered

**TELEPHONE:** This is an electrical system of talking to somebody in another place by speaking through special devices called telephones. These can be portable mobile handsets. Both the seller and the receiver must have telephone numbers through which contacts are made.

**Advantages of Telephone Communication:**
- ✓ It is a faster means of sending information compared to letters, hence suitable for urgent messages.
- ✓ It allows the addressor to obtain immediate feedback or reply.
- ✓ It allows an opportunity to ask questions that can lead to further understanding by the receiver
- ✓ It minimizes the movement of people from one place to another as it is the case with delivering of letters.

**Disadvantages of Telephone Communication:**

- ✓ It is not suitable for people with audio disabilities/deaf.
- ✓ It is expensive to install and maintain the telephone facilities e.g. buying, handsets and airtime
- ✓ It may not allow detailed information to be given as it is with case of letters.
- ✓ It is expensive to maintain a telephone in terms of buying airtime to make calls.
- ✓ Information may not be confidential as the call may be tapped say by the government security agencies.
- ✓ It is not suitable for areas without telephone network.
- ✓ It is not suitable to keep information for future reference as it is with case of letters.
- ✓ The message may be miss-directed in case of using a wrong while calling.

**TELEGRAM:** This is used to send urgent short messages by filling in a special form provided by the post office and the message is delivered within a short period. A telegram may be dictated to the post office over the telephone. The message is written in a brief form and payments are made per word. The more the words the more the more money paid and the fewer the words the less money paid.

**An Extract of a Telegram**

| |
|---|
| **27th-01-2020** |
| **DADDY,** |
| **UNCLE SICK LUBAGA HOSPITAL SEND MONEY** |
| **Okello Robert** |

**Advantages of Telegram:**

- ✓ It is suitable for urgent messages.
- ✓ The information is durable as only important words are sent.
- ✓ There is safety in delivery of information.

**Disadvantages of Telegram:**

- ✓ It is an expensive means of communication.
- ✓ Limited numbers of words are used so detailed information cannot be sent.
- ✓ It does not allow immediate reply like the case with telephone.
- ✓ It does not allow confidentiality of the information as it is with letters.

**TELEX:** It is a means by which messages can be exchanged by people operating far away from each other. It has a keyboard similar to that of a computer/typewriter and as a message is typed on a telex machine at one end, the same is printed by another machine on the other end. It allows the receiver to read the message even if he/she is not at home/receiver.

**RADIO CALLS**: This is where the message is sent in one direction in a particular area especially in places that are not served with telephones.

**E-MAIL (Electronic Mail)**: This is an advanced way of sending electronic messages from one computer to other or from a smart internet enabled phone to another. It allows the transmission of messages via a computer network such as a local area network or the Internet.

**Features of an E-Mail Message:**

- ✓ **To**: (recipient's email address) requires the E-mail address of the person you are sending mail to.

- ✓ **Cc**: Refers to Carbon copy of the message to the selected person (second recipient). The recipient whose address appears in the Cc box is notified of other recipients of the message in his e-mail address when he receives the mail.
- ✓ **BCC**: **Blind carbon copy**, a blind carbon copy is a copy of the message that is sent to someone in secrete, other recipients of the message will not know that the selected person has received the message.
- ✓ **Subject:** A short over view of the message into the text. It is the topic around which the mail rotates.

**Advantages of E-mail over Ordinary post office mails:**

- ✓ It is very quick and cheap delivery.
- ✓ It allows computer files can be attached to an email.
- ✓ It allows records and copies are kept automatically for future referral.
- ✓ It allows messages to be received /picked up anywhere in the world so long as there is a computer.
- ✓ It allows the message to be sent at any time to suit the sender
- ✓ It is very cheap to manage and it takes the same amount of money to E-mail across the globe.
- ✓ It is highly private and confidential compared to other means of communications like letters.
- ✓ It allows to send detailed message like text, graphics and sound using e-mail
- ✓ It is not affected by geographical location or weather.

**Disadvantages of E-Mail over Ordinary Post Office Mails:**

- ✓ It requires a computer and other hardware (e.g., a modem) are required which may be expensive.
- ✓ It is not secure as mails may be hacked.
- ✓ It is easy to get online junk mails which may include bullying information.
- ✓ When someone comes across a password s/he may have access to all mails
- ✓ E. mail are only sent to people with e-mail service
- ✓ It only caters for computer literates
- ✓ It is expensive in the long run where one has to continuously pay for the service so as to check mail.
- ✓ Loss of user password brings untold trouble to the user as they cannot sign in and access the messages.
- ✓ In case one comes to learn of the user password may turn out risky as the other can check mail of the genuine user.
- ✓ It is another source of computer viruses that are transmitted through infected E-mail attachments.

**INTERNET:** This is a worldwide collection of networks linked together that enables people to communicate across the world. A network is collection of computers and devices linked together. The Internet is the largest Wide Area Network (WAN) in the world.

**Services Provided By the Internet:**

1. The World Wide Web is one of the most popular services available on the Internet.
2. E-mail addresses.
3. File Transfer Protocol (FTP)
4. Videoconferencing,
5. Electronic commerce (E-commerce),
6. Electronic Funds Transfer (EFT),
7. Internet telephony,
8. Electronic learning (E-learning).
9. Websites (provision of information of interest

**Advantages of the Internet:**

- ✓ It provides E-mail as a form of communication which is now an essential communication tool in business (free), communicating to professionals and subject matter experts.
- ✓ It enables provision of information to people: A lot of information is available on the internet about every subject, ranging from government, services, trade market new ideas, education etc.
- ✓ It creates employment opportunities: Carrying out office work from anywhere away from the office and communicating with the employer through the use of internet. It also offers a variety of online jobs among others data entry, web masters etc.
- ✓ It facilitates different services like Online banking, Job seeking and application, scholarships and hotel reservation.
- ✓ It enables E-Commerce (advertising): The internet offers a very effective way to online buying and selling of products all over the world.
- ✓ It enables communities/businessmen of all types to meet up with people of similar interest.
- ✓ It enables video conferencing: Conducting a conference between two or more people i.e. chat rooms.
- ✓ It enables multimedia displays: Entertainment (music, video and any sorts of displays)
- ✓ It enables real time broadcasting i.e. by radios and televisions.
- ✓ It makes the down loading and uploading of files is easy.

**Disadvantages of the Internet:**

- ✓ It can promote immorality (pornography)
- ✓ It can cause addiction (internet games) to the users.
- ✓ There are network crimes i.e. hacking where unknown people may access personal information.
- ✓ It may lead to wide spread of computer viruses hence affecting people's documents.
- ✓ Cultural value elusion.
- ✓ It leads to isolation of man.

**Possible educational uses of the internet**

- To improve student motivation.
- To create collaborative project ventures.
- To encourage teamwork experiences.
- To share curricular resources.
- To promote the school and its activities within the wider community.

**INTERCOM:** This is a system of communication that exists between people who are close to each other. It can in offices, factories etc.

## THE POST OFFICE AND ITS SERVICES:

The post office is the main institution that controls other communication providers in the country. It provides the following services to different people.

**A. DELIVERY SERVICES:** The post office delivers letters, parcels and other trade documents like letter of inquiry, local purchases order etc. from one place to another. The delivery services include:

- ✓ **Registered Post**: People wishing to send their mails register it with the post office after paying some amount of money. The post office grantee compensation to the sender should the registered mail get lost.
- ✓ **Business Report Reply:** This is where people who wish to get replies from the letter receiver without putting him to extra charges of postage uses special envelopes which indicate that the addressor met all the postage charges.

- ✓ **Speed Post**: This allows letter to be delivered on the same day within the country and between two to three days outside the country (other countries).
- ✓ **Ordinary Post**: This enables the fixing of postage stamps on documents by sent by the post and sent to the receiver. It is the most common service provided by the post office.
- ✓ **Express Mail**: This is the quickest delivery of information / parcel from one place to another by post office messengers moving from one place to another. An extra fee is charged for people who wish to send their documents under this method.
- ✓ **Post Restante**: This is provided to traders or travelers who wish to be in particular areas for a short period of time and advices their customers to send letters to nearest post office around.
- ✓ **Free Post**: This is where the user marks the letters free cost after quoting the license number to enable him not incur extra costs of printing special cards, reply headed letters. An extra fee is charged to the firm receiving the information and holding the necessary license.
- ✓ **Post Bus Services:** Post offices also provide a service of transporting people and parcels using their busses that commute between towns and rural areas. A relatively low fee is charge on the users of this service.
- ✓ **Private Branch Exchange (PBX):** This is an internal telephone system that connects various extensions of the same firm through the switch board operator.
- ✓ **Private Automatic Branch Exchange (PABX):** This is an internal telephone system that provides internal and external services without the help of a switch board operator. The system is also called Subscriber Trunk Dialing (S.T.D).

**B. REMITTANCE SERVICES**: The post also enables people and organizations to send money to different people in different places after parting with a small fee for the service. The following are the ways used:

- ✓ **Post Order**: These are printed in fixed denominations like Shs.200, Shs.500 or Shs.1000 suitable for sending small amounts of money. The sender pays the face value of the postage known as Poundage.
- ✓ **Cash on Delivery**: This is where the post may collect money from the potential buyer and remits it to the prospective seller.
- ✓ **Money Order**: This is a special form bought from the post office and mainly used to send large sums of money. The sender fills in the amount of money he intends to send, his name and the receiver. A small fee is charge for this service.
- ✓ **Postal Stamps**: These are bought from the post office and affixed on to the mail or parcel as an indication that the service user paid the necessary fees to the post office.
- ✓ **Telegraphic Money Order:** This is used when sending money within the shorted period of time. The sending post office sends telegrams to the paying post office and the name of the receiver and the amount to be paid out.

**C. BANKING SERVICES:** Post offices also provide the banking services to the public and allow them to open up accounts like savings accounts, currents accounts and fixed deposit accounts plus offering of loans.

## INSURANCE:

Insurance is the pooling together of funds by people or businesses with similar risks with the hope of being compensated in the event of loss of the property or life insured against. Or, Insurance is the equitable transfer of the risk of a loss from one entity to another in exchange for payment.

**Some Terms Used In Insurance:**

**Insured:** This is the person or organization that buys a policy with an insurance company

**Insurer:** This is an institution that under takes and task of safe guarding life or property insured against in any form loss.

**Sum insured:** This is the value of property insured by the owner at the time of applying for the policy.

**Proposal:** This is a form filled in by the person intending to be insured that forms the basis for an insurance contract between the insurer and the insured.

**Over insurance:** This is when the insured over declares the value of his property at the time of asking an insurance policy. In case of an accident/ loss of the property, the company will pay the exact value of the items on the eve of the accident or destruction

**Under insurance:** This is when the insured under the value of his property at the time of taking an insurance policy but in case of destruction of the property, the company will pay the less value by the insured.

**Assignment**: This is the transferring of the insurance policy by one person to another. It is common when the original person sells the item that had been insured and in this case the new holder of the item is the one to claim for compensation in case of a loss.

**Premium:** This is the amount of the money insured contributes to the common pool and it is from this fund that he is compensated in case of an event insured against occurs

**Risks:** Events against which insurance is taken out e.g. fire outbreak, accidents etc

**Loss:** This is the occurrence of an event against which the policy was taken, if the whole commodity is destroyed the loss is said to be total loss

**Insurable risks:** There are risks whose probability of occurrence can be predicted and estimated e.g. theft, fire, and accident.

**Non insurable risks:** These are risks whose probability of occurrence cannot be predicted and estimated such as war and lightening

**Cover note:** It is a temporally protection issued to the insured by the insurer when he pays the first premium. A cover note serves as evidence that the insured has entered into a contract with the insurer before the policy is issued. A cover note is valid for a period of 30 days only after which a policy is issued.

**Insurance policy:** This is a document of contract between the insurer and the insured**.** It serves as evidence of the insurance protection.

**Assessor:** This is an insurance officer who calculates the amount of danger in any risk or loss when the insured is claiming for compensation.

**Actuary:** This is a highly skilled insurance officer whose duty is to calculate the premium of an asset or life to be insured.

**Co-insurance:** This is where a person spreads the risk against the destruction of his property to several insurance companies. This is mainly done to highly valuable items e.g. ships and planes.

**Re-insurance:** This is situation where an insurance company insures the property of its customers with another bigger insurance company.

**Insurance agents:** These are businessmen or organizations authorized by insurance companies and the laws governing insurance to issue out temporally cover notes and accept premiums from the public. The agents are paid in terms of commission

**Co-operative insurance:** This is where a number of people come together and buy a common policy for a common property

**Assurance:** This refers to cover against an event that is bound to take place the question being time. Because human beings are bound to die all life policies are under assurance

**Lloyds:** This is an insurance market in London that governs or deals with operations of insurance company.

**Pooling of risks: T**his is where people who are exposed to risks pay a certain amount of money in a pool from which people who actually suffer loss are compensated

**Surrender value:** This is amount of money paid to the insured on canceling the policy especially before its maturity date in case of endowment policy

**Claim form:** This is the document filled by an insured when making a claim from the insurance company after incurring the loss for the property or life insured against

**Terminating a policy:** This is when insured cancels out the contract with the insurer. The insured cancels the contract, when he refuses to renew the policy at the expiry date of the policy

**Underwriter:** This is an employee of insurance company who accepts or refuses the risk to be insured against.

**Contribution:** This doctrine is applicable where there is double insurance. That is insurance of the same property against the risk. In such a case, the insured is covered for the same loss by different insurance companies. In the event of loss, each insurance company contributes towards the cost of the indemnification.

**Nomination**: This is an act by which a policy-holder nominates or designates a person(s) whom he wishes to claim for the sum insured in case he dies.

**Procedures of Taking out an Insurance Policy:**

**Filling the proposal form**: This is the first thing a person wishing to take up an insurance policy. He fills in all the relevant details about the item to be insured without hiding any. Future compensation shall be based on the facts put in this form.

**Calculating the Premium to be paid:** The amount is calculated by under writers taking into account the information/details filled in the proposal form. This premium must be relatively in the same value of the item to insured and where possible the insurer may decide to inspect the property personally to see it first.

**Issuing of the Cover Note/Binder**: This is a temporary protection document used during the period when the policy is being prepared. It is an evidence that insurance premium has been paid and the insurer is willing to cover the risk.

**Issuing of the insurance policy:** This is a contractual document between the insured and the insurer. Immediately the insured signs the policy, the cover note ceases to be valid with in thirty days. It specifies the terms of under which the insurance cover is provided and the period of the contract

**Claim Procedure for Compensation:**

**Notifying the Insurer:** The insured is required to report immediately to the insurer about occurrence of an accident or loss or property or loss of life.

**Filling of the claim form**: On reporting the loss, the insured is given the claim form which he files in the nature and details of the loss suffered.

**Investigating of the claim**: After the insured files the report with the insurer, an assessor is sent to investigate the claim determining the cause of the accident/loss and also determines whether the insured is to be compensated and how much.

**Paying for the claim**: When a report is got from the assessor, the insurer pays the compensation to the insured. The compensation can be in form of repairing the property destroyed, buying a new property or giving of cash to the insured.

**Common Risks in Businesses in Uganda:**

- ✓ Loss of cash and or goods in transit
- ✓ Injuries inflicted on workers while at work or working
- ✓ Dishonesty of workers handling money for the business
- ✓ Motor accidents which can cause death or destruction of property.
- ✓ Personal injuries or accidents to workers or the business owner.
- ✓ Fire outbreak to the business premises
- ✓ Loss if profits of the business due to stiff competition.
- ✓ Bad debts due to customers who do not pay for the goods taken on credit.
- ✓ Hailstorms that destroys the business and property

**Factors to Consider Before Issuing Out Insurance Policy:**

- ✓ **Age of applicant:** In case the applicant is old, he/she is most likely to be charged a high premium or rejected than when the applicant is younger.
- ✓ **Value of the property to be insured:** Is it an old asset or new one.
- ✓ **Nature of the property**: If the property if prone to accidents, it is most likely to attract higher premium than when the property is not prone to accidents.
- ✓ **Period of premium payment**: In most case the premium is paid on annual basis after the expiry of the existing premium.
- ✓ **Precautions taken**: If the person/property to be insured takes a lot of steps to protect himself from getting accident /loss, he may be easily considered for insurance policy than one who does not take steps to protect himself.
- ✓ **Number of applicant for similar risk**: If the applicant is taking up a policy when many applicants have taken, it may be easy for him/her to be accepted than one who may be alone as this may be expensive for the insurance company.
- ✓ **Type of policy required:** If the applicant needs a policy on none insurance risks, he may not be given an insurance policy as compared to those requiring a policy on insurable risks.
- ✓ **Historical background of the risk to be insured against:** In case the risk has a history of frequently happening, the insurer may not easily issue a policy as this means that they are most likely to pay out quickly.
- ✓ **Chances of risks happening:** If the chances are that the risk happens often the chances are that it may not be easy for insurance policy at the same time the occurrence of the risks determines the amount of premium to be paid by the person to be insured.
- ✓ **Value of the property to be insured**: In most cases if the property to insured is cheap it may be easy to be given an insurance policy than an expensive one as it may require co-insurance for easy compensation in case of a loss.

## PRINCIPLES OF INSURANCE:

**Utmost good faith (Uberrima Fides):** This states that all the parties to an insurance contract must disclose all relevant details which might influence any party's willingness to make the contract. Any false information given may lead to the end of the contract.

**Proximate Cause**: This states that an insured is entitled to compensation only if the risk insured against is the immediate cause of the loss suffered.

**Insurable Interest**: This states that people/organization should only insure goods whose destruction will directly affect him/her. One should be in danger of suffering some loss should the thing to be insured be destroyed or damaged. E.g. one cannot insure the life of the neighbor as his death cannot directly affect him.
**Indemnity**: This means that the insurer aims at restoring someone to his original position/state he was in before the event causing the loss took place. The insured should not gain from the loss.
**Subrogation:** This states that after the compensating the insured, the insurer has the right to take the wreck unless the insured is willing to share the loss with the insurer by retaining the wreck.

**Classes of Insurance:**
There are two classes of insurance and these are Life Assurance and General Insurance.

**A. LIFE ASSURANCE:** Assurance means that the event must happen and this covers mainly policies of human life. A person can insure his/her own life or that of the child. It can be divided into Whole Life and Endowment policy life.
1) **Whole Life Policy:** This is where compensation is paid only at the death of the person insured.
2) **Endowment Life Policy**: This is where compensation is paid either at the death of the insured or at a fixed number of years, whichever comes first.

**Features of Life Assurance:**
- ✓ It is a form of savings for life policies.
- ✓ It is usually a long term contract which does not require annual renewal.
- ✓ It can be used as collateral security for acquiring a bank loan.
- ✓ It has a surrender value. Money can be paid even before maturity in case the insured cancel the contract.
- ✓ It is a cover for life until death or for a specified period.
- ✓ It has maturity date when the assured is paid the sum insured, bonus and interest.
- ✓ It can be assigned to the beneficiaries.
- ✓ It can be of any amount depending on the insured's financial ability to pay the premium.

**B. GENERAL INSURANCE:** This class of insurance covers policies of property. It is divided into different sections i.e. Accidents, Fire and Marine departments.
**Features of General Insurance:**
- ✓ It cannot be assigned to any relative /person.
- ✓ It has no surrender value.
- ✓ It is a contract of indemnity.
- ✓ The insured must be having interest in the property to be insured.
- ✓ It is usually a short-term contract which can be renewed usually annually.
- ✓ Premium charged depends on the degree of the risk being covered.
- ✓ Compensation for the loss can only be to maximum of the value of the property insured or sum insured in case of under insurance.

**1. Accident Department:**
- ✓ **Worker's Compensation:** This provides insurance/protection to employees who are injured on the job. This type of insurance provides wage replacement and medical benefits to those who are injured while working.
- ✓ **Money in transit and at premises Insurance**: This is taken up such that if money is being moved from one place to another say bank or home and it is lost or robed, it is compensated to the owner.

- ✓ **Fidelity Guarantee:** This protects the employer against unfaithful employees who may steal the company cash.
- ✓ **Motor Policy**: This covers destruction of vehicles as a result of theft, accident or life. It may be comprehensive which covers all possible risks or third party policy which is set to compensate a third person/property who may suffered as a result of the accident. These may be passengers in the car, the building knocked by the vehicles, a person who was walking his way and knocked down.
- ✓ **Aviation insurance:** This is taken against a loss resulting from personal accident and cargo damages due to aircraft crashes.
- ✓ **Personal Accident:** This is taken to protect an individual against all types of accidents that may take place against him/her. It can be covers against both physical damage and bodily injury.
- ✓ **Property Insurance**: This is taken up by those owning buildings or has business personal property, including office equipment, computers, inventory or tools.
- ✓ **Travel Baggage Insurance:** This is taken to cover against personal risks and loss of property while transported from one place to another.
- ✓ **Commercial Auto Insurance:** This protects a company's vehicles. This allowsone to insure work cars, vans and trucks from damage and collisions. If you do not have company vehicles, but employees drive their own cars on company business you should have non-owned auto liability

**2. Fire Department:** This deals with policies of properties against fire lightening, floods and storms. It includes:-

- ✓ **Loss of profit Insurance:** This is taken to cover against losses made in the businesses. In case the loss happens, he will be compensated to a certain percentage of the suffered loss.
- ✓ **Theft and burglary Insurance:** This is taken to cover against a loss as result of theft or burglary of the business goods or property by thieves or robbers.
- ✓ **Floods, war, rioting and Lightening Policy:** This covers losses due to any one of such calamities though these are uninsurable risks in Uganda.
- ✓ **Fire Policy:** This covers losses due to fire accidents, physical loss or damages caused by fire.
- ✓ **All risks of Households:** This insures house and the associated property against loss or damage. The house associates can include television, furniture, music systems etc.

**3. Marine Department:**

**Voyage Policy:** This covers the ship while on transit between the port of origin and the port of destination.

**Floating Policy**: This covers all losses associated with a particular ship or ships on a particular route during a specified period of time.

**Port Policy**: This is a cover given to a ship during the period it is stationed/anchored at the port.

**Time Policy:** This covers losses that occur within a specified period of time.

**Open Policy:** This covers risks against losses which may be encountered in transporting goods by water.

**Mixed Policy**: This covers all risks connected with transportation of goods from one place to another on water.

**MARINE LOSSES:**

Marine losses may be actual total losses or constructive total loss.

**Actual Total Loss**: This is the loss as a result of the ship getting lost at the sea or the cargo getting completely destroyed on the sea.

**Constructive Total Loss:** This is when the ship is not completely destroyed but has no future use or if the cargo on the ship is extremely damaged.

**Importance of Insurance:**

- ✓ **It removes uncertainties:** Insurance Company takes the risks of large but uncertain losses in exchange for small premium. So it gives a sense of security, which is real gift to the businessmen.
- ✓ **It is stimulant of business enterprise:** Insurance facilitates to maintain the large size commercial and industrial organizations. No large scale industrial undertaking could function in the modern world without the transfer of many of its risks to insurer.
- ✓ **It promotes savings:** Insurance policy is often very suitable way of providing for the future and this is particularly in life assurance.
- ✓ **It corrects distribution of cost:** Insurance helps to maintain correct distribution of cost. Every business man tries to pass on to the consumer all types of costs including accidental and losses also. In the various fields of insurance such losses are correctly estimated keeping in view a vast number of factors bearing on them.
- ✓ **It is a** s**ource of credit:** Modern businesses depend largely on credit; insurance has contributed a lot in this regard. A life insurance policy increases the credit worthiness of the assured person because it can provide funds for repayment if he dies. Credit extension is also obtained by means of various kinds of property insurance. A businessman whose stock of goods has been properly insured can get credit easily.
- ✓ **It reduces the chances of loss:** Insurance companies spend large sums of money with a view to finding out the reasons of fire accidents, theft and robbery and suggest some measures to prevent them. They also support several medical programmes in order to make the public safety minded.
- ✓ **It is a solution of social problems:** Insurance serves as a useful device for solving complex social problems e.g. compensation is available to victims of industrial injuries and road accident while the financial difficulties arising from old age, disability or death are minimized. It thus enables many families and business units to continue intact even after a loss.
- ✓ **It leads to productive utilization of fund: The** insurer accumulates large resources from the various insurance funds. Such resources are generally invested in the country, either in the public or private sector. This facilitates considerably in overall development of the economy.
- ✓ **It acts as an investment:** A life policy is a combination of protection and investment which serves a useful purpose. The premium the insured pays go on accumulating in a fund every year which is an investment to the insured.
- ✓ **It leads to promotion of international trade**: The growth of the international trade of the country has been greatly helped by shifting of risk to insurance company. A ship sailing in the sea faces some miss-fortune and with insurance protection is there.
- ✓ **It removes fear and instills confidence**: Insurance helps to remove various types of fear from the mind of the people. The insured is secured in the knowledge that the protection of the insurance fund is behind him if some sad event happens.
- ✓ **It leads to favorable allocation of factors of production:** Insurance also helps in achieving favorable allocation of the factors of production. People hesitate to invest their capital where financial losses are great. If protection is provided against these risks by means of insurance, several investors will become ready to invest their funds in those fields.
- ✓ **It leads to growth of business competition:** Insurance enables the small business units to compete upon more equal terms with the bigger organizations. Without insurance it would have been impossible to undertake the risks themselves. Moreover insurance removes uncertainty of financial losses arising out of the certain causes.
- ✓ **It is a source of employment opportunities:** Insurance provides employment opportunities to jobless persons which is helpful for the improvement and progress of social condition.

- ✓ **It helps establish good relation between the employee and employe**r by providing various facilities i.e. group life insurance, social security scheme, retirement income plan, and workman's compensation insurance.
- ✓ **It provides valuable services** of skilled and expert persons to industries and business in order to eliminate various risks.
- ✓ **It promotes economic growth** and development. This would be impossible in the absence of insurance.
- ✓ **It makes security of dependents** is made possible through life assurance. It gives relief to helpless families after the death of the earning member of the family.
- ✓ **It is a source of revenue** to the government through taxation which can be used to further development in the areas of infrastructure like roads, dams, hospitals, schools etc.

**Why insurance activities are not well spread country wide:**

- ✓ Due to negative attitude of most Ugandans towards insurance as many think than insurance companies do not compensate people.
- ✓ Poor means of transport and communication hindering the insurance people to move to different parts of the country.
- ✓ Due to less income of Ugandans which may not enable them to insure their property and remain with some income for survival.
- ✓ Due to inadequate incomes by the insurance companies to open different branches in different parts of the country.
- ✓ Due to limited skilled manpower in technical positions like assessors and actuaries
- ✓ Due to political instabilities and civil wars in certain areas.

**Sources of Incomes to Insurance Companies:**

- ✓ Premiums from the insured.
- ✓ Investment in profit making securities.
- ✓ Rental incomes from the buildings they set up for people to rent.
- ✓ Profit from sell of wrecks/damaged property as they compensate their customers.
- ✓ Interest on money kept with the commercial banks on savings accounts.

## INSURANCE AND ASSURANCE:

Insurance refers to the cover against an event that may happen or may not happen

**While**

Assurance refers to the cover against an event that is bound (must) to happen like death.

## DIFFERENCES BETWEEN INSURANCE AND GAMBLING:

- ✓ In insurance, an event may or may not happen whereas in gambling the winner must be there.
- ✓ The reward to an insured is compensation while the reward to gambling is a prize.
- ✓ Insurance is a means of saving while gambling is a means of cheating.
- ✓ In insurance the insured does not profit while in gambling the winner makes profits.
- ✓ Insurance is developmental to the society while gambling is a curse to the society.
- ✓ Insurance is legal while gambling is illegal though some are legal.
- ✓ In insurance one must have an insurable interest in the property being insured which is not the case with gambling.
- ✓ There is no loser in insurance while in gambling there are losers and winner.
- ✓ All parties in gabling contribute funds while in insurance only the insured contributes funds/premium.

## MONEY AND BANKING:

Money is anything that is generally acceptable as a medium of exchange or settlement of debts. It is a legal tender meaning that everyone in a country must accept it as a medium of exchange

### FEATURES/CHARACTERISTICS OF MONEY:

For any item to work as money, it must have the following qualities

**Acceptability:** Good money should be accepted by all people in the country i.e. easily recognized so that it can be accepted by other people for exchange of goods or services.

**Portability:** Good money should be portable, light to carry and easy to move with it from one place to another therefore it should not be heavy.

**Divisibility:** Money should be divisible into smaller denominations to allow the purchase of small items, Shs.500, Shs.100, Shs.200, Shs.1000, Shs.2000, Shs.5000 etc.

**Scarcity:** Good money should be scarce or rare, difficult to get i.e. people should not easily get it in order to retain its value.

**Durability:** Good money should be durable, last for a long period of time in order to minimize the expense of printing paper note and making coins.

**Stability in value:** The value of money should be fairly constant over a period of time so that it maintains its credibility and acceptability in public.

**Homogeneity:** One piece of money or coin in one place should be the same or having similar features as those in other areas i.e. good money should possess uniform values, quality and features in order to be accepted.

**Difficult to forge/immitigability:** Good money should be difficult to forge therefore it should be printed by only the central bank of that particular country.

**Cheap to print/malleability:** The material to be used to in printing/making money should be easy to get and cheap than buying them at higher prices than the printed money itself.

**Cognizability:** For people to have confidence in money, it should be possible to identify genuine money from fake money.

### FUNCTIONS OF MONEY:

**Medium of exchange:** Money acts as medium of exchange acceptable to all concerned i.e. goods and services can be exchanged for money.

**Measure of value**: Money acts as a measure of value of different commodities i.e. it determines the value or price of the goods and services in a particular country/area.

**Store of value:** Money is used as a store of value because it's not bulk and doesn't depreciate therefore it can be stored and used any time e.g. in the bank, in property etc.

**Unit of account:** Money acts as a unit of account to effect or to carry out business transactions because all the records are expressed in terms of money.

**Standard for future payment:** Money simplifies payment of debts and transactions to some future debt or money can be used for staying debts for the goods taken on credit.

**Transfer of fixed Assets**: Money can be used to move fixed assets from one place e to another. E.g. in case a person has a house in Entebbe but wishes to shift to Jinja, he can sell the houses in Entebbe and uses the money got to set up another houses in Jinja.

**Generalization of purchasing power:** money generalizes the purchasing power since it can be used in payment for any kind of goods offered for sale as opposed to any other medium of payment that might be restricted to specific commodities only.

**EVOLUTION OF MONEY:**

This refers to the process by which money came into existence and how it has changed its form. Before money came into use, there was a system of barter trade where goods were exchanged for goods, goods for services and services for services. This system had many problems.

In the past, items like stones, metals, skins, shells were used as money but because of developments that took place in the commercial world, people realized that treating something like money may solve the problems of barter trade and hence the introduction of coins and later paper money.

**BARTER TRADE:**

This is the exchange of goods for goods, goods for services or services for services.

**Advantages of Barter Trade**:

It eliminates the risks of moving with money which can easily be stolen.
It eliminates the burden of converting local currency for foreign currencies in case of foreign trade.
It minimizes the use of documentation or paper work hence low cost of operation.
It enables individuals to get goods they lack by exchanging what they have.
It encourages mutual understanding among or between exchanging parties/people.

**Disadvantages of Barter Trade:**

**Double coincidence of wants**: It was difficult to find someone who had what you wanted in exchange of what you have.
**Divisibility problem:** It was difficult to divide or break down commodities into smaller quantities to cater for those who would wish to get smaller quantities, like dividing a cow for a tin of potatoes.
**Valuation problem**: It was difficult to determine or measure the value of a given commodity i.e. to estimate the rate at which commodities can be exchanged e.g. how many hens can be exchanged for a cow.
**Storage problem**: It was difficult to store some goods especially perishable goods for a long period of time, e.g. tomatoes, passion fruits etc.
**Transportation/Handling:** It was difficult to transport bulk goods like a sack of potatoes, cattle, goats etc.
**Language Barrier:** It was difficult to communicate with people in different regions or countries because different regions and countries used difficult languages.
**Future Trade problem**: It was difficult to get a commodity on credit because there was no documentation/ paper work.

**FORMS OF MONEY:**

1. **Coins:** This is the metallic money. It can be token or standard coins.
   - ✓ **Token Coins**: These are coins whose face value is either greater or less than the material from which it is made.
   - ✓ **Standard Coins**: These are coins whose face value is equivalent to the material or metal from which it is made.

**2. Bank Notes**: This is money inform of paper or paper money.
**3. Bank deposits**: This is the money which is kept in the bank by the bank customer for withdraw anytime.
**4. Cheque**: This is a written order by the bank customer to his bank to pay a given amount of money to a named person.

**TYPES OF CHEQUES:**

There are mainly two types of cheques and these are**: -** Open Cheques and Crossed Cheques.

**OPEN CHEQUES**: These are cheques which are paid across the counter and do not have two parallel lines across its face. An open cheque may either be Bearer or Order cheque.

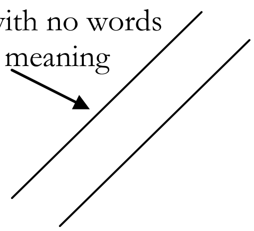
**Bearer Cheque**: These are cheques where the name of the payee is not named and anybody possessing it can get paid across the counter by the cashier.

**Order Cheque**: this is a cheque where the payee is named and the bank pays only the person whose name appears on the cheque. If the payee wishes to transfer an order cheque to someone else. He can just endorse it at the back. **Endorsing a cheque** means the payee writing on/at the back of the cheque and signing it to transfer the right to receive money from one person to another.

**CROSSED CHEQUES**: These are cheques that bear two parallel lines across their faces and cannot be paid at the bank counter but money deposited on the payee's account only. Crossed cheques are of two types i.e. General and Special crossings.

**General Crossings**: These are two parallel lines on the cheque notes bearing no words or few words.

(**i**). Two lines with no words
No legal meaning



(**ii**) **A/C PAYEE ONLY**

Two parallel lines with the words Account Payee only. This is the safest method of payment and these words are instructions to the bank to make payments to the payee only.

(**iii**) **& CO.**

This has no significance but Money is put on the bank Account of the company.

(**iv**) **NOT NEGOTIABLE**

Two parallel lines with words and company not negotiable. Though the Payee is named on the cheque, he can Transfer the right to receive the money against it but the new payee wills not a better title to the cheque than the original payee had.

**Special Crossings:** These are cheques that bear two parallel lines with the names of the bank and bank branch between them. It sometimes has words like not Negotiable or Account Payee Only to make them safer. This cheque can be presented for payment only through the bank and the branch named in the crossings.

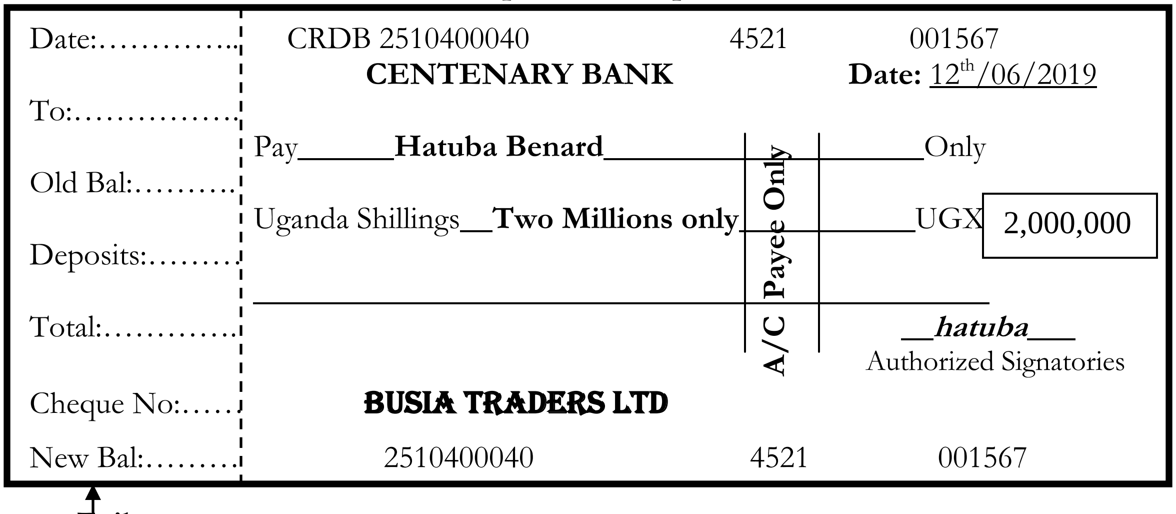
**Example**:

**DTB BANK**
**NATEETE BRANCH**
**A/C PAYEE ONLY**

**DTB BANK**
**NATEETE BRANCH**
**NOT NEGOTAIBLE**

**DTB BANK**
**NATEETE BRANCH**
**A/C PAYEE**
**SHS. 2,000,000/=**

**Sample of a Cheque:**




**Counter Foil**

**Major Parts of a Cheque:**
**Cheque Leaf:** This is the part of the cheque that is plucked off the cheque book and drawn to the payee in settlement of an obligation.
**Counter Foil:** This is the part of the cheque that remains in the cheque book after removing the leaf. It is used for reference purpose.
**No. 2510400040:** Account number of the account holder i.e. Busia Traders Ltd.
**No. 0015:** This is the cheque number.

**Parties to a Cheque:**
**Drawer:** This is a person or organization that writes a cheque. i.e. Busia Traders Ltd.
**Drawee**: This is the bank to which the cheque is addressed. i.e. Centenary Bank
**Payee**: This is the person or organization who is supposed to receive the money on the cheque. i.e. Hatuba Benard.
**Endorser:** This is the person who signs at the back of the cheque and transfers the right to receive the money to someone else.
**Endorsee**: This is a person who receives money written at the back of the cheque.

**Features of a Cheque:**
- ✓ The cheque Number (serial Number)
- ✓ The date when the cheque is written.
- ✓ The drawer's Account Number.
- ✓ Crossings.
- ✓ The name of the payee.
- ✓ Drawer's Signature and name.
- ✓ Drawer's Account Number.

**Advantages of Paying By a Cheque:**
- ✓ It is a safe way of moving/transferring large sums of money than carrying physical cash.
- ✓ It is a convenient way of making payments as writing a cheque takes a short time.
- ✓ It acts as a proof that payment of money was made.
- ✓ It is easy to carry a cheque from one place to another than when one is carrying cash. It is light.
- ✓ It cannot easily be forged especially when it is crossed cheque.
- ✓ It is an accurate method of payment of effecting payment because the amounts are written in both words and figures.

- ✓ It is easy to pay many people using only one cheque especially if they have accounts in one bank.
- ✓ It leaves a counter foil which act as reference/record of payment to the drawer.
- ✓ It can be used for future payment by making it postdated cheque.
- ✓ It is secure means of payment as one may not be able to steal money especially when it is crossed.
- ✓ It is easy to store a cheque than physical cash.

**Disadvantages of Using Cheques for Payment:**

- ✓ Cheques are not suitable for smaller transactions like pay for a jerry can of water.
- ✓ Banks are not widely spread in Uganda as they are mainly seen in urban areas.
- ✓ Many Ugandans are ignorant about the banking services in the country. Lack of information.
- ✓ Many people lost trust in the banking system making it hard for them to take cheques.
- ✓ Many people see the system as time wasting as they have to wait in long queues in banks for payments.
- ✓ The system is costly as it involves the receiver of the money to move to the bank for payment.
- ✓ The issue of dishonored cheques discourages people from using cheques.
- ✓ Many people are low income earners therefore using cheques may not be in their favour.
- ✓ Many Ugandans are illiterates who cannot read nor write therefore may not like the use of cheques.

**How to make a Cheque Secure:**

- ✓ Writing the name of the person or organization you are paying on the cheque leave
- ✓ Drawing a line through any blank spaces (unused space)on the cheque so people can not add extra numbers or names on it
- ✓ Adding details such as a reference or account number to the payee line. This makes sure the money ends up in the right place.
- ✓ Keeping the cheque foil/stub that contains the details and reference safely.
- ✓ Making sure there is enough money in your account to cover the value of the cheque until the person has paid it in and the money has been deducted so as to avoid charges for the bounced cheque payment
- ✓ Counting the cheque leaves immediately on receipt of a new cheque book to ensure that no leaf is missing or duplicated in the cheque book.
- ✓ Keeping the cheque book under lock and key to avoid its theft by people.
- ✓ Notifying the Bank in writing immediately if a cheque is lost or stolen along with the acknowledgment of reporting such loss or theft to Police, in order to stop payment of the cheque by anyone.
- ✓ Returning the unused cheques to the Bank when the account is closed.
- ✓ Writing a cheque in permanent ink but not with a pencil or any erasable ink to avoid altering of figure or words.
- ✓ Avoiding signing of blank cheques. Always fill in the date, the name of the receiver and the amount before signing the cheque.
- ✓ Taking care when writing a cheque without leaving any gaps from the printed area in spaces provided to write the payee name, amount in words and figures.
- ✓ Altering neatly by striking out any mistake made in writing the cheque and confirm by your full signature against it.
- ✓ By not writing, pinning, stapling or pasting on the MICR encoded strip at the foot of the cheque.
- ✓ Crossing whenever possible. To prevent unauthorized encashment of the cheque.
- ✓ By not signing in multiple places unless authenticating a change. When you cancel a cheque, mutilate the MICR band and write “CANCEL” across the face of the cheque

**NB**: Magnetic Ink Character Recognition (**MICR**) is the information that appears at the bottom of a cheque. This includes the bank's routing **number**, the customer's account **number**, and the check **number**. **MICR** numbers, letters and symbols are printed with magnetic ink or toner, usually in one of two major **MICR** fonts

**DISHONOURING A CHEQUE:**

This is the situation where the bank refuses to pay the payee the amount stated on the cheque.

**Circumstances Under Which a Cheque May Be Dishonored**:

- ✓ When the drawer has insufficient funds on the account. The bank will write on I/F, Insufficient Funds or R/D Return to drawer.
- ✓ When the cheque has an error/differences in amount in figures and that in words.
- ✓ When the cheque is stale, it is presented six month from the date it was written.
- ✓ When the cheque is crossed date, it is presented to the bank before the date written on.
- ✓ If the drawer is dead or insane or bankrupt and the bank is aware.
- ✓ If the signature specimen at the bank is different from the one on the cheque.
- ✓ It the drawer closed his/her account with the bank.
- ✓ In case the cheque is not signed by the drawer.
- ✓ When the drawer instructs the bank not to pay the amount on the cheque for some reasons.
- ✓ It the cheque is blank cheque or not dated.
- ✓ When the cheque is generally dirty and torn or damaged before reaching the bank.
- ✓ When there are some crossings which are not counter signed by the drawer etc.

**Other Types of Cheques:**

**Post-Dated Cheque:** This is the cheque presented before the date on it. This may as a result of the drawer having financial difficulties currently.

**Stale Cheque**: This is a cheque written six month behind. It is a cheque that has lasted six month after writing it and therefore money on it cannot be paid.

**Forged Cheque**: This is a cheque on which the name of the payee, signature of the drawer and the amount on it is false. Blank Cheque: This is the cheque drawn leaving the amount of money to be filled in later.

**Dishonoured Cheque:** This is the cheque that has not been paid for dome reasons.

## BANKS:

A bank is an institution that accepts deposits from those who have some money in excess of their immediate needs. Banking is an aid to trade that assist people/public with monetary problems. This is a business activity carried out by banks by accepting people's deposits and releasing them on demand.

**Types of Banks:**

There are basically three types of banks and these are: Commercial banks, Central Banks and Development banks.

## COMMERCIAL BANKS:

These are financial institutions that accept deposits from the public and release it on demand. They are in most cases formed as joint stock companies that deal in money issues with the aim of making profits. These banks offer a wide range of banking services /activities and are of particular importance to businessmen. Examples in Uganda includes: Crane bank, Centenary bank, Bank of Baroda, Cairo bank, and Stanbic bank etc.

**Functions of Commercial Banks:**

- ✓ They accept people's deposits and keep them safely until they demand for them.
- ✓ They provide financial assistance to the public inform of loans and bank overdraft.
- ✓ They keep valuable items and documents in safe custody on behalf of their clients e.g. land etc.
- ✓ They provide cheque facilities to make payment easier by use of traveler's cheques.
- ✓ They give advice to their clients on financial and investment matters.
- ✓ They act as trustees to their customers as they even look after the property of the deceased customers and distribute assets as per the laid down will.
- ✓ They safe guard traders' in international trade through travelers' cheques hence facilitating foreign trade.
- ✓ They buy and sell foreign currencies like pounds and dollars.
- ✓ They provide night safety services to their customers who wish to deposit or withdraw money beyond the normal working hours.
- ✓ They collect money on behalf of their customers given responsibility.
- ✓ They buy and sell share, securities and bonds on behalf of their customers.
- ✓ They are a source of revenue to the government through taxation of their activities.
- ✓ They help to transfer money for their customers through cheques, bank deposits and standing orders.
- ✓ They act as referees to their customers by giving information to their customers about their financial status.

## ACCOUNTS OFFERED BY COMMERCIAL BANKS:

**Savings Account:**

This is the type of account normally offered to low income earners by both commercial and savings banks.

**Features of Savings Account:**

- ➢ A minimum initial deposit is required when opening up a savings account.
- ➢ Deposits and withdrawals can be made at any time on and from the account.
- ➢ A small interest is given to the account holder depending on the current balance.
- ➢ A minimum balance is required to be maintained on the account.
- ➢ A pass book is given to the account holder to be used during deposits and withdrawals.
- ➢ Automated Tell Machines are also issued to the account holder for cash transactions on the account.
- ➢ Bank overdrafts are not given on this account.

**Current Account:**

This is the type of account normally offered commercial banks to businessmen or institutions.

**Features of Current Account:**

- ➢ A minimum initial deposit is required at the time of opening up an account in the bank.
- ➢ No minimum balance is required and one can withdraw all the money from the account.
- ➢ One can deposit money at any time of the day in any form like cheques, cash, drafts etc.
- ➢ A cheque book is issued to the account holder to be used in withdrawing cash.
- ➢ Bank statements are given to the customer on monthly basis to show the financial standings.
- ➢ No interest is given to the account holder.
- ➢ Withdrawals can be made at any time of the day.
- ➢ Bank overdraft can be given to account holder which shall attract an interest.

**Procedures of Opening an Account:**

- Presentation of two reference letters from the employer and the current bank customer.
- Personal current identity Card/pass port or driving permit showing your true likeness.
- A registration certificate for the case of partnership or joint stock Company together with evidence of the appointment of signatories.
- Provision of application form to be filled by the applicant giving personal details.
- Appending of signature of two signature cards given by the bank together with the form to act as specimen signatures to be used to verify the applicant's signatures that may appear on any documents such as cheques or during withdrawals.
- Issuing of an account number which will appear on all cheques issued by the account holder.
- Making of an initial deposit on the account using deposit slips.
- Issuing of the cheque book later for current accounts holders.

**Fixed Deposit Account:**

This is the type of account which can be opened with not less than a certain minimum amount for a specified period of time. It is in most case for people who have excess money that they may not need immediately for spending. This is because withdrawals may not be allowed until the expiry of a specified time.

**Features of Fixed Deposit Account:**

- Deposits are for a defined period of time.
- Withdrawals cannot be allowed before the expiry of the defined period.
- A receipt is given when depositing money and the same receipt is presented when withdrawing cash from the same account.
- The account attracts a higher interest rate on the money held.
- Money on the account can be used as a security when applying for a loan.

## CENTRAL BANKS:

This is a government institution established to control, guide and assist commercial banks in the country and provide banking services and financial advice to the government. For the case Uganda, it called Bank of Uganda.

**Functions of the Central Bank**:

- **Issue of currency:** The central bank has the sole role of issuing the country's currency notes/money.
- **Banker of commercial banks:** The central bank offers banking facilities to commercial banks operating in the country.
- **Banker to the government:** The central bank accepts deposits on behalf of the government in form of tax revenues and also provides short-term loans to the government.
- **Control of foreign exchange**: The central bank though the Act of parliament and various regulations exercise strict control issuing foreign currency where no commercial bank is allowed to sell any foreign money without the approval of the central bank.
- **Overseer of commercial banks**: The central bank is entrusted with the responsibility of regulating the activities of the commercial banks on all matters relating to money policies by receiving periodic reports from these commercial banks on the banking activities.
- **Lender of last resort**: The central bank though not essentially money lending institution, it lends money to the government and other financial institutions that are not able to secure loans from other sources.

- **Control of the interest rates**: The central bank has its own interest rate at which it lends money at the same time it has also to determine the interest rate at which commercial banks lends to the public.
- **Credit control**: The central bank regulates the amount of money in circulation so as to avoid inflation in the country through many ways.
- **Stability of the currency**: It is the responsibility of the central bank to maintain the stability of the country's currency to avoid extreme fluctuations in the rate of exchange between the country's currency and foreign currencies.
- **Regulate, license and supervises financial institutions in Uganda**. All financial institutions are regulated and given operational licenses by the central bank before starting to operate legally.
- **Formulates and conducts monitory policy in the country**. Bank of Uganda regulates the supply and demand for money in the economy to maintain the value of money and to ensure price stability.
- **Issue government securities**: Bank of Uganda issues government treasury bills and treasury bonds on behalf of the government of Uganda.
- **Oversees national payment and settlement system**: Bank of Uganda oversees operations of national payment and settlement of systems to ensure fast, secure and reliable transfer of money from for trade, business and economic development.
- **Manages Uganda's foreign reserves**: Bank of Uganda manages Uganda's foreign reserves to meet Uganda's international obligation and emergencies.
- It is an agent to international organizations like the World Bank, international monetary fund etc.
- It keeps deposits from all commercial banks in the country and releases it on demand.

## INSTRUMENTS/TOOLS USED BY THE CENTRAL BANK TO CONTROL MONEY IN CIRCULATION:

**Bank Rates:** This is the rate at which commercial banks borrow money from the central bank. If the rate is high, commercial bank shall also be forced to increase their rate of interest and hence discouraging people from borrowing. In case the rate with the central bank is low, commercial banks shall also issue out loans to customers at low interest rate and hence encouraging many people to come for loans from commercial banks and hence either way controlling money in circulation by the central bank.

**Open Market Operation (OMO):** This is refers to the buying and selling of government securities like treasury bills through the central bank. The central bank reduce money in circulation by selling securities to the public and hold the money received or increase the money in circulation by the central bank now buying these securities from the public and hence taking money back to the people.

**Exercising selective credit control:** This involves the central bank instructing commercial banks to give loans to only certain types of projects which it feels are more important like agriculture and leave out others. In this case less money shall be in circulation than where all who wish to acquire loans are given.

**Moral suasion:** This involves the central bank persuading commercial banks to restrict giving loans. This limits the demand for loans by the public and hence reduces money in circulation.

**Special deposits:** This is where the central bank requires commercial banks to deposit a specified portion of their money with it. The higher the portion the less the amount available for commercial banks for lending and the less the portion the higher the amount available for commercial banks for lending hence controlling money in circulation.

**Regal Reserve Requirement:** This refers to the amount of money that commercial banks are required to keep as reserve with the central bank. The reserve may be high or low and either way the central bank controlling money in circulation.

**Liquidity/Cash ratio:** The central bank can request commercial banks to raise or lower the amount of cash received from their customers deposits with the purposes of controlling the money held by these commercial banks for lending. If the ratio is high less money shall be available for lending but when the ratio is lower, more money shall be available for lending.

## DEVELOPMENT BANKS:

These are banks created by the government to facilitate industrial, commercial and agricultural development of the country. They give out loans on medium and long-term basis to large capital spenders/expenditures which may not be given by the commercial banks.

**Other Types of Banks:**

**Post Office Savings Banks**: These are banks operated by post office and receive deposits on savings account and give out short term loans to their customers.

**Cooperative Banks**: these are banks that lend money to co-operative societies and unions to enable them buy members' produce or extend loans to the members.

**Merchant Banks:** These are banks that specialize in accepting and discounting bills of exchange and assisting traders in international trade. Originally, they were not accepting deposits from the public but recent trends in the banking industry, they loans accept deposits now-days.

**Savings and Credit Cooperative Societies (SACCOs):** These are societies that admit members to pool their resources together so as to help them obtain loan facilities for different purposes.

**Insurance Companies:** These are particularly those operating life assurance schemes that receive premium from members on their policies. This money is loaned to policy holders to acquire property and also invest in profit making businesses.

Building Societies: These are institutions that receive deposits from the public and provide loans to their customers for the purchase of real estate like land and buildings. E.g. Housing Finance Company.

**Other Services Offered By Commercial Banks:**

- ✓ Providing income tax advice to their customers.
- ✓ Provision of economic information on foreign markets to the customers.
- ✓ Renting safe deposit boxes to individuals and businesses.
- ✓ Discounting bills of exchange for traders.
- ✓ Provision of banker's credit cards.
- ✓ Preparation of foreign trade documents to the traders.
- ✓ **Credit transfer:** This is a system where payment is made directly into the bank account of the payee.
- ✓ **Provision of standing orders:** This is an instruction to the bank to pay a specified sum of money to another person or business on a regular basis for a specified period of time.
- ✓ **Issuing of Bank drafts:** These are cheques drawn by the bank that guarantees payment as the person to whom it issued will have paid the bank an equivalent amount plus commission.
- ✓ **Issuing of credit cards:** This is a card issued to customers with enough credit to enable them obtain goods or services on credit from specified suppliers.
- ✓ **Clearing bank cheques** received from different customers in different banks.
- ✓ **Bank loans:** Commercial banks give out loans to deficit spending people/businesses who need to invest in businesses.
- ✓ **Giving of bank overdrafts**: This is a situation where an account holder over withdraws money from his account beyond the current balance. It is only given to bank customers.

**NB:** A Clearing House is a place where different banks settle payments that are due to each other as a result of their customers' transactions conducted using cheques.

**Factors to Consider When Giving Out a Loan**:

- **Nature or type of the borrower:** If the person wishing to get a loan holds an account with that particular bank it may be easy for him to be given a loan.
- **Nature of the business to invest in**: If the business to invest in the money is big and yields much profit in a shorter period, it is ease to access loans since the lenders are assured of being repaid their lent out money but if the business is small accessing loans may be a hard task.
- **The amount to be borrowed:** If the amount to be borrowed is too much the conditions for accessing the loan will be hard as the credit risk is also high. This therefore will make it hard for the borrowers to access the loan facilities.
- **The number of lenders available:** If the number of lenders is high or many accompanied with stiff competition, the lending conditions are most likely to be favorable which may make the intending borrowers to easily access the loans easily and the reverse is true.
- **The number of borrowers**: If the number of borrowers is high forcing the demand for the loans to be high, it may be hard to access the loans but when they are few the chances of getting loans are high.
- **The loan purpose/use**: Banks may be willing to give out loans to those who wish to start or are running business than those are going to buy assets or consume it.
- **The value of security presented**: The borrower must present a collateral security which must be of a higher value as compared to the required amount
- **The economic capacity of the applicant**: The bank has to establish whether the intending borrower has the capacity to repay the loaned money. Some borrowers may borrow with the intension of not to repay back the loan and hence the bank losing.
- **Credit worthiness of a person**: This is very important in that if the person applying for a loan has ever been extended a loan and failed to repay, giving him or her another loan may not be possible since he or she may not again pay which is likely to result into losses on the lenders side.
- **Gender and age:** Some institutions would like to promote female and therefore in case the borrower is a female, accessing a loan may be easy for her than when is a man or male.
- The interest rate to be charged on the amount of money to be lent out.
- The time the applicant intends to use and service the loan.

**CLEARING HOUSE:**

This is the system where cheques are interchanged from one bank to another or from one branch to another in settlement of cheques drawn by their customers. These cheques may include:

- **House Cheques:** This is a cheque where the drawer and payee have accounts in the same bank and in the same branch.
- **Local Clearing Cheque**: This is where the drawer and payee have accounts in different banks but and these banks are in the same area.
- **Head Office Cheque:** This is where the drawer and the payee have accounts in the same bank but in different branches.
- **Central Clearing House Cheque:** This is where the drawer and payee have accounts in different branches which are not even in the same area.

**Other Forms of Payment Other Than Cheques:**

**1. Cash:** Is the transfer of money from the buyer to the seller across the counter or from hand to hand. It is the most common method of payment used in settlement of obligation.

**2. Bill of Exchange:** This is unconditional written order from the seller to the buyer requesting him to pay the amount of money on demand or at a short future date. It is written by a person demanding for money.

**Features of a Bill of Exchange:**

- It is unconditional order.
- It is a written document.
- It is addressed by the seller (creditor) to the buyer (Debtor)
- It requires the buyer to pay a specified amount of money.
- It is payable on demand or future date.

**3. Promissory Note:** This is a document wherein one person promises to pay another person or his order a specified sum of money at a certain date. It is written and signed by the person who owes money to another person.

**HATUBA AND SONS LTD:**
**P.O BOX 4250, BUSIA (U)**
**TEL: 0434 1111112**

**PROMISSORY NOTE**

Date: 20th/10/2020

Three months after date, I promise to pay **John Kabuto**, or his Order, a sum of Ugandan shillings One hundred thousand only, value received.

**REVENUE STAMP**

Signed:……………..
**Mzee Okello Hatuba**

**Advantages of Promissory Note:**

- It can be discounted before the maturity date on it.
- It gives enough time to the buyer to sell the goods as e waits for the maturity of the note to pay the debt.
- It acknowledges a debt by the buyer.

**Recent Development in Banking:**

**1. Automated Teller Machines (ATM):** This is a self-service banking machine attached to a host computer through a telephone network that allows people to deposit and withdraw money from their accounts any time of the day.

**Services available through ATM include:**

- Making deposits of cash and cheques.
- Withdraw cash
- Transfer money between accounts
- Application for cheque books
- Obtain account balances
- Obtain bank statement.
- It is used in online banking to:-

- Transfer money electronically among different accounts
- Loan and credit card applications
- Obtain credit card statements, bank statements, and account balances
- Download monthly transaction information
- Use magnetic ink character recognition (MICR) to process checks
- Use microfilms and microfiche to store transaction records.

**Advantages of ATM:**

- They operate 24 hours and hence being convenient to the users.
- They reduce on the overcrowding and lining in the banks.
- It is quick and time saving to both the customers and the bank.
- It can be operated in different languages like English, Kiswahili, and Luganda etc.
- It is more accurate than human beings as losses are minimized.
- The system reduces the risks of keeping a lot of money with the cashiers.
- It reduces on the operational costs in form of wages and salaries to staff.
- The system serves multipurpose activities like depositing, cash withdrawing, checking balances.

**Disadvantages of ATM:**

- It is expensive to acquire and install the machines.
- It leads to unemployment as machines replaces human labour.
- It is not suitable for the illiterates.
- It may cause losses to the banks especially when not programmed well.
- The system may not work where there is no power/electricity.
- The system may lead to unnecessary expenditure since customers can withdraw cash any time.

**2. Electronic Funds Transfer (EFT):** This is a new development that involves the transfer of money from one account in the bank to another by use of the internet. The transfer may be within the country or in foreign countries and it is one of the fastest means of moving money.

**3. Electronic commerce** (e-electronic commerce) is a financial business transaction that occurs over an electronic network, such as the internet. Online shopping and banking are two popular types of e-commerce that use either electronic money (e-money) or electronic data interchange (EDI).

**4. E-Money** is a means of paying for goods and services over the internet. **EDI** is a set of standards that controls the transfers of business data and information among computers both within and among companies.

**5. Money Grams:** these transfer money for customers from one country to another or from one area to another. They may not require the person transferring money to have an account with a particular bank.

**6. Bank Draft:** This is a cheque drawn and issued by the bank at the request of the account holder to pay a named person or organization a specified amount of money. It also means a cheque which one can buy from the bank to pay someone who is not willing to accept a personal cheque.

7. **Standing Order:** This is an instrument to your bank to pay a fixed amount of money to a named person or organization at a regular time.
8. **Debit Card:** Is a card issued by a bank allowing the holder to transfer money electronically to another bank account when making a purchase.
9. **Direct Debit:** Is a payment system whereby creditors are authorized to debit a customer's bank account directly at a regular interval.
10. **Bank Overdraft:** This is when a current account holder over withdraws money from the account beyond the current balance. A has Shs. 40,000/= but withdraws Shs. 70,000/=, therefore Shs. 30,000/= is a bank over draft.

## TAXATION:

**Taxation:** It is the process through which the government obtains money from eligible persons by application of the law. It is the act of laying a tax on the subjects of a state by government to raise revenue to finance government activities. It is a means by which governments finance their expenditure by imposing charges on citizens and corporate entities.

**A Tax:** A tax is a compulsory transfer of money from the public to the government as a source of government revenue. It is also a none 'quid-pro-quo' payment to the tax authority.

### Principles of Taxation:

**Equal (Equality):** The people of the country should contribute towards the support on the government as nearly as possible in proportion to their respective abilities. People should pay in proportion of their incomes i.e. the rich should pay more as compared to the poor.

**Economical:** The administration costs of collecting taxes should be low as possible for both the tax authority and the tax payer. The cost of collecting tax should not exceed 5% of the revenue at the same time the tax payer should be left with enough for his disposal.

**Certain (Certainty):** The tax payer should know how much, what tax, when, why and where the tax should be paid. This will enhance proper planning on the part of the payer and up-to-date budgeting on the side of the state.

**Convenient (Convenience):** The tax regime should cause if it must as little inconvenience as possible to the taxpayer. What to pay, how much to pay and where to pay from should be convenient to the taxpayer.

**Efficient (Efficiency or Neutrality):** This says that the regime of tax should not interfere with the market mechanism so as not to interrupt the allocation of resources.

**Productive (Productivity):** A tax system should bring in large amount of revenue that justifies its imposition. This means that focus should be put on a few taxes that generate more revenue than many taxes that bring less revenue.

**Simple (Simplicity):** A tax system should be simple and clear to both the taxpayer and tax collector. The tax law should make the tax simple to understand and calculate.

**Diverse (Diversity)**: To be sustainable, the tax system should have as many taxes as possible so as to raise enough revenue.

**Flexible (Flexibility):** The principle says that a good tax system should not be rigid. It should be able to change to meet the revenue requirements of the state.

**Elastic (Elasticity):**A good tax should change directly with the consumer's income or rate of consumption. This means that the government should be able to raise taxes when it needs more tax revenue. .

### Types of Taxes:

Taxes are broadly categorized into two types i.e., Direct and Indirect taxes.

**A).Direct Tax:** These are the taxes imposed on the income and property of individuals and business entities.

### The Common Direct Taxes:-

**Trading License:** All businesses regardless of their forms are required to have a valid license before starting operation.

**Graduated Tax:** This is a tax paid by individuals who are above and between the ages of 18- 65 years. For the case of Uganda, this tax was scraped off in the year 2006. But, it was being charged on every individual above 18 years and is working. After it is paid, a ticket is issued and it is paid annually.

**Income Tax:** This is charged on the salary or wage of the employee and is collected in the period when wages are paid e. g PAYE (Pay As You Earn).
**Property Tax:** This is charged on tangible fixed assets of a business or a person like buildings, plants and machinery etc.
**Corporation Tax:** This is a tax charged on the net profit made by the business after a trading period i.e. one year.
**Rental Income Tax:** This is a tax charged on corporate landlords who have houses that they lent out to people.
**Inheritance Duty:** Is a tax paid by the beneficiary from the estate of the deceased.
**Gift Tax:** Is the tax on the transfer of property by one individual to another. It covers assets given by a living person to another living person.
**Capital Gain Tax:** Is the tax on profits received from the sale of fixed capital assets.
**Death Duty:** Is a tax imposed on the estate of a deceased person. It is normally done before the property n the estate is shared among the different beneficiaries.

**B) Indirect Tax:** These are taxes imposed on goods and services consumed by people.
**Features of Indirect Taxes:**
- They are imposed on goods and services consumed.
- They are regressive and the rich pay more and the poor pay less.
- They are not compulsory as one can avoid them when he/she does not buy goods or services.
- They are collected by businessmen at every stage of production.
- They are mainly paid by the final consumer for goods and services.

**Examples of Indirect Taxes Include:-**

**Value Added Tax (VAT):** This is a tax on consumption of goods or services which is collected on business transactions and imports which involve the supply of goods and services. It is paid at various stages in the distribution chain from the manufacturer through wholesalers and retailers to the final consumers.
**Excise duty:** This is a duty imposed on the production or importation of specific goods with a view to influence their consumption and or supply in the local market.
**Customs duty**: This is a duty imposed on goods that cross national border points either as imports into the country or exports leaving the country.
Sales Tax: Is the tax imposed on goods and services consumed in the local market.
**Import duty:** Is the tax imposed on imported goods.
**Export duty**: Is the tax imposed on exported goods.
**Specific Tax:** This is a tax levied according to the weight or quantity of commodities.
**Sumptuary Tax:** Is the tax paid by consumers to reduce consumption of certain goods like alcohol, cigarettes.
**Withholding tax**: Is the tax payable by every person who imports goods into a country at the rate of 6% based on the Customs Value (Cost, Insurance and Freight) unless the person is exempted from withholding tax.
**Over The Top Tax (OTT):** This is Social Media tax paid by Ugandans who want to access services such as Face book, Twitter, WhatsApp, and many others. It is charged at rate of UGX 200 per user per day of access.
**Expenditure Tax:** This is a tax paid when a person spends money.
**Advalorem Tax**: Is the charged according to the value of imports like goods weighing 10,000 tons pay higher tax than those weighing 5,000 tons.
**Octori Tax:** This is a tax imposed on goods in transit through the territory of another country.

## Importance of Paying Tax (es)

- ✓ It is the major source of government revenue to finance the provision of social services and other development services/projects.
- ✓ It is used by the government to protect infant industries so that they can be able to compete with well established industries.
- ✓ It helps to improve on the balance of payment position, for instance, the government can increase import duties on certain commodities to discourage their importation.
- ✓ It is used to discourage consumption of harmful products like drugs, spirits, cosmetics, e.t.c. This can be done by imposing high tariffs on such commodities.
- ✓ It is used to reduce income inequalities in an economy, for instance, progressive taxes which help to reduce income gap between the poor and the rich.
- ✓ It helps to check on the rate of inflation in an economy thus economic stability through stable prices in the economy. This is achieved by levying high taxes on people's incomes.
- ✓ It helps to guide the level and direction of both private and public economic activities in the country, for instance, government can encourage or discourage an activity in the country by lowering or raising taxes respectively.
- ✓ It is used by the government to control monopoly power. This is done through imposing high taxes which increase the cost of production and this may face the monopolist to run out of the business.
- ✓ It is used by the government to discourage exportation of certain commodities so as to leave more for the local market through high export duties.
- ✓ It is used to combat unemployment, that is, a low tax rate may be imposed on firms that use labour techniques of production and this guarantees employment. Investment incentives like subsidies, tax holidays may be offered to increase investment levels so as to increase employment opportunities.
- ✓ It is used by the government to promote individual responsibility and self reliance, that is, individuals are compelled to work hard and pay taxes to avoid shame and embarrassment.
- ✓ It is used by the government to reduce dependence on other economies in terms of foreign aid, that is, it enables the country to become self reliant and self sustaining. It again reduces the need for borrowing.

## Disadvantages of Taxation:

- ✓ It may discourage the consumption of some goods.
- ✓ It interference with consumer sovereignty.
- ✓ It misallocates of resources towards unproductive ventures.
- ✓ It leads to reduction in the level of savings
- ✓ It discourages incentive to work especially with heavy taxation.
- ✓ It may discourage capital inflow into the country especially with high taxes.
- ✓ It may lead to income inequality especially where / when taxes are regressive.
- ✓ It discourages discourage investments especially when the taxes are high.
- ✓ It encourages consumption of inferior goods thereby lowering people's standards of living

## Benefits of Paying Taxes to the Business:

1. The business gains legal status in the country it operates.
2. The business is able to enjoy public goods like roads.
3. The business is able to enjoy security from the state.
4. It enables the business to get loans/funding from the government e.g. youth funds.
5. It is a basic requirement for any business registration.
6. The business gets both recognition and support from both the government and community.
7. The business is able to get subsidies from the government like tax holidays etc.

## REASONS WHY GOVERNMENT IMPOSES/LEVIES TAXES

- ✓ To raise revenue. Revenue is obtained through the taxes imposed on various tax paying units and it can be used to finance development activities such as improving infrastructure like roads, schools, hospitals, paying salary to civil servants, e.t.c.
- ✓ To discourage consumption of certain goods which the government considers to be harmful to the society. When the government imposes high taxes on such goods, they become expensive thus discouraging people from consuming them, for instance, drugs, cosmetics, e.t.c.
- ✓ To protect home/infant industries from foreign competing producers. This can be done by imposing heavy import duties on imports which make them expensive to the importing countries.
- ✓ To regulate economic activities in the country. Taxes can be used to guide the level and direction of both private and public economic activities in the country, for instance, the government can encourage or discourage an activity by lowering and raising taxes respectively.
- ✓ To improve on the country's balance of payment position. This can be done by imposing high taxes on imports which makes them expensive to the importing country thus saving the foreign exchange that was originally spent.
- ✓ To control inflation. When high taxes are imposed on the income of individuals, this disposable income become low/lower. This reduces their purchasing power thus reducing the rate at which prices are increasing.
- ✓ To discourage the exportation of certain products. When high export duties are imposed on exports, less of such commodities will be exported to other countries thus leaving more for the local market.
- ✓ To reduce dependence on foreign aid. Taxes can be used by the government to reduce dependence on other economies, that is, it enables the country to become self reliant. This is because a variety of taxes improves on government revenue, reduce budgetary deficits and therefore reduce the need for borrowing.
- ✓ To reduce/correct income inequalities. Taxes can be used to fairly redistribute income among people especially where the tax system is progressive in nature.
- ✓ To combat unemployment. Taxation may be used to solve the unemployment problem in an economy, that is, a low tax rate may be imposed on firms that use labour techniques of production and this guarantees employment. Also investment incentives like subsidies, tax holidays may be offered to increase investment levels so as to increase employment opportunities.
- ✓ To promote individual responsibility. Taxes can be used by the government to promote individual responsibility and self reliance, that is, individuals can be compelled to work hard and pay taxes to avoid shame and embarrassment.
- ✓ To control monopoly. Taxes may be imposed by the government so as to regulate monopoly power. This is done through imposing high taxes which increase the cost of production and this may force a monopolist to run out of the business.

### Characteristics/Attributes of a Good Tax System:

- ✓ It should be comprehensive, that is, cover as many aspects of the economy as possible.
- ✓ It should be simple to be understood by both the tax payer and the tax collector.

- ✓ It should yield adequate revenue to the economy.
- ✓ It should promote equity of sacrifice, that is, should ensure social and economic justice.
- ✓ It should avoid double taxation, that is, should avoid taxing an item more than once.
- ✓ It should direct resources to priority areas hence stimulating savings, investment and productivity.
- ✓ It should recognize basic rights of the tax payers, that is, tax payers should not be harassed, inconvenienced and exploited by the tax authority.
- ✓ It should be convenient, that is, at a time and place convenient to the tax payers.
- ✓ It should be certain, that is, tax payers made to know when and where to pay the taxes.
- ✓ It should be flexible, that is, should be easy to adjust depending on the changes in the income of the tax payer.
- ✓ It should be impartial, that is, not discriminate among tax payers.
- ✓ It should be economical, that is, the cost of collecting and administering the tax should not exceed 5% of tax revenue.
- ✓ It should ensure economic stability, that is, should cause instabilities in the economy like inflation.

**Benefits of Direct Taxes:**

- ✓ They are certain, that is, tax payers are informed in advance when, where and how much to pay. This enables the tax payer to prepare the sacrifice of taxation hence reducing tax evasion.
- ✓ They redistribute income. This is because they are progressive in nature. This reduces income inequality.
- ✓ They are convenient. This is because they are collected at the time tax payers have earned sufficient funds, for instance, PAYE where payments are made in installments.
- ✓ They are progressive in nature, hence they tend to be fair to the low income earners.
- ✓ They act as a built-in stabilizer of the economy, that is, they have an internal mechanism of correcting economic instabilities such as inflation, income inequalities, e.t.c.
- ✓ They are flexible, that is, they can be increased or reduced according to the requirements of the economy.
- ✓ They are easy and simple to understand by the tax payers therefore people can be willing to pay.
- ✓ They are economical to collect by the government, for instance, PAYE system where the government deducts the tax from the tax payers' salary.

**Disadvantages of Direct Taxes:**

- ✓ They are characterized by a lot of tax evasion and avoidance and this reduces the government revenue, for instance, people in the private sector find it very easy to evade taxes.
- ✓ The cost of collection is at times high. This is because government has to employ many officials and pay a lot to do the collection and administer, thus they tend to be less productive.
- ✓ The government is usually not sure about how much revenue it will collect especially in developing countries where there is a lot of corruption in tax administration.
- ✓ They tend to discourage investment especially when they are regressive in nature, for instance, high profit tax may leave the firm with less profit to plough back.
- ✓ Due to low taxable capacity in developing countries, little revenue is collected from direct taxes since majority of people are poor where very few people earn above the threshold of income tax.
- ✓ Direct taxes discourage entrepreneurship especially where the rates of corporate taxes are high.
- ✓ High direct taxes lead to inflation in an economy, for instance, when profit taxes are high, traders increase prices of goods which may cause inflation.
- ✓ High rates of direct taxes make the people resent the government in power hence making it unpopular.

- ✓ Direct taxes tend to discriminate among tax payers especially when tax assessment is not based on impartiality.

**Advantages of Indirect Taxes**

- ✓ They are convenient to the government and tax payers. This is because they are collected when people have money to spend.
- ✓ They tend to contribute more to government revenue especially in developing countries where incomes are low. This is because they have a wider coverage.
- ✓ They are flexible, that is, the tax rate can easily be adjusted depending on the desired objectives of the government.
- ✓ They promote hard work among tax payers because in an attempt to meet the increasing prices of commodities and maintain the standard of living, people are forced to work hard so as to sustain their economic welfare.
- ✓ They assist in overcoming balance of payments (BOP) problems. This is achieved through increasing selective import duties and decreasing selective export duties so as to reduce the volume of exports hence increasing foreign exchange earnings.
- ✓ They are difficult to evade because they are embedded in the prices of commodities and these commodities must be bought at all costs, that is, during the buying of goods and services, taxes are paid.
- ✓ They are used to safe guard the health and morality of citizens. This can be done by imposing high taxes on goods likely to affect the health and morality of the citizens, for instance, drugs, cosmetics, e.t.c. This makes their prices prohibitively high resulting into few people who can afford them.
- ✓ They are used to protect infant industries against unfair foreign competition. This is done by imposing high tariffs on imports which make their prices relatively higher than domestic prices hence making them less competitive.
- ✓ They reduce tax resentment (ill-will against taxation). This is because they are built-in prices of commodities and people may not notice that they are paying tax.
- ✓ They are used to achieve economic stability especially by imposing high taxes on imported goods so as to minimize imported inflation.
- ✓ They are impartial in that they do not discriminate among tax payers thus the government is able to raise more revenue.
- ✓ They are economical to collect by the government since government does not pay the traders who collect the taxes.
- ✓ They can be used to check the consumption of harmful and dangerous goods by the citizens
- ✓ They are less felt by consumers as they are normally paid as part of the final price for goods and services
- ✓ They can be used to strengthen the link with other countries through international trade by levying import duties discriminatory on goods from different countries.
- ✓ They help in the income re-distribution as they are selectively levied for example as the rich consume the goods, the money got is used to provide services for the poor.

**Disadvantages of Indirect Taxes:**

- ✓ They encourage trade malpractices especially in foreign trade where traders may attempt to evade taxes through smuggling. Under declaring the value of imports all of which have adverse effects on the economy.
- ✓ They reduce economic welfare of citizens. This is because the poor may not cope with increasing prices due to indirect taxes.

- ✓ They lead to increased cost of production and this adversely affects the level of investment, production and employment levels within an economy.
- ✓ They interfere with the freedom of trade hence reducing the volume of international trade.
- ✓ They make revenue from indirect taxes to fluctuate a lot. This is because the amount of revenue collected depends on the volume of purchases or sales which normally fluctuates depending on the prevailing season, economic situation, e.t.c. Such fluctuation adversely affects planning based on projected revenue from taxes.
- ✓ They spark off/fuel inflation because they lead to increased costs of production which results into increased consumer prices.
- ✓ They are more regressive in nature since the poor are more burdened than the rich as these can afford to pay for goods than the poor.
- ✓ They are inflationary since they lead to increase in the general price level for goods.
- ✓ They may not be impartial especially when they are imposed indiscriminatory on goods consumed by few people like on cigarettes etc.
- ✓ They may not be easy to understand by people hence requiring more education on them like VAT.
- ✓ They sometimes discourage production of some goods especially if imposed on products with high elasticity of demand and this will reduce on the demand for goods and also cause unemployment.
- ✓ They can encourage smuggling of goods especially when they are too high hence less tax revenue.
- ✓ They cause consumers to change their consumption and expenditure patterns especially when they are high which may reduce their standards of living. For instance, if the government imposes high taxes on beer, people may resort to the local brew.

## PROBLEMS/CHALLENGES OF TAXATION IN UGANDA
### (Factors for the low tax base/taxable capacity in Uganda)

Taxable capacity refers to the ability of an individual to pay a tax imposed on him / her and remain with enough money to enjoy a good standard of living. However, on the other hand, the taxable capacity of a country is the percentage of the national income of a country that can be safely taxed without causing widespread complaints from the taxpayers.

**Low levels of incomes of individuals.** The majority of people in Uganda are poor due to low levels of economic activities in the country. Therefore the government cannot raise more revenue due to low investment levels.

**Presence of a small industrial sector.** Most industries in Uganda are small scale leading to low profit margins.

**Presence of weak tax administrative machinery.** Tax administrative system in Uganda is weak and this is reflected in dishonesty and incompetence of tax officials, low level of integrity among tax collectors and assessors all of which account for low tax yield.

**Existence of a large informal sector.** This makes it very difficult to assess tax due to absence of book keeping and this results into under assessment which reduces the taxes collected and over assessment which leads to tax resentment hence tax evasion and this reduces tax revenue.

**Existence of high levels of unemployment.** There are high levels of unemployment and under employment in Uganda which limit the taxable capacity and taxable income hence low tax revenue.

**Existence of a high dependency ratio.** The majority of people are not working leading to many dependants. This reduces the taxable income hence low tax revenue collected.

**Increased trade malpractices.** These take the form of smuggling, under declaration of the value of imports and exports, over invoicing and under invoicing of goods and services, all of which lead to low taxes.

**High rates of tax evasion and tax avoidance.** The government in an attempt to attract foreign investment offer a lot of tax concessions to foreign investors. This however, results into low tax revenue collected.

**High cost of collection and administration of taxes.** Since the cost of collection and administration is high, it tends to reduce the tax revenue collected.

**Limited data about people's income**. This makes it hard for the tax authority to establish how much income the people employed in the informal sector earn and hence making it hard for them to be taxed.

**Narrow tax base,** Uganda's tax base is very narrow with few areas for the government to raise taxes from and hence low taxable capacity.

**Constant tax incentives,** The government gives a lot of tax incentives in form of tax holidays and tax exemptions to foreign investors and all these reduce the taxable base and capacity of Uganda. Sometimes these foreign investors reallocate to other countries after these tax incentives given to them expiring.

**Existence of large subsistence sector**: Most people about 85% of Ugandans are involved in the agricultural sector where they are growing mainly for their own consumption than for commercial purpose and this make it hard for the government to raise enough taxes from them, hence low taxation.

**Presence of a small industrial sector**: Most industries in Uganda are on small scale and operating with high operational costs in terms of electricity, water bills etc. all these reduce on their profit margins and hence low taxes from income tax since most of them may not pay enough corporation tax.

## SOLUTIONS TO PROBLEMS OF TAXATION IN UGANDA

**(Possible solutions to problems limiting tax revenue collection in Uganda)**

- ✓ Massive administration should be undertaken by the government especially in the agricultural sector by setting up agro-based industries or industries that add value to agro output. This helps to widen the industrial sector and increase the taxable base.
- ✓ Developing and encouraging use of labour intensive technology to reduce unemployment in most industrial firms hence creating taxable income.
- ✓ Minimizing chances of tax evasion and tax avoidance by sensitizing the business community to keep records of their transactions. This helps to increase tax revenue.
- ✓ Checking or reducing trade malpractices by the government by creating boards responsible for checking smuggling like the anti-smuggling unit and revenue protection services of URA.
- ✓ Improving tax administration by the government by training tax personnel, paying tax personnel attractively, penalizing and dismissing incompetent and dishonest tax personnel.
- ✓ Sensitizing of tax payers. The government should sensitize people about the importance of paying taxes. This helps to increase tax compliance and reduce tax evasion and tax avoidance.
- ✓ Modernizing and monetizing the agricultural sector to promote commercial agriculture which would increase agriculture income as well as taxable incomes.
- ✓ Pursing outward looking investment industries by the government, that is, industries that produce for export. This widens the tax base hence increasing tax revenue.
- ✓ Checking political insecurity and instability of the country so as to boost production/economic activities and increase taxable income.

- ✓ Introducing a comprehensive tax payer's registration in which every tax payer is assigned a tax identification number (TIN) to track the tax payers and tax payment to minimize the incidence of double taxation, tax evasion and improving tax collection.
- ✓ Developing and encouraging the use of labour intensive technology to reduce on the level of unemployment. This will make people get employed and hence paying income tax.
- ✓ Carrying out massive industrialization by the government. This can be in agricultural sector by setting up agro based industries that can add value to output.
- ✓ Checking on trade mal-practices by setting up committees and boards responsible for checking smuggling such that all goods pass through the right channels where they have to pay taxes on them.
- ✓ Improving on the tax administrative systems by training the tax personnel, paying the reasonable wages/salaries and also punishing the incompetent and dishonest personnel such that all what is paid as taxes reach the government coffers.
- ✓ Modernizing and monetizing the agricultural sector to promote commercial agriculture so as to increase on the agricultural incomes and hence taxable incomes.
- ✓ Minimizing on the chances of tax evasion and avoidance by sensitizing the business community and encouraging them on proper book keeping for ease and good taxation.

**Other Sources of Government Revenue:**

- ➢ Fines and penalties of law brokers.
- ➢ Gifts and grants from with or outside the country.
- ➢ Incomes from gambling companies.
- ➢ Profits from government enterprises like marketing boards.
- ➢ Incomes from licenses of motor vehicles.
- ➢ Income from sale of government properties i.e. from privatization.

## UGANDA REVENUE AUTHORITY:

The Uganda Revenue Authority (URA) was set up by an Act of Parliament in 1991. The URA has head offices in Kampala and operates over a dozen main branch offices throughout the country. It is responsible for collecting and accounting for various forms of tax revenue in Uganda.

**Roles of URA:**

- ✓ Assessing and collecting taxes on behalf of the government.
- ✓ Accounting to Ministry of Finance all revenue collected.
- ✓ Facilitating trade and investment in the economy.
- ✓ Advising the government on matters of policy related to taxes and revenue administration.
- ✓ Registering all the tax payers and issuing the TIN to tax payers.
- ✓ Sensitization of the tax payers on tax matters

## TAXES COLLECTED BY URA:

**1. Domestic Taxes:** These are collected under the domestic tax department. They include mainly those under indirect taxes seen above. The taxes here include:-

- ✓ **Pay As You Earn**: Charged on salaries earned by civil workers
- ✓ **Presumptive Tax**: Charged on low income earners.
- ✓ **Rental Tax**: Charged on incomes received by people as a result of renting out property like houses.
- ✓ **Value Added Tax:** Charged on consumption of goods and services.

- ✓ **Corporation Tax**: Charged on company/business Net Profit made at the ending of the trading period.

2. **International Trade Taxes:** These are collected on goods entering or leaving the country. For the case of Uganda, these are collected by the Customs and Excise Department and include mainly those under the direct taxes. The taxes here also include:

(i). Excise duty (ii) Value added tax (iii) Withholding tax (iv) Environmental tax

## TAX COMPLIANCE:

This is the degree to which the taxpaying community meets the tax obligations as set out in the appropriate legal and regulatory provisions. Tax avoidance involves taking the advantages of the loopholes in the law to reduce tax liability. The act is legal only that it is undesirable and leads to noncompliance. It leads to loss of tax revenue.

### Level of Tax Compliance:

This level depends on the taxpayers' attitude and knowledge. The levels are mainly four.

- ✓ The taxpayers who are fully compliant and are willing to fulfill their obligations voluntarily.
- ✓ The taxpayers who reluctantly comply. These are taxpayers who know that noncompliance would be expensive and comply accordingly.
- ✓ The taxpayers who show slight resistance to compliance. This more often arises from lack of knowledge. When such people are advised and some pressure is exerted on them, they will comply.
- ✓ The taxpayers who are noncompliant and exhibit outright resistance to meeting their tax obligation. This category includes some taxpayers who take pride in failing the tax authority.

### Factors Influencing Tax Compliance:

- ✓ The extent to which the tax system is equitable as an inequitable tax system discourages tax compliance and an equitable tax system encourages tax compliance.
- ✓ The extent to which the tax laws and regulatory framework are simple and easy to understand. If these rules and laws are complicated, the administrative process will make tax compliance costly.
- ✓ The extent to which the laws and rules are applied consistently and fairly to all. If the laws and rules are inconsistently applied to people, this will encourage and foster noncompliance to taxes.
- ✓ The level of the tax rate of the country. High tax rates will discourage people from paying the taxes.
- ✓ The level of consistence and fairness in the application of the tax laws and regulation to citizens
- ✓ The quality and how balanced the tax administrators are. If the tax administrators are balanced, the tax payers will have trust and confidence in the and hence comply with the tax.
- ✓ The popularity of the government and quality of governance including honesty and accountability for public revenue. If the government is popular it will encourage tax compliance.
- ✓ The extent to which the tax burden is distributed to all potential taxpayers. If the burden is distributed fairly to all and be able to impose a minimum burn, the tax compliance will high.
- ✓ The quality of business management by the taxpayers in the keeping books of accounts. If they are able to keep these books well, they will be in position to know their returns and also be able to comply with their tax obligations easily.
- ✓ Availability of funds as firms with financial problems tends to have low tax compliance as compared to those with strong financial stands.

### 1. Basic Tax Computations:

A tax computation is a statement showing the tax adjustments to the accounting profit to arrive at the income that is chargeable to tax. Tax adjustments include non-deductible expenses, non-taxable receipts, further deductions and capital allowances. There are three sources of income under the Income Tax Act: i.e. Business Income, Employment Income and Property Income.

**Examples:**

1. Okello earned different incomes from different sources as below:

| | |
|---|---|
| Business income | Shs. 20,000,000/= |
| Employment income | Shs. 30,000,000/= |
| Property income | Shs. 6,000,000/= |

**Note**: He incurred expenses of and losses of Shs. 7,000,000/= to earn the income and Shs.1,300,000 of the income is exempted from taxation.

**Required:** Calculate Okello's gross income and chargeable income.

**Solution:**

(i) Gross Income **=** Total incomes from all sources **–** Tax Exempted.

| | Shs. |
|---|---|
| Business income | 20,000,000 |
| Employment income | 30,000,000 |
| Property income | 6,000,000 |
| Total Income | 56,000,000 |
| **Less** Tax exempt Income | (1,300,000) |
| Gross Income | 54,700,000 |

(ii) Chargeable Income = Gross Income – Expenses and loss incurred.

| | |
|---|---|
| Gross Income | 54,700,000 |
| Less Expenditures and losses | (7,000,000) |
| Chargeable Income | 47,700,000 |

**2. Individual Income Tax:**

According to the laws of Uganda, people who are employed and earning incomes are supposed to pay income taxes from their employment income. These incomes shall include among others:-

(a) Cash benefits (wages, salaries, allowances etc.)
(b) Terminal benefits (Compensation, retirement benefits etc.)
(c) Benefits in kind (Housing, motor vehicle use etc.)

| Chargeable Income( Monthly) | Tax Rate |
|---|---|
| Not Exceeding Shs.235,000 (Y ≤ 235,000) | Nil ( No Tax) |
| Exceeding Shs. 235,000 But not Exceeding Shs 335,000 ( Y = 235,000 ≥ 335,000) | 10% of the amount by which chargeable income exceeds Shs. 235,000. |
| Exceeding Shs. 335,000 BUT not Exceeding Shs.410,000. (Y= 335,000 ≥ 410,000) | Shs. 10,500 plus 20% of the amount by which chargeable income exceeds Shs 335,000 |
| Exceeding Shs. 410,000 ( Y > 410,000) | (a) Shs. 45,500 plus 30% 0f the amount by which chargeable income exceeds Shs. 410,000. **(b)** Where the chargeable income of an individual exceeds shs.10,000,000 an additional 10% charged is on the amount by which chargeable income exceeds Shs. 10,000,000. |

**Example:**

1. Wanyama works and earns a monthly salary of Shs. 400,000/=. Calculate how much tax he has to pay.

**Solution:**

**Step**: 1. Determine the income bracket = 3rd Bracket

**Step**: 2. Determine chargeable income:

Chargeable income = Total Income – None chargeable income
= Shs. 400,000 – 335,000
= Shs. 65,000

**Step**: 3. Apply the rate for the bracket (20%)
= 20% of 65,000
= 20% x 65,000
= Shs. 13,000/=

**Step**: 4. Shs. 13,000 + 10,500 = Shs. 23,500/=

Therefore PAYE = Shs. 23,500/=

2. Okello works with URA and earns the following Monthly: Salary Shs. 12,000,000/= Transport Allowance Shs. 500,000/=, Medical Allowance Shs. 700,000/=, Security Allowance. Shs.500,000=.

**Required**: Calculate his: (i) Total Tax Liability.

| | |
|---|---|
| **Solution:**<br>**Gross Income =**<br>Salary 12,000,000<br>Transport Allowance 500,000<br>Medical Allowance 700,000<br>Security Allowance 500,000<br>Shs. 13,700,000<br><br>Chargeable Income = | **[**(CY – 410,000) x 30% + (25,000)**]** **+ [**(CY – 10,000,000) x 10%**]**<br>= Shs { (13,700,000 - 410,000) x 30% + (25,000)<br>+ (13,700,000 – 10,000,000 x 10% }<br>= (13,290,000 x 30%) + 25,000) + (3,700,000 x 10%)<br>= Shs. (3,987,000 + 25,000) +<br>= 4,012,000 + 370,000<br>Tax Liability = Shs.4,382,000/= |

**3. Rental Income:** The income Act imposes a tax to those earn incomes from immovable property annually. The same Act allows them an expenditure of 20% as an expense incurred whiling collecting this money from their tenants leaving only 80% to be charged by the tax bodies on incomes exceeding Shs. 1,560,000/= any rental income less than this is not charged.

**Example**:

**2**. Magufuli earns Shs. 3,400,000 annually from renting his small houses located in Nsangi.

**Required:** Calculate his rental tax.

**Solution:**

Rental Tax = Chargeable income – Threshold (20%)

**BUT:**

**Chargeable income** = Total income – Expenditure / losses
= Shs. 3,400,000 - (20% x 3,400,000)
= Shs. 3,400,000 – 680,000

Chargeable income = Shs. 2,720,000/=

**Now**:
= Shs. 2,720,000 – 1,560,000
= Shs. 1,160,000 x 20%
= Shs. 1,160,000 x $^{20}/_{100}$

**Rental Tax** = Shs. 232,000/=

4. **VAT Calculations:** This is charged and collected on value added at each stage of production or distribution as goods move from the manufacturer to the final consumer. It is currently at 18% rate.

**Example:**

**3.** Trader **A** imports goods at Shs. 12,000/= including his profits and sells them to **B** who is a local dealer at the same rate. **B** sells them to the wholesaler at Shs.15,000/= who sells to the Retailer at Shs.18,000/=. The Retailer finally sells to the Final Consumer at Shs.24,000/=.

**Questions:**

**(i)** How much VAT was paid by the final consumer on the goods?

**(ii)** How much was paid by the Final Consumer for the goods?

**Solution:**

| Traders | Purchase Price | Selling Price | Value Added | VAT at 18% |
|---|---|---|---|---|
| Importer **A** | 12,000 | - | 12,000 | 2,160 |
| Dealer **B** | 12,000 | 15,000 | 3,000 | 540 |
| Wholesaler | 15,000 | 18,000 | 3,000 | 540 |
| Retailer | 18,000 | 24,000 | 6,000 | 1,080 |
| Final Consumer | 24,000 | - | - | 4,320 |

(i) VAT Paid = Shs. 4,320/=     (ii) Purchase Price + VAT = 24,000 + 4,320 = Shs. 28,320/=

**4.** **A** imports goods at Shs. 10,000/= and sells them to **B** at Shs. 12,000. **B** sells them to the wholesaler at Shs.15,000/= who sells to the Retailer at Shs.18,000/=. The Retailer finally sells to the Final Consumer at Shs.24,000/=. All parties are VAT registered.

**Activity:** (i) Calculate the VAT payable at every stage     (ii) VAT collected by URA.

**Solution:**

| Traders | Purchase Price | VAT on Purchases $^{18}/_{118}$ | Selling Price | VAT on Sales $^{18}/_{118}$ | Payment to URA |
|---|---|---|---|---|---|
| Importer **A** | 10,000 | 1,525 | - | - | 1.525 |
| | 10,000 | 1,525 | 12,000 | 1,831 | 306 |
| Dealer **B** | 12,000 | 1,831 | 15,000 | 2,288 | 457 |
| Wholesaler | 15,000 | 2,288 | 18,000 | 2,746 | 458 |
| Retailer | 18,000 | 2,746 | 24,000 | 3,661 | 915 |
| F. Consumer | 24,000 | 3,661 | - | - | **3,661** |

(i) VAT Paid = Shs. 3,661/=

**Exercise:**

1. Last year in June, Kapeere bought sugar at Shs.4,500,000/= and sold it to kimono Traders at Shs.7,600,000/=. All transactions were VAT exclusive at the rate of 18%.

**Required:** Calculate (i) VAT on purchases (input) (ii) VAT on sales (output) (iii) VAT that Kapeere paid to Uganda Revenue Authority.

2. Okello Enterprises Ltd bought four computer sets at Shs. 3,000,000/= each and sold them at wholesale to Hatuba Enterprises at Shs.5,200,000/= each. The goods were VAT inclusive.

**Required:** If VAT was 18%, calculate: - (i) VAT on purchases (ii) VAT on sales (iii). What price did Hatuba pay minus VAT?     (iv) What is the VAT paid to URA?

3. **X** is a Ugandan resident working and earning Shs. 700,000 per month and housing allowance of Shs 180,000 per month and transport allowance of Shs. 470,000 per month. Find the annual income tax of X.
4. Mukasa John working with Spear Motors and earns a monthly pay of Shs. 900,000 with transport allowance of Shs.20, 000 per week. How much does he pay as income tax?
5. Mr. Big a resident of Uganda earns a monthly pay of Shs 275,000/= without any allowance
   **Required:** How much does he pay as income tax annually?
6. Mr. Ojiambo a Ugandan resident works with Tropical Bank earning a monthly salary of Shs. 8,600,000. He is entitled to a housing allowance of Shs.400, 000/= per month and transport per month of Shs. 250,000. How much does he pay as income tax to URA?

## CAPITAL MARKETS:

A market is the place where many interested buyers and sellers meet to exchange commodities or assets at a price. Capital markets are places where people meet to buy and sell financial assets / products. These markets are similar to other markets only that they deal only in financial products.

The capital markets include the stock market and the bond market. The buyers and sellers meet to negotiate the prices of the financial assets. For the case of Uganda, the trading is done on the Uganda Security Exchange.

### Uganda Security Exchange (USE):

This is the market place where people meet to buy and sell shares. It was licensed to operate as an approved stock exchange in 1997 by Capital Market Authority. A stock exchange is a market where already issued shares and stock and bought and sold.

**Key Players in Stock Exchange:**

**Brokers:** These are people who buy and sell shares on behalf of others. He is paid a commission for the work done.

**Jobbers:** These are people who buy and sell share on their own behalf in their own account. The difference between the price he pays for the share and the price he sells the same share is called the **Jobber's Turn** which is his profit.

**Types of Jobbers:**

- ✓ **Bulls:** These are jobbers who buy share when prices are low with the hope that their prices shall go up and sell them at a profit called a bull.
- ✓ **Bears:** These are jobbers who sell shares when the prices are high with the hope that the prices will soon drop and be able to buy them at a lower price.
- ✓ **Stags:** These are jobbers who deal in new share put on the market. They are speculators who hope that their prices will increase and sell them at a profit.

### Securities Sold In Stock Exchange Market:

**Debenture:** This is a loan security issued by a public limited company to the public and carries a fixed rate of interest.

**Shares:** These are unites of capital issued by a public limited company to the public in order to raise capital.

**Treasury bills:** These are short term securities issued by the central bank to raise funds for the government project.

**Stock:** This is a bond issued by the local government or authority to raise money from the public for the government activities.

**Bonds:** This is a loan security issued by the government and carries a fixed rate of interest.

### Functions of Uganda Stock Exchange:

- ✓ To facilitate raising capital for businesses for expansion by selling shares to the investing public.
- ✓ To set prices for every security whether bought or not in a particular period.
- ✓ To afford investors an opportunity to sell their shares when they find a more attractive security to buy.
- ✓ To provide ready market for both those who want to buy and those who want to sell their shares.
- ✓ To keep an eye on the financial affairs of every company whose shares are bought or sold through its members.
- ✓ To help direct a large part o savings by members of the public to investment in joint stock companies which play a big role in the development of the economy.

- ✓ To act as a barometer of the economy as share prices rise and fall depending, largely on market forces showing signs of stability and growth.
- ✓ To publish useful information about various companies for guidance of both the investors and the relevant companies in deciding which companies to buy shares from.
- ✓ To enable profit sharing of the investors through dividends and stock prices increases that may result in capital gains which share in the wealth of profitable businesses.
- ✓ To help in creating investment opportunities for small investors by enabling both the large and small stock investors buys shares he or she can afford in different companies.
- ✓ To help the government in capital-raising for development projects such as sewerage and water treatment works or housing estates by selling another category of securities known as bonds.
- ✓ To facilitate in divestiture of government owned companies through privatization process to enable the local people to attain a stake in privatized companies.

**Problems Faced By Stock Exchange Markets in Uganda:**

- ✓ Lack of qualified stock exchange specialists like stock jobbers and stock brokers.
- ✓ General low level of incomes earned by people which limits investment in stock exchange.
- ✓ Political unrest in some parts of the country which affects the expansion of the industrial sector.
- ✓ Weak industrial sector making most people to be employed in agricultural sector with less incomes
- ✓ Low interest rate on securities and yet the inflation rate is high which discourages investment.
- ✓ Operations of the stock exchange market are limited to urban areas leaving the rural areas.
- ✓ Limited government support by way of developing financial infrastructure and adequate funding.
- ✓ Most businesses are on small scale making it hard for them to be short listed on the stock exchange market to issues shares to the public.
- ✓ High level of illiteracy and ignorance among the population that look at stock exchange with suspicion and bias and hence making the demand for shares low.
- ✓ Domination of the economy by the foreign and private companies which do not offer their shares to the public.

**Common Terms Used In Stock Exchange:**

- ✓ **Blue Chips:** These are shares of in companies with a sound (good) financial history and stand.
- ✓ **Bonds:** These are loan securities issued by the government which carries a fixed rate of interest.
- ✓ **Gilt-Edged:** These are securities which are safer in respect of capital refund and interest payment.
- ✓ **Portfolio:** Is a collection of various securities held by one investor.
- ✓ **Stock:** Is the bond issued by the government of local authority signifying a debt.
- ✓ **Par value of shares:** This is the written on the share certificate.
- ✓ **Dividends**: Is the amount paid out of profits by the company to its shareholders.
- ✓ **Market price:** Is the price at which shares actually change hands.
- ✓ **Issuing house:** Is the bank that specializes in launching of new issues of share.
- ✓ **Share Certificate:** Is the legal document issued to a shareholder certifying ownership of part of the company.

## BUSINESS CALCULATIONS:

A business is any activity carried out with the aim of making profits while facing risks. Therefore business calculations help to determine whether the business is operating at a profit or losses.

**Importance of Business Calculations:**

- ✓ They teach the public on how to manage business in monetary terms.
- ✓ They enable the entrepreneurs to determine whether the business is making profits or losses.
- ✓ They help the entrepreneurs to determine the prices for selling the products.
- ✓ They help the entrepreneur to decide whether to acquire a loan to inject in business or not.
- ✓ They help in comparing the business operations over years and see which year was good.
- ✓ They help in planning for the business
- ✓ They help in proper assessment of taxes to be paid by the business.
- ✓ They help in comparing the performance of business with the competitors.
- ✓ They help in determining the rate of growth of the business

### Some Common Terms in Business Transactions:

**Capital:** Is the total amount of resources supplied to the business by the owner. Or total amount of money invested in the business by the owner.

**Assets:** These are the resources owned by the business or an individual at a given period of time.

**Purchases:** These are goods bought by the business for resale to make profits.

**Stock**: These are the goods or items held by the business for sale. Stock may be:

- ✓ **Opening Stock:** These are goods which the business starts with at the beginning of the year/trading period.
- ✓ **Closing Stock**: These are goods that remained in the business at the close of the year unsold.

**Sales (Turn Over):** These are the goods sold by the business in a given period of time.

**Debtors:** These are people who owe money to the business for the goods or services supplied to them on credit.

**Creditors:** These are the people who demand money for the goods or services supplied on credit.

**Drawings:** Is the cash or goods taken from the business by the owner for personal / private use without paying for them. These reduce on the amount of capital for the business.

**An invoice:** Is a document showing the details of goods or services sold on credit with their prices.

**Balance sheet:** Is a statement showing the financial stand or position of a business or an individual at a given period of time.

**Liabilities**: These are the total amount of money owed to the outsiders for the assets supplied to the business. Or total amount of debts owed by the business to the outsiders.

**Solvency:** This is the situation when the business assets are more than the value of liabilities. The business has the capacity to pay all its debts using its own resources.

**Insolvency:** This is the situation when the values of the business liabilities are more than the value of assets. The business cannot be able to pay all its debts using its resources and therefore it can collapse any time.

**Bankruptcy**: This is the situation when the business is not in position to pay its creditors.

**Stock Valuation**: This is the act of calculating the value of all goods/items held by the business.

**Stock Taking:** This is where the available stock is physically counted to determine what is available and cross check with what is expected to be on the stock card to enable the storekeeper knows the remaining amount of stock.

**Carriage Outwards**: These are transport charges or other expenses that relate to the goods sold.

**Returns Inwards**: These are goods sold by the business but have been returned by the customers for some reasons.

**Expenses**: These are the costs in money terms incurred during the course of running the business. They include: - Electricity, insurance, Rent and Rates, Postage, Audit fees etc.
**Returns Outwards:** These are goods previously bought by the business but have been returned to the suppliers/producers for some reasons.
**Carriage Outwards**: These are expenses incurred as a result of selling goods by the business.
**Goods Available for Sale**: These are the total goods bought by the business plus the available stock both for sale by the business.

$$\text{Goods Available for Sale} = \text{Opening Stock} + \text{Net Purchases}$$

**Cost of Sales**: This refers to the price at which the goods were bought.

$$\text{Cost of sales} = \text{Opening Stock} + \text{Net Purchases} - \text{Closing Stock}$$

**Average Stock:** This is the average of both opening and closing stock held by the business.

$$\text{Average Stock} = \frac{\text{Opening Stock} + \text{Closing Stock}}{2}$$

**Rate of Turnover**: This is the number of times stock has been bought and sold by the business.

$$\text{Rate of Turn Over} = \frac{\text{Cost of Sales}}{\text{Average Stock}}$$

**Gross Profit**: This is the profit made by the business before removing the operating expenses.

$$\text{Gross Profit} = \text{Net Sales} - \text{Cost of Sales}$$

**Net Profit**: This is the final profit made by the business after deducting all operating expenses.

$$\text{Net Profit} = \text{Gross Profit} - \text{Total Expenses}$$

**Mark-up:** This is gross profit expressed as a percentage of cost of sales.

$$\text{Mark-Up} = \frac{\text{Gross profit}}{\text{Cost of Sales}} \times 100$$

**Margin:** This is gross profit expressed as a percentage of net sales.

$$\text{Margin} = \frac{\text{Gross profit}}{\text{Net sales}} \times 100$$

**Current asset or working capital Ratio:** This analyses the quantity of current assets in relation to current liabilities of the firm. If the current assets are too little, it means that the firm will get problems in paying its debts.

$$\text{Working Capital Ratio} = \frac{\text{Current Assets}}{\text{Current Liabilities}} \times 100 \quad \text{or} \quad \frac{\text{Current Assets}}{\text{Current Liabilities}}$$

## THE BALANCE SHEET:

A balance sheet is statement that shows the financial stand or position of the business at a given period of time. It can also mean a statement that shows the assets and liabilities of the business at a given period of time. Therefore it has both assets and liabilities. I.e. Assets **=** Liabilities (A=L).

### ASSETS:

These are the resources owned by the business or an individual at a given period of time. They are of types of assets:-

**Current Assets**: These are assets held by the business for a short period usually one year or less. They include the following: - Stock, debtors, cash at bank, cash in hand plus all prepaid expenses and any incomes accrued.
**Fixed Assets:** These are assets bought by the business to be used for a long time exceeding one year. They include: - Land, premises (Buildings), motor vehicles, fixtures and fittings, equipment, generators, furniture, etc.

**LIABILITIES**:
These are debts/obligations held by the business to the outsiders. They are of two types:-

**Long-Term Liabilities**: These are debts held by the business for a long period exceeding one year from the balance sheet date. They include: - Mortgages, Debentures and any loan above one year like two years, four years etc.

**Short-Term Liabilities**: These are debts held by the business for a period not exceeding one year from the balance sheet date. They include: - Creditors, bank overdraft, any loan within one year period, any expenses accrued and any income prepaid.

**CAPITAL:**
This is the total amount of resources supplied to the business by the owner. Or total amount of money invested/put in the business by the owner. Capital = Assets – Liabilities

**Types of Capital:**
- ✓ **Working Capital**: This the money required for the day-to-day running/operation of the business.

**Working Capital** = Current Assets – Current Liabilities.
- ✓ **Capital Employed**: This is the total assets used in the business. It includes both fixed and current assets of the business.

**Capital Employed** = Fixed Assets + Current Assets or Working Capital + Fixed Assets
- ✓ **Capital Owned**: This the amount of money the business owes to the owner. It also means the capital owned by the business to its owner or net worth of the business.

**Capital Owned** = Assets – Liabilities.
- ✓ **Borrowed/Loan Capital:** This is the money borrowed by the business for use.

**Loan Capital** = Total Long Term Liabilities.
- ✓ **Liquid/Floating/Circulating**: This the total value of current assets minus closing stock.

**Liquid Capital** = Total Current Assets - Stock.
- ✓ **Fixed Capital**: This is the total amount of fixed assets.

**Fixed Capital** = Total Fixed Assets.

**OTHER FORMULAE:**
1. Net Sales = Sales – Returns Inwards or (100 + Markup) ÷ 100) x Cost of Sales
2. Net Purchases = Purchases + Carriage Inwards- Returns Outwards.
3. Rate of Return on Capital $= \frac{\text{Net Profit} \times 100}{\text{Capital Employed}}$
4. Gross profit = Selling Price – Cost Price **or** Markup x Cost of Sales **or** Net Sales – Cost of Sales.

## SOURCES OF CAPITAL / FINANCE FOR A BUSINESS:

**Personal finance/ own savings:** Personal savings are often used to provide the first injection of money into a business.
**Trade credit (Acquiring goods on credit):** This involves acquiring goods from the suppliers on credit and pays at a later period.
**Funds from friends and family contribution:** The business owner may seek the help of family members and friends to provide some of the required finance to run the business.
**Bank loans:** This is the money lent by a bank to its customers on presenting a collateral security. The loan is taken out for an agreed period of time and repayments are usually for an agreed amount at specified intervals.
**Bank overdraft:** Bank overdraft is a situation where an account holder over withdraws money from his or her account beyond the current balance. This is a short-term source of finance obtained from

banks. Entrepreneurs can acquire overdrafts to start or expand their business ventures. It is only given to people who have accounts with that particular bank.

**Issue of shares:** An entrepreneur can raise additional finance through the issue of shares i.e. selling part of the business. Here, ownership of the business passes to shareholders. However businesses wishing to sell or raise additional finance through the issue of shares should retain 50% to have control of the business when deciding on business issues.

**Government grants and Donations:** Some governments at times make various grants available to businesses. The type of grants available to businesses depends on what the government sees as a priority in the economy at that time and also in which part of the country the business is in.

**Debentures:** These are long-term loans made to companies. They are made at an agreed rate of interest. The holders of the debentures will receive interest payments usually annually on the amount loaned.

**Retained profits:** This is probably the most important source of finance for a business because it is this source that ensures that the business is self-financing. This shows that the business is strong and profitable.

**Cash from sell of personal property:** People wishing to start businesses can also sell any of their fixed assets and raise money. This money can then be used to start or expand business.

**Cash from fundraising:** People wishing to start businesses can arrange functions to fundraise and raise money which can be used to run business operations.

**Money from gambling:** Money can be got during gabling to start business ventures. This come from sports betting, going for lotto, scratch for cash activities among others.

**Cash from inheritance of funds/ wealth:** One can start business using the money got after taking over the property of the deceased person. This is common with people from well to do families

**Example:**

1. The information below relates to the business on **Habyerimaana** as at 31/7/2020

| | | | |
|---|---|---|---|
| Opening stock | Shs. 1,200,000 | Electricity | Shs. 80,000 |
| Sales | Shs. 4,400,000 | Cash | Shs. 2,240,000 |
| Purchases | Shs. 2,600,000 | Bank | Shs. 3,000,000 |
| Returns outwards | Shs. 100,000 | Loan 1 year | Shs. 600,000 |
| Debtors | Shs. 700,000 | Telephone | Shs. 105,000 |
| Creditors | Shs. 600,000 | Salaries and wages | Shs. 800,000 |
| Closing stock | Shs. 1,700,000 | Motor Van | Shs. 3,800,000 |
| Furniture | Shs. 900,000 | Drawings | Shs. 915,000 |

***Required:*** Calculate

| | | | |
|---|---|---|---|
| 1. Net purchases | 4. Average stock | 7. Acid ratio | 10. Rate of turnover |
| 2. Cost of goods for sale | 5. Gross profit | 8. Gross Profit Ratio | 11. Average Collection Period. |
| 3. Cost of sales | 6. Net profit | 9. Net profit ratio | 12. Prepare a Balance sheet |

| | |
|---|---|
| **Solutions:**<br>(1)Net Purchases =Purchases-Returns Outwards<br>Where, Purchases = 2,600,000<br>Returns Outwards = 100,000<br>Therefore, Net Purchases = 2,600,000-100,000<br>Shs.2,500,000/= | (2) Cost of good available for Sale=<br>Opening stock + Net purchases<br>Where, Net purchases = 2,500,000<br>Opening stock= 1,200,000<br>Therefore, Cost of goods available for sale<br>= 2,500,000 + 1,200,000<br>Cost of Goods for Sale = Shs. 3,700,000/= |

(3) Cost of sales =
Opening Stock + Net purchases – Closing Stock
Closing stock = 1,700,000
= 3,700,000 – 1,700,000
=Shs. 2,000,000/=

(4) Average Stock= $\frac{\text{Opening Stock + Closing Stock}}{2}$

$\frac{1,200,000 + 1,700,000}{2}$

$\frac{2,900,000}{2}$ = Shs 1,450,000/=

(5) Gross Profit = Net Sales – Cost of Sales
Where, Net sales = 4,400,000
Cost of sales = 2,000,000
= 4,400,000 – 2,000,000
= Shs.2,400,000/=

(6) Net profit = Gross Profit – Total Expenses

Total expenses

| | |
|---|---|
| Telephone | 105,000 |
| Electricity | 80,000 |
| Salaries & Wages | 800,000 = 985,000. |

Net profit = 2,400,000 - 985,000 =Shs 1,415,000/=

(7) Acid test Ratio= $\frac{\text{Current Assets – Stock x100}}{\text{Current liabilities}}$

Current Assets

| | | |
|---|---|---|
| Debtor | 700,000 | |
| Bank | 3,000,000 | |
| Cash | 2,000,000 | |
| Stock | 1,700,000 | 7,400,000 |

Current Liabilities:

| | | |
|---|---|---|
| Creditors | 600,000 | |
| Loan 1 year | 600,000 | 1,200,000 |

Acid test ratio = $\frac{7,400,\cancel{000} \text{ x } 10\cancel{0}}{1,2\cancel{00,000}}$

= $\frac{7,400}{12}$ = 616.7%

(8) Gross Profit Ratio = $\frac{\text{Gross profit x 100}}{\text{Net Sales}}$

$\frac{2,400,000 \text{ x } 100}{4,400,000}$

$\frac{240,000}{4,400}$ =54.5%

(9) Net profit Ratio = $\frac{\text{Net Profit x 100}}{\text{Net Sales}}$

= $\frac{1,415,000 \text{ x } 100}{4,400,000}$

= 32.2%

(10) Rate of turnover = $\frac{\text{Cost of Sales}}{\text{Average Stock}}$

$\frac{2,000,000}{1,450,000}$

$\frac{200}{145}$ = 2 Times

(11) Average Collection Period =

$\frac{\text{Debtors x 365 days}}{\text{Net Sales}}$

$\frac{700,000}{4,400,000}$ x 365= 58 days.

**Habyerimaana**'s
**Balance Sheet**
**As At 31/7/2020**

| | | Shs. | **Fixed Assets:** | | Shs. |
|---|---|---|---|---|---|
| Capital | | 10,640,000 | Furniture | | 900,000 |
| Add Net Profit | | 1,415,000 | Motor Van | | 3,800,000 |
| | | 12,055,000 | **Total Fixed Assets** | | 4,700,000 |
| Less Drawings | | 915,000 | **Current Assets:** | | |
| Equity Capital | | 11,140,000 | Stock | 1,700,000 | |
| **Current Liabilities:** | | | Debtors | 700,000 | |
| Creditors | 600,000 | | Bank | 3,000,000 | |
| Loan 1 Year | 600,000 | 1,200,000 | Cash | 2,240,000 | 7,640,000 |
| | | **12,340,000** | | | **12,340,000** |

**Capital**= Assets – Liabilities

| | | | | |
|---|---|---|---|---|
| **Assets** = Motor Van | 3,800,000 | | **Liabilities:** Creditors | 600,000 |
| Furniture | 900,000 | | Loan I Year | 600,000 **1,200,000** |
| Opening Stock | 1,200,000 | | Capital = 11,840,000 – 1,200,000 | |
| Debtors | 700,000 | | Capital = Shs. 10,640,000/= | |
| Bank | 3,000,000 | | | |
| Cash | 2,240,000 | **11,840,000** | | |

**Exercises:**

**1.** The following information was extracted from the books of Meeme Traders Limited.

| | |
|---|---|
| Opening stock | Shs. 2,000,000 |
| Purchases | Shs. 7,000,000 |
| Sales | Shs. 9,500,000 |
| Purchases Returns | Shs. 500,000 |
| Sales Returns | Shs. 400,000 |
| Expenses | Shs. 600,000 |
| Closing Stock | Shs. 2,000,000 |

**Required:**

**Calculate: (**i) Average Stock (ii) Net Purchases (iii) Cost of Sales (iv) Net Sales (v) Gross Profit (vi) Net Profit (vii) Rate of Turnover (viii) Mark-Up

**2.** You are given the following information from the books of Okello Hatuba

| | | |
|---|---|---|
| Closing Stock | Shs. 2,400,000 | **Required**: **Calculate**: |
| Net Purchases | Shs. 7,400,000 | (i) Opening Stock (iv) Rate of Turn Over |
| Cost of Sales | Shs. 8,000,000 | (ii) Net Purchases |
| Gross Profit | Shs. 3,200,000 | (iii) Average Stock |

**3.** The following details relates to the business transactions of Maka Traders Limited.

| | | | |
|---|---|---|---|
| Opening Stock | Shs. 200,000 | **Required**: **Calculate:** | |
| Gross Profit | Shs. 410,000 | (i) Closing Stock | (v) Net Sales |
| Average Stock | Shs. 250,000 | (ii) Cost of Sales | |
| Rate of Turnover | 8 Times | (iii) Net Purchases | |

**4.** (a) Distinguish between working capital and capital employed.

(b)The following were records of a business at the end of a trading period.(UNEB-2003)

| | | | |
|---|---|---|---|
| Opening Stock | Shs. 840,000 | **Required**: Calculate: | |
| Closing Stock | Shs. 870,000 | (i) Cost of goods sold | (iv) Rate of Stock Turn |
| Purchases | Shs. 2,330,000 | (ii) Gross Profit | |
| Sales | Shs. 3,410,000 | (iii) Average Stock | |

**5.** A trading company had the following balances at 31st Dec.2001. (UNEB-2002)

| | | | |
|---|---|---|---|
| Opening Stock | Shs. 700,000 | **Required**: Calculate | |
| Purchases | Shs. 200,000 | (i) Average Stock | (v) Mark-up |
| Sales | Shs. 950,000 | (ii) Sales at cost (Cost of Sales) | |
| Closing Stock | Shs. 50,000 | (iii) Rate of Turn over | |
| Gross Profit | Shs. 100,000 | (iv) Margin | |

**6**. The information below relates to the business of **Omushani** Traders.

| | | | |
|---|---|---|---|
| Stock (31/12/2010) | Shs. 440,000 | Salaries | Shs. 310,000 |
| Sales | Shs. 1,800,000 | Carriage Inwards | Shs. 60,000 |
| Purchases | Shs. 700,000 | Electricity | Shs. 104,000 |

| | | | |
|---|---|---|---|
| Debtors | Shs. 600,000 | Stationery | Shs. 90,000 |
| Creditors | Shs. 340,000 | Wages | Shs. 100,000 |
| Sales Returns | Shs. 70,000 | Cash | Shs. 480,000 |
| Purchases Returns | Shs. 40,000 | Bank overdraft | Shs. 120,000 |
| Stock (1/12/2010) | Shs. 600,000 | Prepaid insurance | Shs. 50,000 |
| Bank | Shs. 560,000 | Accrued postage | Shs. 30,000 |

**Required:**

(i). Net purchases
(ii).Cost of goods available for sale
(iii).Cost of sales
(iv). Average stock
(v). Gross profit
(vi).Net profit
(vii). Rate of turn over
(viii).Rate of return oncapital

**7**. **Kabuto Masombo's** business has a rate of stock turnover of 8 times per year. Average stock is Shs. 460,000. Mark-up is 60% and expenses are 70% of the gross profit.

**Calculate**:

(a) Cost of goods sold
(b) Turn over
(c) Gross profit
(d) Net profit
(e) Total expenses

**8**. Mujomba had an opening stock of Shs. 350,000 and a closing stock of Shs 410,000. His Net Purchases were Shs. 1,820,000, Expenses were Shs. 150,000 and Sales were Shs. 3,100,000. (**UNEB-2001**): **Calculate:**

(i) Cost of Sales (ii) Gross Profit (iii) Average Stock (iv) Net Profit

**9**. A retailer had the following records for 1997 and 1998**(UNEB-1999)**

| | **1997** | **1998** |
|---|---|---|
| | Shs. | Shs. |
| Total cost of sales | 480,000 | 480,000 |
| Average mark-up | 25% | 40% |
| Expenses | 48,000 | 134,400 |
| Capital | 160,000 | 160,000 |
| Average stock at cost | 60,000 | 96,000 |

(a) Calculate each year
(i) Turnover (ii) Net Profit (iii) Rate of Return on Capital
(b)Determine using the rate of turnover the year the retailer did better.

**10**. The following information is available from the books of Tayari& Co. Ltd. **(UNEB-1997)**

| | |
|---|---|
| Stock 1st Jan 2006 | Shs. 1,140,000 |
| Year's Purchases | Shs. 9,210,000 |
| Year's Sales | Shs.10,694,000 |
| Returns Outwards | Shs. 340,000 |
| Returns Inwards | Shs. 164,000 |
| Expenses | Shs. 1,340,000 |
| Stock 31st Dec 2006 | Shs. 1,740,000 |

**Required: Calculate:**

(a) Turnover (Total Net Sales)
(b) Total Net Purchases
(c) Total Cost of Sales
(d) Gross Profit
(e) Net Profit

**11**. (a) Define the term "Markup"
(b)The following records of 2016 were extracted from the books of Mr. Q Wandera, a small retailer in Kisenyi Trading centre. (**UNEB- 1994**)

| | |
|---|---|
| Turnover | Shs. 584,000 |
| Margin | 25% |
| Expenses | Shs. 58,400 |

Calculate:
(i) Total Cost of Sales
(ii) Net Profit
(iii) Net Profit as a percentage of turnovers

**12.**(a) Define the term Stock-Taking as used in business

(b) Eba Traders had the following information as at 31st Dec.2013. (**UNEB-2014**)

| | Shs. |
|---|---|
| Opening Stock | 1,800,000 |
| Net Purchases | 260,000 |
| Closing Stock | 1,200,000 |
| Expenses | 440,000 |
| Mark-Up | 20% |

**Required:** Calculate:

(i) Cost of Sales
(ii) Turnover
(iii) Average Stock
(iv) Rate of Stock Turnover
(v) Net Profit/Net Profit

**(c)** Suggest two ways in which a trader should use the net profit of a business.

**13.**(a) Differentiate between the following:

(i) Mark-up and Margin
(ii) Capital owned and borrowed Capital

(b)Bamuri's books of accounts revealed the following records.

| | |
|---|---|
| Opening Stock | Shs. 400,000 |
| Gross Profit | Shs. 820,000 |
| Average Stock | Shs. 500,000 |
| Rate of stock turn | 8Times |

**Calculate** the:

(i) Cost of Sales (ii) Closing Stock (iii) Net Purchases (iv) Net Sales (v) Markup (vi) Margin

**14**. A firm had the following records as at 31st/Dec.2006 (UNEB-2009)

| | |
|---|---|
| Stock at 1st -01-2006 | Shs. 182,400 |
| Stock at 31st-12-2006 | Shs. 213,600 |
| Purchases | Shs. 1,382,900 |
| Sales | Shs. 1,966,900 |
| Returns Outwards | Shs. 34,100 |
| Returns inwards | Shs. 51,000 |

Determine the firm's:

**(a)** (i) Turnover
(ii) Net Purchases
(iii) Goods available for sale
(iv) Cost of sales
(v) Rate of stock turn.

**(b).** (i) Gross profit
(ii) Mark-up
(iii) Margin

**15**. The following information was extracted from the books of a Trader.

| | |
|---|---|
| Capital | Shs. 1,000,000 |
| Total cost of sales | Shs. 960,000 |
| Average mark up | 20% |
| Expenses | Shs. 80,000 |

**Calculate** the trader's:-

(i) Turnover
(ii) Gross profit
(iii) Net profit
(iv) Margin
(v) Rate of return on capital

**16**. (a) Differentiate an Income statement from a balance Sheet (UNEB-20016)

(b) Kagezi Balance Sheet as at 31st/Dec.2004

| | Shs. | | Shs. |
|---|---|---|---|
| Capital | 2,000,000 | Furniture | 1,600,000 |
| Debentures | 1,500,000 | Equipment | 1,800,000 |
| Bank loan | 1,350,000 | Stock | 1,450,000 |
| Creditors | 800,000 | Debtors | 1,080,000 |
| Bank overdraft | 760,000 | Cash | 480,000 |
| | 6,410,000 | | 6,410,000 |

**Calculate:** (i) Capital owned (ii).Borrowed capital (iii) Working capital (iv) Fixed capital (v) Capital employed

**17.(a)** Define the following terms as used in commerce:
(i) Liabilities (ii) Stock taking

**(b)** Given the following information:

| | | |
|---|---|---|
| Stock1-1-2009 | 43,430,000 | **Calculate**: |
| Net Purchases | 312,290,000 | (i) Average stock |
| Mark up | 25% | (ii) Rate of stock turn |
| Stock $31^{st}$-12-2009 | 26,000,000 | (iii) Gross profit |
| Expenses for the year | 35,850,000 | (iv) Net profit |

18. The following details relates to MMd enterprises Limited as at $31^{st}$/12/2014.

| | |
|---|---|
| Stock ($1^{st}$/ January 2014) | 912,000 |
| Purchases | 6,914,500 |
| Sales | 9,834,500 |
| Returns inwards | 255,000 |
| Returns outwards | 170,500 |
| Stock ($31^{st}$/December, 2014) | 1,068,000 |

**Required:** Calculate the following.
(i) Net purchases
(ii) Value of goods available for sale
(iii) Cost of sales
(iv) Net sales
(v) Average stock
(vi) Rate of stock turn
(vii) Gross profit

19. (a) identify the four types of capital used by traders
(b) The following information was extracted from the books of Mivule Traders as at $31^{st}$/12/2018.

| | Shs. |
|---|---|
| Vehicle | 6,000,000 |
| Debtors | 1,200,000 |
| Bank Overdraft | 2,500,000 |
| Creditors | 1,400,000 |
| Furniture and Fittings | 2,500,000 |
| Cash | 750,000 |
| Stock | 1,000,000 |
| 5 Year Bank Loan | 4,000,000 |

**Required:**
(i) Prepare a Balance Sheet for Mivule Traders as at $31^{st}$/12/2018
(ii) State the purpose of the Balance Sheet to Mivule Traders